ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

SPECIAL-PURPOSE FINANCIAL STATEMENTS

June 30, 2011

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

We have audited the accompanying 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, 2011, as listed in the table of contents. These special-purpose financial statements are the responsibility of the Authority's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements were prepared for the purpose of complying with, and in conformity 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, as discussed in Note 1, and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the 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, 2011, 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.

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, 2011, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated as of the date of this letter, on our consideration of the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky'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* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the special-purpose financial statements of the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky. The accompanying supplementary information on pages 28 and 29 is presented for purposes of additional analysis, and is not a required part of the special-purpose financial statements. The 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 records used to prepare the special-purpose financial statements or to the special-purpose financial statements themselves. In our opinion, the information is fairly stated in all material respects in relation to the special-purpose financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Directors, and the Commonwealth of Kentucky's Auditor of Public Accounts, and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

December 7, 2011

ECONOMIC DEVELOPMENT REVITALIZATION PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS-ALL FUNDS --TRUST INDENTURE BASIS

June 30, 2011

ASSETS

Construction Fund		
Cash and cash equivalents	$ 24,880,936	
Investments	162,677,917	
Cost of projects	1,680,552,088	
Unamortized debt issuance costs	5,333,697	
Accrued interest receivable	1,958,247	
Total assets - Construction Fund		$ 1,875,402,885
Revenue Fund		
Cash and cash equivalents	218,503	
Due from Rebate Account	63,842,514	
Total assets - Revenue Fund		64,061,017
Debt Service Reserve Fund		
Total assets - Debt Service Reserve Fund		-
Escrow Fund		
Cash and cash equivalents	23,061	
Investments	53,546	
Total assets - Escrow Fund		76,607
Bond Fund:		
Bond Service Account		
Cash and cash equivalents	12,262,815	
Investments	10,372,577	
Due from Revenue Fund	63,842,514	
Capitalized Interest Account	-	
Redemption Account	-	
Rebate Account		
Cash and cash equivalents	64,067,991	
Total assets - Bond Fund		150,545,897
Total assets - All Funds		$ 2,090,086,406

See Accompanying Notes to Special-Purpose Financial Statements

ECONOMIC DEVELOPMENT REVITALIZATION PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS-ALL FUNDS --TRUST INDENTURE BASIS, Continued

June 30, 2011

LIABILITIES AND NET ASSETS

Construction Fund		
Accounts Payable	$ 186,751	
Economic Development Revitalization Revenue Refunding Bonds	1,334,659,916	
Net assets	540,556,218	
Total liabilities and net assets - Construction Fund		$ 1,875,402,885
Revenue Fund		
Due to Bond Service Account	63,842,514	
Accounts Payable	15,118	
Net assets	203,385	
Total liabilities and net assets - Revenue Fund		64,061,017
Debt Service Reserve Fund		
Total liabilities and net assets - Debt Service Reserve Fund		-
Escrow Fund		
Net assets	76,607	
Total liabilities and net assets - Escrow Fund		76,607
Bond Fund		
Bond Service Account		
Accrued interest payable	29,758,746	
Unearned income	1,802,799	
Net assets (reserved for bond principal payment, **July 1, 2011, $41,725,000)**	54,916,361	
Capitalized Interest Account	-	
Redemption Account	-	
Rebate Account		
Due to Revenue Fund	63,842,514	
Net assets	225,477	
Total liabilities and net assets - Bond Fund		150,545,897
Total liabilities and net assets - All Funds		2,090,086,406

See Accompanying Notes to Special-Purpose Financial Statements

ECONOMIC DEVELOPMENT REVITALIZATION 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, 2011

Revenues:	
Investment income	$ 1,241,985
Amortization of bond premiums	6,561,549
Other	201,600
Total revenues	8,005,134
Expenses:	
Amortization of deferred gains/losses on refunding	1,027,050
Amortization of issuance costs	691,649
Amortization of bond discount	198,013
Construction funds for local governments	670,124
Total expenses	2,586,836
Excess of revenues over expenses	5,418,298
Other financing sources (uses):	
Bonds retired in Bond Service Account	92,620,000
Operating transfers out	(4,274,403)
Total other financing sources	88,345,597
Excess of revenues and other financing sources over expenses and other financing uses	93,763,895
Net assets, beginning of year	446,792,323
Net assets, end of year	$ 540,556,218

See Accompanying Notes to Special-Purpose Financial Statements

ECONOMIC DEVELOPMENT REVITALIZATION 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, 2011

Revenues:	
Lease rentals from Transportation Cabinet	$ 96,999,493
Supplemental lease income	125,000
Total revenues	97,124,493
Expenses:	
Administrative expenses	126,845
Paying agent expenses	3,600
Total expenses	130,445
Excess of revenues over expenses	96,994,048
Other financing uses:	
Operating transfers out	(96,999,493)
Total other financing uses	(96,999,493)
Deficiency of revenues over expenses and other financing uses	(5,445)
Net assets, beginning of year	208,830
Net assets, end of year	$ 203,385

See Accompanying Notes to Special-Purpose Financial Statements

ECONOMIC DEVELOPMENT REVITALIZATION PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

DEBT SERVICE RESERVE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -- TRUST INDENTURE BASIS

For the year ended June 30, 2011

Total Revenues	$ -
Total Expenses	-
Other financing uses:	
Operating transfers in	-
Operating transfers out	-
Total other financing uses	-
Net assets, beginning of year	-
Net assets, end of year	$ -

See Accompanying Notes to Special-Purpose Financial Statements

ECONOMIC DEVELOPMENT REVITALIZATION PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

ESCROW FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -- TRUST INDENTURE BASIS

For the year ended June 30, 2011

Revenues:	
Investment income	$ 89,778
Total revenues	89,778
Total expenses	19,466
Excess of revenues over expenses	70,312
Other financing sources uses:	
Operating transfers out	(3,513,806)
Total other financing uses	(3,513,806)
Deficiency of revenues and other financing sources over expenses and other financing uses	(3,443,494)
Net assets, beginning of year	3,520,101
Net assets, end of year	$ 76,607

See Accompanying Notes to Special-Purpose Financial Statements

ECONOMIC DEVELOPMENT REVITALIZATION PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

BOND FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -- TRUST INDENTURE BASIS

For the year ended June 30, 2011

Revenues:	
Investment income	$ 192,810
Interest expense reimbursement	1,821,114
Contribution from Transportation Cabinet	70,000
Total revenues	2,083,924
Expenses:	
Arbitrage tax	155,272
Interest expense	61,521,222
Principal amount of bonds redeemed	92,620,000
Total expenses	154,296,494
Deficiency of revenues over expenses	(152,212,570)
Other financing sources (uses):	
Operating transfers in	108,158,982
Operating transfers out	(3,371,280)
Total other financing sources (uses)	104,787,702
Deficiency of revenues and other financing sources over expenses and other financing uses	(47,424,868)
Net assets, beginning of year	102,566,706
Net assets, end of year	$ 55,141,838

See Accompanying Notes to Special-Purpose Financial Statements.

1. Summary of Significant Accounting Policies

A. 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; and the Twelfth Supplemental Agreement, dated as of April 1, 2011.

Among other requirements, the Trust Indenture and the Supplemental Agreements set forth various accounting principles which are to be followed by the Authority and which 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.

B. 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.

C. Debt Issuance Costs

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

D. 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.

E. 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.

F. Cash and Short-Term Investments

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

G. Long-Term Investments

The fair value of the Authority's long-term investments is based on the quoted market prices as of June 30, 2011.

H. Cost of Projects

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

I. 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 Bonds (Revitalization Projects), Series 2000 (the "Bonds") were issued by The Turnpike Authority of Kentucky pursuant to a Series 2000 Resolution adopted on November 16, 2000 to provide for the financing of certain Economic Development Road Projects and refund certain of the outstanding project notes of the Kentucky Asset/Liability Commission and pay certain costs of issuance of the 2000 Bonds.

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 2001B (the "Bonds") were issued by the Turnpike Authority of Kentucky pursuant to a 2001 Series B Resolution adopted on February 22, 2001 to refund certain Series 2000 Economic Development Road Revenue Bonds.

Economic Development Road Revenue Refunding Bonds (Revitalization Projects), Series 2004A (the "Bonds") were issued by The Turnpike Authority of Kentucky pursuant to a 2004 Series A 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 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 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.

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.

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; and the Twelfth Supplemental Agreement, dated as of April 1, 2011. 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 and 2011 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 of 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) 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; and a Twelfth Supplemental Lease, dated as of April 1, 2011, 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 Road Projects not directed by law or previous binding contract 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 amendments shown in Footnote 1A) 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;

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, 2011, the Authority maintained deposits of $218,503 in a noninterest-bearing account, all of which was insured by Federal Depository Insurance. The Authority also maintained $187,553,377 of 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 increase 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 U. S. 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, 2011, but they own a proportionate interest in the securities held in the respective pools.

4. Cash, Cash Equivalents, and Investments

As of June 30, 2011, 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	$ 24,875,460
U.S. Government money market funds	76,359,343
Demand deposit account	218,503
	$ 101,453,306

As of June 30, 2011, 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
U.S Treasury Notes	10,372,577	5,153,268	5,219,309
U.S. State and Local Gov't Series	53,546	53,546	-
State pool investments	162,677,917	-	162,677,917
	$ 173,104,040	$ 5,206,814	$ 167,897,226

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, and 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 Kentucky Revised Statute 42.500. The Authority did not have any investments at June 30, 2011 that were subject to credit risk.

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, 2011, all of the Economic Development Revitalization Road Project's cash, cash equivalents, and investments are either insured, collateralized, or held by the Authority's counterparty in the Authority's name.

5. Economic Development Revitalization Road Revenue Bonds

At June 30, 2011, Economic Development Revitalization road Project Bonds outstanding were as follows:

2001 Series A Serial Bonds, 4.40% to 5.50%, due annually in amounts ranging from \$8,225,000 to \$18,650,000. Final scheduled maturity is July 1, 2015.	69,995,000
2004 Series B Serial Bonds, 3.40% to 5.25%, due annually in amounts ranging from \$75,000 to \$10,815,000. Final scheduled maturity is July 1, 2015.	40,560,000
2005 Series A Serial Bonds, 3.40% to 4.00%, due annually in amounts ranging from \$2,445,000 to \$2,830,000. Final scheduled maturity is July 1, 2015.	13,140,000
2005 Series B Serial Bonds, 3.40% to 5.00%, due annually in amounts ranging from \$8,335,000 to \$16,320,000. Final scheduled maturity is July 1, 2025.	178,250,000
2006 Series A Serial Bonds, 4.00% to 4.40%, due annually in amounts ranging from \$225,000 to \$8,445,000. Final scheduled maturity is July 1, 2026.	44,240,000

2006 Series B	
Serial Bonds, 4.20% to 5.000%, due annually in amounts ranging from $2,980,000 to $15,570,000. Final scheduled maturity is July 1, 2026.	146,630,000
2008 Series A	
Serial Bonds, 3.25% to 5.00%, due annually in amounts ranging from $8,510,000 to $17,090,000. Final scheduled maturity is July 1, 2028.	195,665,000
2009 Series A	
Serial Bonds, 2.50% to 5.00%, due annually in amounts ranging from $5,395,000 to $10,755,000. Final scheduled maturity is July 1, 2027.	130,160,000
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 $5,595,000 to $24,030,000. Final scheduled maturity is July 1, 2020.	153,260,000
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
	1,297,860,000
Unamortized bond premium	41,673,851
Unamortized bond discount	(1,770,376)
Deferred amount on refunding	(3,103,559)
	$ 1,334,659,916

The debt principal and interest requirements for the years ending June 30 are as follows:

	Principal	Interest	Total
2012	$ 41,725,000	$ 56,512,404	$ 98,237,404
2013	52,455,000	58,389,233	110,844,233
2014	70,335,000	54,940,755	125,275,755
2015	73,570,000	51,735,837	125,305,837
2016	76,550,000	48,193,748	124,743,748
2017-2021	374,230,000	192,768,723	566,998,723
2022-2026	369,555,000	101,234,357	470,789,357
2027-2031	233,155,000	23,117,172	256,272,172
2032	6,285,000	306,394	6,591,394
	$ 1,297,860,000	$ 587,198,623	$ 1,885,058,623

The following is a summary of long-term debt activity of the Economic Development Revitalization Road Projects for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Reductions	Amortization	Balance June 30, 2011	Due Within One Year
Bonds Payable	$1,335,780,000	$115,175,000	$(153,095,000)	$ -	$1,297,860,000	$41,725,000
Bonds Premium	41,278,564	7,056,897	(100,061)	(6,561,549)	41,673,851	
Bond Discount	(1,968,389)	-	-	198,013	(1,770,376)	
Deferred Loss	(3,356,097)	(1,018,683)	244,171	1,027,050	(3,103,559)	
Total	$1,371,734,078	$121,213,214	$(152,950,890)	$ (5,336,486)	$1,334,659,916	

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.

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.

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.

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.

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.

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.

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 15^{th} day preceding such mailing.

6. Encumbrances

At June 30, 2011, there were encumbrances outstanding at the Transportation Cabinet for construction costs on the Economic Development Revitalization Road Projects in the amount of approximately $22,577,244, which the Authority will be responsible for in future years.

7. Defeasance of Debt

In April 2011, the Authority issued Economic Development Road Revenue Refunding Bonds, 2011 Series A, in the aggregate principal of $115,175,000. A portion of the Bonds were used to provide funds for the refunding of the Economic Development Road Revenue Bonds, 2001 Series B. The outstanding principal amount of the bonds refunded was $60,475,000.

To accomplish this refunding, the Authority purchased, at par, certain direct obligations of the United States of America which bear interest and mature in such a 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, 2011 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 allocated for the refunding totaled $62,023,211. The debt service requirement to service the new debt issued for the refunding is calculated as follows:

Proceeds from new debt deposited with Trustee	$62,023,211
Debt issuance costs	385,492
Premium on new bonds	(5,923,703)
New debt	$56,485,000

The cash flow required to service the 2001B bonds and 2011A refunding bonds to maturity is $82,332,694 and $74,585,381, respectively, which results in a difference of $7,747,313.

The economic gain from this refunding transaction is calculated as the difference between the present value of the 2001 Series B debt service requirements and the present value of the 2011 Series A debt service requirements, discounted at the effective rate of the 2011 Series A Bonds. The economic gain on the advance refunding is $6,410,992.

As of June 30, 2011, approximately $94.7 million of defeased bonds are outstanding.

SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION

ECONOMIC DEVELOPMENT REVITALIZATION 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, 2011

	Bond Service Account	Capitalized Interest Account	Redemption Account	Rebate Account	Total Bond Fund
Revenues:					
Investment income	$ 190,829	$ -	$ -	$ 1,981	$ 192,810
Interest expense reimbursement	1,821,114	-	-	-	1,821,114
Contribution from Transportation Cabinet	-	-	-	70,000	70,000
Total revenues	2,011,943			71,981	2,083,924
Expenses:					
Arbitrage tax	-	-	-	155,272	155,272
Interest expense	61,521,222	-	-	-	61,521,222
Principal amount of bonds redeemed	92,620,000	-	-	-	92,620,000
Total expenses	154,141,222	-	-	155,272	154,296,494
Deficiency of revenues over expenses	(152,129,279)	-	-	(83,291)	(152,212,570)
Other financing sources (uses):					
Operating transfers in	104,787,702	3,371,280	-	-	108,158,982
Operating transfers out	-	(3,371,280)	-	-	(3,371,280)
Total other financing sources	104,787,702	-	-	-	104,787,702
Deficiency of revenues and other financing sources over expenses and other financing uses	(47,341,577)	-	-	(83,291)	(47,424,868)
Net assets, beginning of year	102,257,938	-	-	308,768	102,566,706
Net assets, end of year	$ 54,916,361	$ -	$ -	$ 225,477	$ 55,141,838

SUPPLEMENTARY INFORMATION

ECONOMIC DEVELOPMENT REVITALIZATION PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

CONSTRUCTION FUND-
SCHEDULE OF PROJECT COSTS

January 1, 1991 to June 30, 2011

Design	$	37,387,314
Construction		1,482,737,290
Right-of-Way		89,075,412
Utilities		71,258,749
Planning		93,323
Total All Projects	$	1,680,552,088

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited 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, 2011 and have issued our report thereon dated as of the date of this letter. Our report included additional language stating that the special-purpose financial statements of the Turnpike Authority of Kentucky are prepared in conformity 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, and are not intended to be presented in conformity with accounting principles generally accepted in the United States of America. 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, 2011, 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. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Turnpike Authority of Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the special-purpose financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Turnpike Authority of Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Turnpike Authority of Kentucky's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we have identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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. We consider the deficiency described in Finding 2011-01 of the accompanying schedule of findings and responses to be a material weakness.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the Turnpike Authority of Kentucky'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*.

The Turnpike Authority of Kentucky's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Turnpike Authority of Kentucky's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors, and the Commonwealth of Kentucky's Auditor of Public Accounts, and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

December 7, 2011

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2011

Summary of Auditor's Results

1. We have issued an unqualified opinion, dated December 7, 2011, on the special-purpose financial statements of the Authority as of and for the year ended June 30, 2011.

2. No instances of noncompliance material to the special-purpose financial statements of the Authority were disclosed during the audit.

3. Our audit identified a material weakness in internal control over financial reporting required to be reported in accordance with *Government Auditing Standards*.

Summary of Audit Findings

MATERIAL WEAKNESS

2011-01 Financial Reporting Procedures

Condition: The 2011 audit resulted in audit adjustments across various funds. The trial balance provided at the commencement of the audit was not in balance, as adjustments to the Statements of Revenues, Expenses and Changes in Net Assets – Trust Indenture Basis had been made outside of the Authority's accounting system.

Criteria: Recording all year-end adjustments to the year-end trial balance will aid in the prevention and detection and correction of errors in the financial statement balances.

Cause: During 2011, the Authority performed the financial reporting procedures in house. In the prior year, the procedures were performed by an outside accountant and reviewed by Authority management. Based on our audit, we discovered that journal entries were not always recorded in the Authority's accounting system for adjustments made directly to the financial statement balances. We also identified situations in which the review of third-party documentation, such as debt payment notices from the Trustee, and stronger communication with Office of Financial Management (OFM) personnel may have prevented misstatements in the draft financial statements.

Effect: The net impacts of audit adjustments that were recorded by the Authority were as follows for each fund:

Construction Fund: $903,123 decrease in net assets
Revenue Fund: $75,000 increase in net assets
Bond Service Account: $62.3 million decrease in net assets

Further, because journal entries had not been recorded on the year-end trial balance, there were delays in the identification and correction of misstatements.

Recommendation: We recommend the Authority record all year-end adjustments to the financial statements on the year-end trial balance. We also recommend that schedules supporting the year-end account balances be prepared and verified to third-party documentation when applicable. Finally, we recommend increased communication with the OFM during the year-end financial reporting process and regarding the recording of significant journal entries in order to ensure the accuracy and completeness of the financial statements.

Management Response: We agree with the findings and for several months we have been in the process of switching the Authorities' accounting system from QuickBooks to the Commonwealth's uniform accounting system (eMARS). During this transition we have worked closely with OFM and will continue to provide assistance with all aspects of ensuring that all the appropriate accounting data is entered into eMARS in order to produce accurate and complete financial statements with supporting schedules. The financial statements for fiscal year ending June 30, 2012 will be produced from eMARS.

Summary of Prior Year Findings

The prior year's audit disclosed no findings that are required to be reported in accordance with *Government Auditing Standards.*