

**ECONOMIC DEVELOPMENT REVITALIZATION
ROAD PROJECTS
OF THE
TURNPIKE AUTHORITY OF KENTUCKY**

SPECIAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2014

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Turnpike Authority of Kentucky
Frankfort, Kentucky

Report on the Financial Statements

We have audited the accompanying Statement of Assets, Liabilities and Net Assets – Trust Indenture Basis and Statements of Revenues, Expenses and Changes in Net Assets - Trust Indenture Basis of the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky (the “Authority”), as of and for the year ended June 30, 2014, as listed in the table of contents, and the related notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these special-purpose financial statements in accordance with the accounting principles specified in Section 709 of the Trust Indenture dated October 1, 1990, as amended, between the Turnpike Authority of Kentucky and Citizens Fidelity Bank and Trust Company; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the special-purpose financial statements that are free from material misstatement, whether due to error or fraud.

Auditor’s Responsibility

Our responsibility is to express an opinion on the special-purpose 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special-purpose financial statements. The procedures selected depend on the auditor’s judgment, including assessment of 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 special-purpose 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 special-purpose 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 special-purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets – trust indenture basis of the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky, as of June 30, 2014, and the revenues, expenses, and changes in net assets – trust indenture basis, for the year then ended in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

We draw attention to Note 1 of the special-purpose financial statements, which describes that the accompanying special-purpose financial statements were prepared in conformity with the accounting principles specified in Section 709 of the Trust Indenture, as amended, between the Turnpike Authority of Kentucky and Citizens Fidelity Bank and Trust Company, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Trust Indenture referred to above, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the Authority's special-purpose financial statements. The accompanying bond fund – combining schedule of accounts and construction fund – schedule of project costs (collectively, “the schedules”) are presented for purposes of additional analysis and are not a required part of the special-purpose financial statements as a whole.

The accompanying schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the special-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves,

and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedules are fairly stated in all material respects in relation to the special-purpose financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* we have also issued our report dated October 30, 2014 on our consideration of the Authority'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 *Governmental Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Blue & Co., LLC

Lexington, Kentucky
October 30, 2014

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS – ALL FUNDS TRUST INDENTURE BASIS JUNE 30, 2014

ASSETS

Construction Fund		
Cash and cash equivalents	\$ 13,701,683	
Investments	168,501,895	
Cost of projects	2,144,330,721	
Unamortized debt issuance costs	<u>7,075,674</u>	
Total assets - Construction Fund		2,333,609,973
Revenue Fund		
Cash and cash equivalents	105,939,348	
Investments	<u>257,022</u>	
Total assets - Revenue Fund		106,196,370
Debt Service Reserve Fund		
Total assets - Debt Service Reserve Fund		-0-
Escrow Fund		
Total assets - Escrow Fund		-0-
Bond Fund		
Bond Service Account		
Cash and cash equivalents	6,504,168	
Due from Revenue Fund	105,917,840	
Due from Construction Fund	4,953	
Capitalized Interest Account		-0-
Redemption Account		-0-
Rebate Account		
Cash and cash equivalents	<u>223,915</u>	
Total assets - Bond Fund		<u>112,650,876</u>
Total assets - all funds		<u><u>\$ 2,552,457,219</u></u>

See accompanying notes.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS – ALL FUNDS TRUST INDENTURE BASIS (CONTINUED) JUNE 30, 2014

LIABILITIES AND NET ASSETS		
Construction Fund		
Accounts payable	\$	2,298,354
Economic Development Revitalization Revenue		
Refunding Bonds		1,607,723,270
Due to Bond Service Account		4,953
Net assets		723,583,396
Total liabilities and net assets - Construction Fund		2,333,609,973
Revenue Fund		
Due to Bond Service Account		105,917,840
Accounts Payable		2,500
Net assets		276,030
Total liabilities and net assets - Revenue Fund		106,196,370
Debt Service Reserve Fund		
Total liabilities and net assets - Debt Service Reserve Fund		-0-
Escrow Fund		
Total liabilities and net assets - Escrow Fund		-0-
Bond Fund		
Bond Service Account		
Accrued interest payable		37,096,245
Unearned income		1,672,998
Net assets (reserved for bond principal payment, July 1, 2014, \$73,570,000)		73,657,718
Capitalized Interest Account		-0-
Redemption Account		-0-
Rebate Account		
Net assets		223,915
Total liabilities and net assets - Bond Fund		112,650,876
Total liabilities and net assets - all funds		\$ 2,552,457,219

See accompanying notes.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

CONSTRUCTION FUND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS TRUST INDENTURE BASIS FOR THE YEAR ENDED JUNE 30, 2014

Revenues:	
Investment income	\$ 1,429,590
Amortization of bond premiums	<u>9,568,782</u>
Total revenues	<u>10,998,372</u>
Expenses:	
Amortization of deferred gains/losses on refunding	382,194
Amortization of issuance costs	937,915
Construction funds for local governments	<u>1,519,863</u>
Total expenses	<u>2,839,972</u>
Excess of revenues over expenses	<u>8,158,400</u>
Other financing sources (uses):	
Bonds retired in Bond Service Account	70,335,000
Operating transfers out	<u>-0-</u>
Total other financing sources	<u>70,335,000</u>
Excess of revenues and other financing sources over expenses and other financing uses	78,493,400
Net assets, beginning of year	<u>645,089,996</u>
Net assets, end of year	<u><u>\$ 723,583,396</u></u>

See accompanying notes.

**ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS
OF THE TURNPIKE AUTHORITY OF KENTUCKY**

REVENUE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
TRUST INDENTURE BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Revenues:	
Lease rentals from Transportation Cabinet	\$ 139,204,800
Supplemental lease income	50,000
Investment income	<u>532</u>
Total revenues	<u>139,255,332</u>
Total expenses	<u>78,187</u>
Excess of revenues over expenses	<u>139,177,145</u>
Other financing uses:	
Operating transfers in	-0-
Operating transfers out	<u>(139,204,800)</u>
Total other financing uses	<u>(139,204,800)</u>
Deficiency of revenues over expenses and other financing uses	(27,655)
Net assets, beginning of year	<u>303,685</u>
Net assets, end of year	<u>\$ 276,030</u>

See accompanying notes.

**ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS
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DEBT SERVICE RESERVE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
TRUST INDENTURE BASIS
FOR THE YEAR ENDED JUNE 30, 2014

Total revenues	\$	-0-
Total expenses		-0-
Other financing sources/uses:		
Operating transfers in		-0-
Operating transfers out		-0-
		<hr/>
Total other financing sources/uses		-0-
		<hr/>
Net assets, beginning of year		-0-
		<hr/>
Net assets, end of year	\$	-0-
		<hr/> <hr/>

See accompanying notes.

**ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS
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**ESCROW FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
TRUST INDENTURE BASIS
FOR THE YEAR ENDED JUNE 30, 2014**

Revenues:	
Contribution from Transportation Cabinet	\$ 3,160,905
Total revenues	<u>3,160,905</u>
Total expenses	<u>-0-</u>
Excess of revenues over expenses	<u>3,160,905</u>
Other financing uses:	
Operating transfers in	-0-
Operating transfers out	<u>(3,160,905)</u>
Total other financing uses	<u>(3,160,905)</u>
Deficiency of revenues and other financing sources over expenses and other financing uses	-0-
Net assets, beginning of year	<u>-0-</u>
Net assets, end of year	<u>\$ -0-</u>

See accompanying notes.

**ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS
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**BOND FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
TRUST INDENTURE BASIS
FOR THE YEAR ENDED JUNE 30, 2014**

Revenues:		
Investment income	\$	833
Interest expense reimbursement		<u>3,318,952</u>
Total revenues		<u>3,319,785</u>
Expenses:		
Interest expense		72,056,202
Principal amount of bonds redeemed		<u>70,335,000</u>
Total expenses		<u>142,391,202</u>
Deficiency of revenues over expenses		<u>(139,071,417)</u>
Other financing sources:		
Operating transfers in		142,370,658
Operating transfers out		<u>-0-</u>
Total other financing sources		<u>142,370,658</u>
Excess of revenues and other financing sources over expenses and other financing uses		3,299,241
Net assets, beginning of year		<u>70,582,392</u>
Net assets, end of year	\$	<u><u>73,881,633</u></u>

See accompanying notes.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014

1. Summary of Significant Accounting Policies

Basis of Presentation

As provided by authorizing legislation, the Turnpike Authority of Kentucky (the Authority) has issued bonds to construct various economic development roads to preserve and enhance the economic viability of the Commonwealth of Kentucky (the Commonwealth). To set forth obligations and agreements of the Authority with regard to these bonds, the Authority adopted the 1990 Trust Indenture Agreement, dated as of October 1, 1990, as supplemented by the First Supplemental Trust Indenture, dated as of November 15, 2000, as amended by the First Supplemental Agreement, dated October 1, 1992; the Second Supplemental Agreement, dated as of April 1, 1993; the Third Supplemental Agreement, dated as of April 1, 1995; the Fourth Supplemental Agreement, dated as of April 1, 1999; the Fifth Supplemental Agreement, dated as of February 1, 2001; the Sixth Supplemental Agreement, dated as of March 1, 2001; the Seventh Supplemental Agreement, dated as of May 1, 2004; the Eighth Supplemental Agreement, dated as of April 1, 2005; the Ninth Supplemental Agreement, dated as of March 1, 2006; the Tenth Supplemental Agreement, dated as of September 1, 2007; the Eleventh Supplemental Agreement, dated as of June 1, 2010; the Twelfth Supplemental Agreement, dated as of April 1, 2011; Thirteenth Supplemental Agreement dated as of March 1, 2012; the Fourteenth Supplemental Agreement dated as of September 1, 2013; and the Fifteenth Supplemental Agreement, dated as of June 1, 2014.

Among other requirements, the Trust Indenture and the Supplemental Agreements set forth various accounting principles which are to be followed by the Authority. These principles differ in certain respects from accounting principles generally accepted in the United States of America, principally in that the Authority does not capitalize purchases of furniture, fixtures and office equipment in its financial statements, and that interest income during construction is treated as a reduction in construction costs. The Authority's special-purpose financial statements are reported in a format which differs from accounting principles generally accepted in the United States of America. Therefore, the accompanying financial statements, which are prepared in accordance with the aforementioned accounting principles are not intended to, and do not, present financial position or results of operations in conformity with accounting principles generally accepted in the United States of America.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014

Deposits and Investments

The Authority's cash and cash equivalents include all demand deposits and all highly liquid investments with a maturity of three months or less from the date of acquisition.

All investments of the Authority are accounted for at fair value based on quoted market prices.

Debt Issuance Costs

Debt issuance costs and discounts on bonds payable are being amortized over the life of the issue using the "interest" method.

Supplemental Lease Income

The Trust Indenture Agreement provides for the Authority, at six month intervals, to request sufficient additional funds from the Transportation Cabinet to pay administrative expenses for the succeeding six months. This supplemental lease income is recorded as income in the period for which it is to be expended.

Other Revenue Sources

The Authority occasionally receives income from the sale of excess or surplus property acquired for construction of roads. Also, the Authority receives excess earnings from funds previously escrowed for bond defeasance. These revenues from other sources are recognized when received.

Cash and Short-Term Investments

The carrying amount approximates fair value because of the short maturity of those items.

Long-Term Investments

The fair value of the Authority's long-term investments is based on the quoted market prices as of June 30, 2014.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014

Cost of Projects

The cost of projects balance represents the Authority's cumulative design, right-of-way, utilities and construction expenditures for road projects.

Use of Estimates

Management uses estimates and assumptions that affect the reported amounts in the special-purpose financial statements and accompanying notes. Actual results could differ from those estimates.

2. General Information

Purpose

Economic Development Road Revenue Bonds (Revitalization Projects), Series 1990 (the "Bonds") were issued by The Turnpike Authority of Kentucky (the "Authority") pursuant to the October 1, 1990 Trust Indenture as supplemented by the First Supplemental Trust Indenture dated as of November 15, 2000 (the "Indenture") for the purpose of financing the cost of economic development road revitalization projects, including the construction, reconstruction or relocation of certain roads designated by the Transportation Cabinet of the Commonwealth (the "Cabinet") as Economic Development Revitalization Road Projects.

Economic Development Road Revenue Refunding Bonds (Revitalization Projects), Series 2001A (the "Bonds") were issued by the Turnpike Authority of Kentucky pursuant to a 2001 Series A Resolution adopted on February 1, 2001 to refund certain 1993 and 1995 Economic Development Road Revenue Bonds (Revitalization Projects).

Economic Development Road Revenue Refunding Bonds (Revitalization Projects), Series 2004B (the "Bonds") were issued by The Turnpike Authority of Kentucky pursuant to a 2004 Series B Resolution adopted on May 4, 2004 to refund certain revenue bonds previously issued by the Authority.

Economic Development Road Revenue Refunding Bonds (Revitalization Projects), Series 2005A (the "Bonds") were issued by The Turnpike Authority of Kentucky pursuant to a 2005 Series A Resolution adopted on March 28, 2005 to refund certain revenue bonds previously issued by the Authority.

Economic Development Road Revenue Bonds (Revitalization Projects), Series 2005B (the "Bonds") were issued by The Turnpike Authority of Kentucky pursuant to a 2005 Series B Resolution adopted on March 28, 2005 to provide for the

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

financing of certain Economic Development Road Projects.

Economic Development Road Revenue Bonds (Revitalization Projects), Series 2006A (the “Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a 2006 Series Resolution adopted on February 3, 2006 to provide for the financing of certain Economic Development Road Projects.

Economic Development Road Revenue Bonds (Revitalization Projects), Series 2006B (the “Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a 2006 Series Resolution adopted on February 3, 2006 to provide for the financing of certain Economic Development Road Projects.

Economic Development Road Revenue Bonds (Revitalization Projects), Series 2008A (the “Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a 2008 Series A Resolution adopted on June 23, 2008 to provide for the financing of certain Economic Development Road Projects and to refund a portion of the outstanding Kentucky Asset/Liability Commission Project Notes, 2007 Road Fund Series A.

Economic Development Road Revenue Bonds (Revitalization Projects), Series 2009A (the “Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a 2009 Series A Resolution adopted on March 9, 2009 to provide for the financing of certain Economic Development Road Projects, to refund the outstanding Kentucky Asset/Liability Commission Project Notes, 2007 Road Fund Series A, and to pay for certain capitalized interest.

Economic Development Road Revenue and Revenue Refunding 2010 Series A (Revitalization Projects), (the “Series A Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a Series 2010 Resolution adopted on March 12, 2010 to provide for the financing of certain Economic Development Road Projects, to refund certain series of outstanding Economic Development Road Revenue Bonds, to pay certain costs of issuance of the Series A Bonds and to pay for certain capitalized interest.

Economic Development Road Revenue Bonds (Revitalization Projects) 2010 Series B, (Federally Taxable – Build America Bonds – Direct Payment to the Authority), (the “Series B Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a Series 2010 Resolution adopted on March 12, 2010 to provide for the financing of certain Revitalization Projects, to pay for certain capitalized interest and to pay certain costs of issuance of the Series B Bonds.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014

Build America Bonds

The America Recovery and Reinvestment Act of 2009 (ARRA) authorizes the Authority to issue taxable bonds known as “Build America Bonds” to finance capital expenditures for which it could issue tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to the amount of 35% of each interest payment on such taxable bonds. The Authority has determined to issue all of the 2010 Series B Bonds as Build America Bonds. The subsidy payments will be paid to the Authority or to the Trustee on the Authority’s behalf; holders of the 2010 Series B Bonds will not be entitled to a tax credit and interest paid on the 2010 Series B Bonds will be includable in gross income of the holder for purposes of federal income taxation but will be exempt from Kentucky income tax. The subsidy payments have not been pledged to the payment of the 2010 Series B Bonds. To the extent the federal government pays such subsidy payments to the Authority, such amounts would be part of the Authority’s general revenues. The subsidy payments are not full faith and credit obligations of the United States.

Economic Development Road Revenue and Revenue Refunding 2011 Series A (Revitalization Projects), (the “Series A Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a 2011 Resolution adopted on March 16, 2011 to provide for the financing of certain Economic Development Road Projects, to refund certain series of outstanding Economic Development Road Revenue Bonds, to pay certain costs of issuance of the Series A Bonds and to pay for certain capitalized interest.

Economic Development Road Revenue 2012 Series A (Revitalization Projects), (the “Series A Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a 2012 Resolution adopted on February 15, 2012 to provide for the financing of certain Economic Development Road Projects and to pay certain costs of issuance of the Series A Bonds.

Economic Development Road Revenue 2013 Series A (Revitalization Projects), (the “Series A Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a 2013 Resolution adopted on August 14, 2013 to provide for the financing of certain Economic Development Road Projects and to pay certain costs of issuance of the Series A Bonds.

Economic Development Road Revenue Refunding 2014 Series A (Revitalization Projects), (the “Series A Bonds”) were issued by The Turnpike Authority of Kentucky pursuant to a 2014 Resolution adopted on May 8, 2014 to provide for the financing of certain Economic Development Road Projects, to refund certain series

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

of outstanding Economic Development Road Revenue Bonds, and to pay certain costs of issuance of the Series A Bonds.

The Authority

The Authority constitutes a de jure municipal corporation and political subdivision of the Commonwealth of Kentucky. The Authority is a blended component unit of the Commonwealth of Kentucky. It is authorized and empowered, under the terms of written agreements with the Cabinet, to initiate, plan, implement, acquire, construct and finance toll road projects, resource recovery road projects and economic development road projects, to lease such projects to the Cabinet, to issue revenue bonds to finance such projects and to refund such revenue bonds.

These financial statements include only the activities of the Economic Development Road Projects bond issues and are not intended to present the activities of the Turnpike Authority of the Commonwealth of Kentucky, as a whole.

Security

The Bonds are special obligations of the Authority secured by and payable solely from monies pledged for the payment thereof under the 1990 Trust Indenture as supplemented by the First Supplemental Trust Indenture dated as of November 15, 2000 (the "Indenture") as amended by the First Supplemental Agreement, dated as of October 1, 1992; the Second Supplemental Agreement, dated as of April 1, 1993; the Third Supplemental Agreement, dated as of April 1, 1995; the Fourth Supplemental Agreement, dated as of April 1, 1999; the Fifth Supplemental Agreement, dated as of February 1, 2001; the Sixth Supplemental Agreement, dated as of March 1, 2001; the Seventh Supplemental Agreement, dated as of May 1, 2004; the Eighth Supplemental Agreement, dated as of April 1, 2005; the Ninth Supplemental Agreement, dated as of March 1, 2006; the Tenth Supplemental Agreement, dated as of September 1, 2007; the Eleventh Supplemental Agreement, dated as of June 1, 2010; the Twelfth Supplemental Agreement, dated as of April 1, 2011; the Thirteenth Supplemental Agreement, dated as of March 1, 2012; the Fourteenth Supplemental Agreement, dated as of September 1, 2013; and the Fifteenth Supplemental Agreement, dated as of June 1, 2014. Subject only to the provisions of the Trust Indenture, the First Supplemental Trust Indenture, the 1992, 1993, 1995, 1999, 2001, 2004, 2005, 2006, 2007, 2010, 2011, 2012, 2013 and 2014 Supplemental Agreements, permitting the application of such monies for or to the purposes and on the terms and conditions set forth therein, such monies are pledged for the payment or principal and premium, if any, and interest on the Bonds, all funds (and all accounts thereof) established pursuant to the Trust Indenture. There are to be deposited in such funds, (i) proceeds derived from the sale of the Bonds, (ii)

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

monies received by the Authority as rental payments from the Cabinet under the Lease, the First Supplemental Lease, dated October 1, 1992; the Second Supplemental Lease, dated as of April 1, 1993; the Third Supplemental Lease, dated as of April 1, 1995; the Financing/Fourth Supplemental Lease, dated as of October 1, 1999, which has been amended by a First Amendment to Financing/Fourth Supplemental Lease Agreement, dated as of November 15, 2000; the Fifth Supplemental Lease, dated as of February 1, 2001; the Sixth Supplemental Lease, dated as of March 1, 2001; a Financing/Seventh Supplemental Lease Agreement, dated as of May 1, 2004; the Eighth Supplemental Lease, dated as of April 1, 2005; the Ninth Supplemental Lease, dated as of March 1, 2006; a Financing /Tenth Supplemental Agreement, dated September 1, 2007, which has been amended by a First Amendment to Financing/Tenth Supplemental Lease Agreement, dated as of August 1, 2008 and by a Second Amendment to Financing/Tenth Supplemental Lease Agreement, dated as of April 1, 2009; an Eleventh Supplemental Lease, dated as of June 1, 2010; a Twelfth Supplemental Lease, dated as of April 1, 2011; a Thirteenth Supplemental Lease Agreement, dated as of March 1, 2012; a Fourteenth Supplemental Lease Agreement, dated as of September 1, 2013; a Fifteenth Supplemental Lease Agreement, dated as of June 1, 2014, and (iii) during such times as the lease shall not be in effect, the Transportation Cabinet must collect from the Commonwealth and pay over to the Authority motor fuel taxes and surtaxes collected by the Commonwealth on gasoline and other motor fuels consumed on the Economic Development Revitalization Projects not directed by law or previous binding contact to be applied to uses other than payment of the principal of and interest on the Bonds.

The Authority does not expect that it will have a source of revenues sufficient to pay Bonds if required rentals are not received under the lease. There is no indication that the required rentals will not be received.

The Authority does not have any taxing power. The Bonds do not constitute a debt of the Commonwealth, and neither the faith and credit nor the taxing authority of the Commonwealth is pledged to the payment of the principal or interest on the Bonds.

Trust Indenture

In connection with the issuance of the Bonds, the Authority entered into the Indenture with PNC Bank of Kentucky, Louisville, Kentucky (the "Trustee") (formerly Citizens Fidelity Bank and Trust).

The Indenture, dated as of October 1, 1990, as supplemented by a First Supplemental Trust Indenture dated as of November 15, 2000 (and subsequent

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

amendments shown in Note 1) between the Authority and The Bank of New York Mellon Trust Company, N.A. (formerly Chase Manhattan Trust Company N. A.), Louisville, Kentucky, as trustee, contain provisions establishing funds and accounts for segregation of assets and restricting the use of the proceeds of Bonds as well as other funds received. Cash and marketable securities of the various funds and accounts are restricted for the following purposes:

Construction Fund - construction costs are to include costs of preliminary studies, land acquisition (less consideration received for land sold), engineering, legal, administrative and maintenance expenses during construction (less interest earned on unexpended construction funds). Construction costs are not amortized.

The Construction Fund records debt incurred to finance not only the construction of roads as provided in the indenture, but has also borrowed funds to defease and partially defease bonds issued under this indenture and other indentures. When funds are borrowed to defease or partially defease bonds issued under other indentures, this causes an outflow of funds and can result in a negative fund balance.

The Construction Fund has also incurred debt to finance the construction and improvement of roads owned by various local governments in the Commonwealth of Kentucky. When these funds are expended, this outflow of funds can result in a negative fund balance.

Revenue Fund - a depository for collections of monies received under lease agreements with the Cabinet. Transfers are made from this fund according to funding requirements of the Indenture. The Revenue Fund also has an operating account for payment of administrative costs.

Debt Service Reserve Fund - assets held as a reserve for payment of Bond principal and interest if monies in the Bond Service Account are insufficient to make required payments.

Escrow Fund - this Fund was established October 1, 1992 as a depository for certain payments required under the First Supplemental Lease dated October 1, 1992 which will be used to purchase certain United States Government obligations in the amounts and on the dates as set forth in the Escrow Agreement dated October 1, 1992.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014

Bond Fund - this Fund is comprised of the following four accounts:

Capitalized Interest Account - payment of bond interest as may be provided in a Series Resolution;

Bond Service Account - payment of bond principal and interest;

Redemption Account - retirement of bonds, and;

Rebate Account - this Account was established October 1, 1990 as a depository for amounts required to be paid to the United States of America pursuant to Section 148(F) of the Internal Revenue Code as determined by the Authority's rebate consultant.

3. **Concentration of Credit Risk**

At June 30, 2014, the Authority maintained \$182,268,138 of cash and investments with the State Investment Pool of the State Investment Commission of the Commonwealth of Kentucky.

The State Investment Commission ("The Commission") is charged with the oversight of the Commonwealth's investment programs pursuant to KRS 42.500.

The Commission delegates the day-to-day management of the Commonwealth's investments to the Office of Financial Management ("OFM"). The purpose of the investment pools is to provide: economies of scale that enhance yield, ease of administration for both the user agencies and OFM and increased accountability and control. All investments shall be permitted investments as defined in KRS 42.500 and as further limited by 200 KAR Chapter 14. Funds residing in the pools are available to be spent at any time. The Commonwealth has a custodial agreement with State Street Bank, which clears all security transactions and holds its securities. The Commonwealth also has tri-party custodial accounts with Bank of New York and J. P. Morgan Chase to facilitate the execution of repurchase agreements. The information concerning these investment pools has been obtained from OFM. The Authority had no collateral or insurance as security for the balances with the State Investment Commission at June 30, 2014, but they own a proportionate interest in the securities held in the respective pools.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

4. **Cash, Cash Equivalents, and Investments**

At June 30, 2014, the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky held cash and cash equivalents consisting of the following:

State pool cash and equivalents	\$ 13,509,221
U.S. Government money market funds	112,859,893
	\$ 126,369,114

At June 30, 2014, the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky had the following investments and maturities:

	Fair Value	Less than One Year	1 - 5 Years
State pool investments	\$ 168,758,917	\$ -0-	168,758,917

Interest Rate Risk

The State Investment Pools are managed within statute, administrative regulation and under review of the State Investment Commission. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy requires, at a minimum, an annual review of the investment maturities.

Credit Risk

The Economic Development Revitalization Road Projects indenture limits investments to U. S. Government backed securities, any corporation of the U. S. Government, Certificates of Deposit and Bankers Acceptances issued by highly rated banks, commercial paper in the highest rating category, securities issued by a state or local government rated in one of the three highest categories by a nationally-recognized rating agency, and any other investment permitted by KRS 42.500. The Authority did not have any investments at June 30, 2014 that were subject to credit risk.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments, or collateral securities that are in the possession of an outside party. At June 30, 2014, all of the Economic Development Revitalization Road Project's cash, cash equivalents, and investments are insured, collateralized, or held by the Authority's counterparty in the Authority's name.

5. Economic Development Revitalization Road Revenue Bonds

At June 30, 2014, Economic Development Revitalization Road Revenue Bonds outstanding were as follows:

2001 Series A

Serial Bonds, 4.625% to 5.50%, due annually in amounts ranging from \$8,225,000 to \$8,665,000.

Final scheduled maturity is July 1, 2015. \$ 16,890,000

2004 Series B

Serial Bonds, 3.75% to 5.25%, due annually in amounts ranging from \$10,100,000 to \$10,155,000. Final scheduled maturity is July 1, 2015.

20,255,000

2005 Series A

Serial Bonds, 4.00%, due annually in amounts ranging from \$2,720,000 to \$2,830,000. Final scheduled maturity is July 1, 2015.

5,550,000

2005 Series B

Serial Bonds, 5.00%, due annually in amounts ranging from \$9,590,000 to \$10,070,000. Final scheduled maturity is July 1, 2015.

19,660,000

2006 Series A

Serial Bonds, 4.00% to 4.40%, due annually in amounts ranging from \$225,000 to \$6,625,000. Final scheduled maturity is July 1, 2026.

23,835,000

2006 Series B

Serial Bonds, 4.20% to 5.00%, due annually in amounts ranging from \$6,625,000 to \$15,570,000. Final scheduled maturity is July 1, 2026.

140,640,000

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

2008 Series A

Serial Bonds, 3.625% to 5.00%, due annually in amounts ranging from \$8,800,000 to \$17,090,000. Final scheduled maturity is July 1, 2028. 187,155,000

2009 Series A

Serial Bonds, 2.75% to 5.00%, due annually in amounts ranging from \$6,110,000 to \$10,755,000. Final scheduled maturity is July 1, 2027. 113,325,000

Term Bonds, 5.00% due annually in amounts ranging from \$11,290,000 to \$11,855,000. Final scheduled maturity is July 1, 2029. 23,145,000

2010 Series A

Serial Bonds, 2.00% to 5.00%, due annually in amounts ranging from \$18,645,000 to \$24,030,000. Final scheduled maturity is July 1, 2020. 147,665,000

2010 Series B

Term Bonds, 5.244% to 5.722%, due annually in amounts ranging from \$91,015,000 to \$96,625,000. Final scheduled maturity is July 1, 2030. 187,640,000

2011 Series A

Serial Bonds, 3.00% to 5.00%, due annually in amounts ranging from \$3,785,000 to \$15,115,000. Final scheduled maturity is July 1, 2031. 115,175,000

2012 Series A

Serial Bonds, 2.00% to 5.00%, due annually in amounts ranging from \$8,775,000 to \$18,285,000. Final scheduled maturity is July 1, 2032. 218,200,000

2013 Series A

Serial Bonds, 2.00% to 5.00%, due annually in amounts ranging from \$6,385,000 to \$14,620,000. Final scheduled maturity is July 1, 2033. 187,625,000

2014 Series A

Serial Bonds, 1.00% to 5.00%, due annually in amounts ranging from \$9,955,000 to \$14,740,000. Final scheduled maturity is July 1, 2025. 121,325,000

Unamortized bond premium 1,528,085,000
Deferred amount on refunding 84,132,794

\$ 1,607,723,270

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

The debt principal and interest requirements, net of related capitalized interest and Build America Bonds subsidy payments (see Note 2), for the years ending June 30 are as follows:

	Principal	Interest	Capitalized Interest and Interest Subsidies	Total
2015	\$ 73,570,000	\$ 68,972,753	\$ (3,475,797)	\$ 139,066,956
2016	82,935,000	67,994,115	(3,605,598)	147,323,517
2017	85,290,000	64,336,570	(3,605,598)	146,020,972
2018	88,980,000	60,590,205	(3,605,598)	145,964,607
2019	92,920,000	56,554,540	(3,605,598)	145,868,942
2020-2024	459,215,000	217,474,686	(16,815,985)	659,873,701
2025-2029	440,015,000	105,261,558	(9,527,736)	535,748,822
2030-2034	205,160,000	19,377,493	(1,234,164)	223,303,329
	<u>\$ 1,528,085,000</u>	<u>\$ 660,561,920</u>	<u>\$ (45,476,074)</u>	<u>\$ 2,143,170,846</u>

The following is a summary of long-term debt activity of the Economic Development Revitalization Road Projects for the year ended June 30, 2014:

	Balance July 1, 2013	Additions	Reductions	Amortization	Balance June 30, 2014	Due Within One Year
Bonds Payable	\$1,421,880,000	\$ 308,950,000	\$(202,745,000)	\$ -0-	\$1,528,085,000	<u>\$73,570,000</u>
Bonds Premium	65,617,826	31,860,234	(3,776,484)	(9,568,782)	84,132,794	
Deferred Loss	(1,593,998)	(3,282,720)	-0-	382,194	(4,494,524)	
Total	<u>\$1,485,903,828</u>	<u>\$ 337,527,514</u>	<u>\$(206,521,484)</u>	<u>\$ (9,186,588)</u>	<u>\$1,607,723,270</u>	

Redemption Provisions

2001 Series A Bonds

The 2001 A Bonds are not subject to optional redemption prior to maturity.

2004 Series B Bonds

The 2004 B Bonds are not subject to redemption prior to maturity.

2005 Series A Bonds

The 2005 A Bonds are not subject to redemption prior to maturity.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

2005 Series B Bonds

The 2005 B Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2005 B Bonds maturing on and after July 1, 2016 are subject to redemption prior to maturing in whole or in part, in the amount of \$5,000 or integral multiples thereof, on any date on or after July 1, 2015 at the redemption prices equal to 100% of principal amount redeemed plus accrued interest to the redemption date.

Selection of Bonds - If less than all of the 2005 B Bonds are to be called for redemption, the Authority will determine the maturities of the 2005 B Bonds to be redeemed. If less than all of the 2005 B Bonds of a single maturity are to be redeemed, the selection of the 2005 B Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2005 B Bonds remain in Book-Entry Form, be made by the Depository and the Participants (currently by way of a lottery process), and otherwise will be made at random by the Trustee, in such manner as the Trustee, in its discretion, may determine.

Notice of Redemption - Notice of call for any redemption of the 2005 B Bonds will be given by the Trustee on behalf of the Authority, by mailing a copy of the redemption notice, at least 30 days prior to the date fixed for redemption, to the Holders of the 2005 B Bonds to be redeemed as shown on the bond register for those 2005 B Bonds at the close of business on the 25th day preceding such mailing.

2006 Bonds

The 2006 Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2006 Bonds maturing on and after July 1, 2017 are subject to redemption prior to maturity in whole or in part, in the amount of \$5,000 or integral multiples thereof, on any date on or after July 1, 2016 at the redemption prices equal to 100% of principal amount redeemed plus accrued interest to the redemption date.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

Selection of Bonds - If less than all of the 2006 Bonds are to be called for redemption, the Authority will determine the maturities of the 2006 Bonds to be redeemed. If less than all of the 2006 Bonds of a single maturity are to be redeemed, the selection of the 2006 Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2006 Bonds remain in Book-Entry Form, be made by the Depository and the Participants (currently by way of a lottery process), and otherwise will be made at random by the Trustee, in such manner as the Trustee, in its discretion, may determine.

Notice of Redemption - Notice of call for any redemption of the 2006 Bonds will be given by the Trustee on behalf of the Authority, by mailing a copy of the redemption notice, at least 30 days prior to the date fixed for redemption, to the Holders of the 2006 Bonds to be redeemed as shown on the bond register for those 2006 Bonds at the close of business on the 25th day preceding such mailing.

2008 Series A Bonds

The 2008 A Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2008 A Bonds maturing on and after July 1, 2019 are subject to redemption prior to maturity in whole or in part, in the amount of \$5,000 or integral multiples thereof, on any date on or after July 1, 2018 at the redemption prices equal to 100% of principal amount redeemed plus accrued interest to the redemption date.

Selection of Bonds - If less than all of the 2008 A Bonds are to be called for redemption, the Authority will determine the maturities of the 2008 A Bonds to be redeemed. If less than all of the 2008 A Bonds of a single maturity are to be redeemed, the selection of the 2008 A Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2008 A Bonds remain in Book-Entry Form, be made by the Depository and the Participants (currently by way of a lottery process), and otherwise will be made at random by the Trustee, in such manner as the Trustee, in its discretion, may determine.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

Notice of Redemption - Notice of call for any redemption of the 2008 A Bonds will be given by the Trustee on behalf of the Authority, by mailing a copy of the redemption notice, at least 30 days prior to the date fixed for redemption, to the Holders of the 2008 A Bonds to be redeemed as shown on the bond register for those 2008 A Bonds at the close of business on the 15th day preceding such mailing.

2009 Series A Bonds

The 2009 A Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2009 A Bonds maturing on and after July 1, 2020 are subject to redemption prior to maturity in whole or in part, in the amount of \$5,000 or integral multiples thereof, on any date on or after July 1, 2019 at the redemption prices equal to 100% of principal amount redeemed plus accrued interest to the redemption date.

Selection of Bonds - If less than all of the 2009 A Bonds are to be called for redemption, the Authority will determine the maturities of the 2009 A Bonds to be redeemed. If less than all of the 2009 A Bonds of a single maturity are to be redeemed, the selection of the 2009 A Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2009 A Bonds remain in Book-Entry Form, be made by the Depository and the Participants (currently by way of a lottery process), and otherwise will be made at random by the Trustee, in such manner as the Trustee, in its discretion, may determine.

Notice of Redemption - Notice of call for any redemption of the 2009 A Bonds will be given by the Trustee on behalf of the Authority, by mailing a copy of the redemption notice, at least 30 days prior to the date fixed for redemption, to the Holders of the 2009 A Bonds to be redeemed as shown on the bond register for those 2009 A Bonds at the close of business on the 15th day preceding such mailing.

2010 Series A Bonds

The 2010 A Bonds are not subject to optional redemption prior to maturity.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2014

2010 Series B Bonds

The 2010 B Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2010 B Bonds maturing on July 1, 2025 and July 1, 2030 are subject to redemption prior to maturity by written direction of the Authority, in whole or in part, at a redemption price equal to the "Make Whole Redemption Price" as defined in the Bond documents.

Extraordinary Optional Redemption - The 2010 B Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part upon the occurrence of an "Extraordinary Event" at a redemption price equal to the greater of:

- 1) the principal amount of the 2010 B Bonds to be redeemed, less any original issue discount and plus any original issue premium related to such 2010 B Bonds; or
- 2) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of such 2010 B Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2010 B Bonds are to be redeemed, discounted to the date on which such 2010 B Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (described above) plus 100 basis points; plus, in each case, accrued interest on such 2010 B Bonds to be redeemed to the redemption date.

An "Extraordinary Event" will have occurred if Section 54AA or 6431 of the Internal Revenue Code of 1986, as amended (the "Code") (as such Sections were added by Section 1531 or ARRA, pertaining to "Build America Bonds") is modified, amended or interpreted in a manner pursuant to which the Authority's 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

Selection of Bonds - If less than all of the 2010 B Bonds are to be called for redemption, the Authority will determine the maturities of the 2010 B Bonds to be redeemed. If less than all of the 2010 B Bonds of a single maturity are to be redeemed, the selection of the 2010 B Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2010 B Bonds remain in Book-Entry Form, be made by the Depository and the Participants (currently by way of a lottery process), and otherwise will be made at random by the Trustee, in such manner as the Trustee, in its discretion, may determine.

Notice of Redemption - Notice of call for any redemption of the 2010 B Bonds will be given by the Trustee on behalf of the Authority, by mailing a copy of the redemption notice, at least 30 days prior to the date fixed for redemption, to the Holders of the 2010 B Bonds to be redeemed as shown on the bond register for those 2010 B Bonds at the close of business on the 15th day preceding such mailing.

2011 Series A Bonds

The 2011 Series A Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2011 A Bonds maturing on or after July 1, 2022 are subject to redemption prior to maturity in whole or in part, in the amount of \$5,000 or integral multiples thereof, on any date on or after July 1, 2021 at the redemption prices equal to 100% of principal amount redeemed plus accrued interest to the redemption date.

Selection of Bonds - If less than all of the 2011 A Bonds are to be called for redemption, the Authority will determine the maturities of the 2011 A Bonds to be redeemed. If less than all of the 2011 A Bonds of a single maturity are to be redeemed, the selection of the 2011 A Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2011 A Bonds remain in Book-Entry Form, be made by the Depository and the Participants (currently by way of a lottery process), and otherwise will be made at random by the Trustee, in such manner as the Trustee, in its discretion, may determine.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

Notice of Redemption - Notice of call for any redemption of the 2011 A Bonds will be given by the Trustee on behalf of the Authority, by mailing a copy of the redemption notice, at least 30 days prior to the date fixed for redemption, to the Holders of the 2011 A Bonds to be redeemed as shown on the bond register for those 2011 A Bonds at the close of business on the 15th day preceding such mailing.

2012 Series A Bonds

The 2012 Series A Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2012 A Bonds maturing on or after July 1, 2023 are subject to redemption prior to maturity in whole or in part, in the amount of \$5,000 or integral multiples thereof, on any date on or after July 1, 2022 at the redemption prices equal to 100% of principal amount redeemed plus accrued interest to the redemption date.

Selection of Bonds - If less than all of the 2012 A Bonds are to be called for redemption, the Authority will determine the maturities of the 2012 A Bonds to be redeemed. If less than all of the 2012 A Bonds of a single maturity are to be redeemed, the selection of the 2012 A Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2012 A Bonds remain in Book-Entry Form, be made by the Depository and the Participants (currently by way of a lottery process), and otherwise will be made at random by the Trustee, in such manner as the Trustee, in its discretion, may determine.

Notice of Redemption - Notice of call for any redemption of the 2012 A Bonds will be given by the Trustee on behalf of the Authority, by mailing a copy of the redemption notice, at least 30 days prior to the date fixed for redemption, to the Holders of the 2012 A Bonds to be redeemed as shown on the bond register for those 2012 A Bonds at the close of business on the 15th day preceding such mailing.

2013 Series A Bonds

The Series A Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2013 A Bonds maturing on or after July 1, 2024 are subject to redemption prior to maturity in whole or in part, in the amount of \$5,000 or integral multiples thereof, on any date on or after July 1, 2023 at the redemption

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

prices equal to 100% of principal amount redeemed plus accrued interest to the redemption date.

Selection of Bonds - If less than all of the 2013 A Bonds are to be called for redemption, the Authority will determine the maturities of the 2013 A Bonds to be redeemed. If less than all of the 2013 A Bonds of a single maturity are to be redeemed, the selection of the 2013 A Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2013 A Bonds remain in Book-Entry Form, be made by the Depository and the Participants (currently by way of a lottery process), and otherwise will be made at random by the Trustee, in such manner as the Trustee, in its discretion, may determine.

Notice of Redemption - Notice of call for any redemption of the 2013 A Bonds will be given by the Trustee on behalf of the Authority, by mailing a copy of the redemption notice, at least 30 days prior to the date fixed for redemption, to the Holders of the 2013 A Bonds to be redeemed as shown on the bond register for those 2013 A Bonds at the close of business on the 15th day preceding such mailing.

2014 Series A Bonds

The 2014 A Bonds are not subject to redemption prior to maturity.

6. Encumbrances

At June 30, 2014, there were encumbrances outstanding at the Transportation Cabinet for construction costs on the Economic Development Revitalization Road Projects in the amount of \$125,676,620, which the Authority will be responsible for in future years.

7. Refunding of 2014 Series A

In June 2014, the Authority issued Economic Development Road Revenue Refunding Bonds, 2014 Series A, in the aggregate principal of \$121,325,000. The Bonds were used to provide funds for the refunding of the Economic Development Road Revenue Bonds, 2005 Series B. The outstanding principal amount of the bonds refunded was \$132,410,000.

To accomplish this refunding, the Authority purchased, at par, certain direct obligations of the United States of America which bear interest and mature in

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO SPECIAL-PURPOSE FINANCIAL STATEMENTS JUNE 30, 2014

such manner as to pay the debt service of the defeased bonds. These direct obligations of the United States of America were deposited with the Trustee in a refunding escrow account and pledged to pay debt service and interest on the bonds to be refunded when due, through the July 1, 2015 redemption date. Upon deposit of the direct obligations with the Trustee, the Bonds to be refunded are no longer legally deemed to be outstanding under the 1990 Indenture, nor is the Authority bound under its provisions.

After payment of the new debt issuance costs, the proceeds from the new debt for refunding totaled \$138,920,279. The debt service requirement to service the new debt issued for refunding is calculated as follows:

Proceeds from new debt deposited with Trustee	\$138,920,279
Debt issuance costs	732,650
Premium on new bonds	<u>(18,327,929)</u>
Net debt	<u>\$121,325,000</u>

The cash flow required to service the 2005B bonds and 2014A refunding bonds to maturity is \$177,762,524 and \$159,695,283, respectively, which results in a difference of \$18,067,241.

The economic gain from this refunding transaction is calculated as the difference between the present value of the 2005 Series B debt service requirements and the present value of the 2014 Series A debt service requirements, discounted at the effective rate of the 2014 Series A bonds. The economic gain on the advance refunding is \$15,867,035.

As of June 30, 2014, approximately \$132.4 million of defeased bonds are outstanding.

SUPPLEMENTARY INFORMATION

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

BOND FUND-COMBINING SCHEDULE OF ACCOUNTS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS TRUST INDENTURE BASIS FOR THE YEAR ENDED JUNE 30, 2014

	<u>Bond Service Account</u>	<u>Capitalized Interest Account</u>	<u>Redemption Account</u>	<u>Rebate Account</u>	<u>Total Bond Fund</u>
Revenues:					
Investment income	\$ 744	\$ -0-	\$ -0-	\$ 89	\$ 833
Interest expense reimbursement	<u>3,318,952</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,318,952</u>
Total revenues	<u>3,319,696</u>	<u>-0-</u>	<u>-0-</u>	<u>89</u>	<u>3,319,785</u>
Expenses:					
Interest expense	72,056,202	-0-	-0-	-0-	72,056,202
Principal amount of bonds redeemed	<u>70,335,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>70,335,000</u>
Total expenses	<u>142,391,202</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>142,391,202</u>
Deficiency of revenues over expenses	<u>(139,071,506)</u>	<u>-0-</u>	<u>-0-</u>	<u>89</u>	<u>(139,071,417)</u>
Other financing sources:					
Operating transfers in	142,370,658	-0-	-0-	-0-	142,370,658
Operating transfers out	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total other financing sources	<u>142,370,658</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>142,370,658</u>
Excess of revenues and other financing sources over expenses and other financing uses	3,299,152	-0-	-0-	89	3,299,241
Net assets, beginning of year	<u>70,358,566</u>	<u>-0-</u>	<u>-0-</u>	<u>223,826</u>	<u>70,582,392</u>
Net assets, end of year	<u>\$ 73,657,718</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 223,915</u>	<u>\$ 73,881,633</u>

See report of independent auditors.

**ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS
OF THE TURNPIKE AUTHORITY OF KENTUCKY**

CONSTRUCTION FUND
SCHEDULE OF PROJECT COSTS
JANUARY 1, 1991 TO JUNE 30, 2014

Design	\$	62,921,803
Construction		1,846,031,021
Right-of-Way		142,749,551
Utilities		92,229,479
Planning		<u>398,867</u>
Total All Projects	\$	<u><u>2,144,330,721</u></u>

See report of independent auditors.



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**REPORT OF INDEPENDENT AUDITORS 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**

To the Board of Directors
Turnpike Authority of 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 special-purpose financial statements of the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky (the Authority), as of and for the year ended June 30, 2014, and the related notes to the special-purpose financial statements, and have issued our report thereon dated as of the date of this letter. The special-purpose financial statements present only the Economic Development Revitalization Road Projects Fund and do not purport to, and do not, present fairly the financial position of the Turnpike Authority of Kentucky, as of June 30, 2014, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's special-purpose 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 weakness 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 Authority's special-purpose 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 the special-purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Blue & Co., LLC

Lexington, Kentucky
October 30, 2014

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

SCHEDULE OF FINDINGS AND RESPONSES YEAR ENDED JUNE 30, 2014

Summary of Auditor's Results

We have issued an unmodified opinion dated October 30, 2014, on the special-purpose financial statements of the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky as of and for the year ended June 30, 2014.

Our audit disclosed no instances of noncompliance that are material to the special-purpose financial statements.

Findings Related to the Special-Purpose Financial Statements

Our audit disclosed no findings that are required to be reported in accordance with *Government Auditing Standards*.

Summary of Prior Year Findings

The prior-year audit disclosed no findings that are required to be reported in accordance with *Government Auditing Standards* for the year ended June 30, 2013.