

**TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY**

**REPORT ON AUDIT OF SPECIAL-PURPOSE
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION- -
TRUST INDENTURE BASIS**

For the fiscal year ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Turnpike Authority of Kentucky
Frankfort, Kentucky

We have audited the accompanying special-purpose financial statements of the Toll Road Projects of the Turnpike Authority of Kentucky as of and for the year ended June 30, 2009, as listed in the table of contents. These special-purpose financial statements are the responsibility of the Turnpike Authority of Kentucky'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 from 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 opinions.

As described more fully in Notes 1 and 2, the Toll Road Projects of the Turnpike Authority of Kentucky prepares its special-purpose financial statements using accounting practices prescribed or permitted by the 1984 Trust Indenture as supplemented by the First Supplemental Trust Indenture Agreement dated as of June 1, 1986, a Second Supplemental Agreement on June 1, 1993, a Third Supplemental Agreement on May 1, 1995, a Second Supplemental Trust Indenture dated as of July 1, 2001 and a Third Supplemental Trust Indenture dated as of May 1, 2003 securing the Authority's bonds, which practices differ from accounting principles generally accepted in the United States of America. The effect on the special-purpose financial statements of the variances between these accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of all of the funds of the Toll Road Projects of the Turnpike Authority of Kentucky at June 30, 2009, and the revenues earned, expenditures

incurred and monies transferred by the Construction Fund, Revenue Fund, Debt Service Reserve Fund, Repair and Replacement Fund, Bond Fund and the Escrow Deposit Trust Fund for the year then ended on the basis of accounting described in Notes 1 and 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2009, on our consideration 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 the 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 Toll Road Projects of the Turnpike Authority of Kentucky, taken as a whole. The accompanying supplemental information on pages 17 and 18 is presented for purposes of additional analysis and is not a required part of 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, in our opinion, are fairly stated, in all material respects, in relation to the special-purpose financial statements taken as a whole.

This report is intended solely for the information and use of the Authority's governing body, management, bondholders and bond trustee and is not intended to be and should not be used by anyone other than these specified parties.

October 5, 2009
Morganfield, Kentucky

M. E. Emery, Mitchell & Associates, LLP

TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY

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

June 30, 2009

ASSETS

Construction Fund	\$	-	
Total assets - Construction Fund			\$ -
Revenue Fund		-	
Total assets - Revenue Fund			-
Debt Service Reserve Fund		-	
Total assets - Debt Service Reserve Fund			-
Repair and Replacement Fund		-	
Total assets - Repair and Replacement Fund			-
Bond Fund			
Bond Service Account		-	
Capitalized Interest Account		-	
Redemption Account		-	
Total assets - Bond Fund			-
Escrow Deposit Trust Fund		-	
Total assets - Escrow Deposit Trust Fund			-
Total assets - All Funds			\$ -

LIABILITIES AND NET ASSETS

Construction Fund	\$	-
Total liabilities and net assets - Construction Fund		\$ -
Revenue Fund		-
Total liabilities and net assets - Revenue Fund		-
Debt Service Reserve Fund		-
Total liabilities and net assets - Debt Service Reserve Fund		-
Repair and Replacement Fund		-
Total liabilities and net assets - Repair and Replacement Fund		-
Bond Fund		
Bond Service Account		-
Capitalized Interest Account		-
Redemption Account		-
Total liabilities and net assets - Bond Fund		-
Escrow Deposit Trust Fund		-
Total liabilities and net assets - Escrow Deposit Trust Fund		-
Total liabilities and net assets - All Funds		\$ -

The accompanying notes are an integral
part of the financial statements

TOLL 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, 2009

Revenues	\$ <u> -</u>
Expenses:	
Transfer of turnpike project to Road Fund	<u> 379,376,154</u>
Deficiency of revenues over expenses	<u> (379,376,154)</u>
Other financing sources:	
Bonds retired in Bonds Service Account	-
Operating transfers in	-
Operating transfers out	<u> -</u>
Total other financing sources	<u> -</u>
Deficiency of revenues over expenses	<u> (379,376,154)</u>
Net assets, beginning of year	<u> 379,376,154</u>
Net assets, end of year	<u><u> -</u></u>

The accompanying notes are an integral
part of the financial statements

TOLL 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, 2009

Revenues:		
Supplemental lease income	\$	<u>84,000</u>
Total revenues		<u>84,000</u>
Expenses:		
Paying agent fees and trustee fees		<u>126</u>
Total expenses		<u>126</u>
Excess of revenues over expenses		<u>83,874</u>
Other financing uses:		
Operating transfers in		-
Operating transfers out		<u>-</u>
Total other financing uses		<u>-</u>
Excess of revenues over expenses and other financing uses		83,874
Net assets (deficit), beginning of year		<u>(83,874)</u>
Net assets (deficit), end of year	\$	<u><u>-</u></u>

The accompanying notes are an integral
part of the financial statements

TOLL ROAD 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, 2009

Revenues	\$	-
Expenses		-
Excess of revenues over expenses		-
Other financing sources (uses):		
Operating transfers in		-
Operating transfers out		-
Excess of revenues and other financing sources over expenses and other financing uses		-
Net assets, beginning of year		-
Net assets, end of year	\$	-

The accompanying notes are an integral
part of the financial statements

TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY

REPAIR AND REPLACEMENT FUND

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

for the year ended June 30, 2009

Revenues	\$	-
Expenses		-
Excess of revenues over expenses		-
Other financing sources (uses):		
Operating transfers in		-
Operating transfers out		-
Excess of revenues and other sources over expenses and other uses		-
Net assets, beginning of year		-
Net assets, end of year	\$	-

The accompanying notes are an integral
part of the financial statements

TOLL ROAD 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, 2009

Revenues	\$	-
Expenses		-
Excess of revenues over expenses		-
Other financing sources (uses):		
Operating transfers in		-
Operating transfers out		-
Excess of revenues and other financing sources over expenses and other uses		-
Net assets, beginning of year		-
Net assets, end of year	\$	-

The accompanying notes are an integral
part of the financial statements

TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY

ESCROW DEPOSIT TRUST FUND

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

for the year ended June 30, 2009

Revenues	\$	-
Expenses		-
Excess of revenues over expenses		-
Other financing sources (uses):		
Operating transfers in		-
Operating transfers out		-
Excess of revenues and other financing sources over expenses and other uses		-
Net assets, beginning of year		-
Net assets, end of year	\$	-

The accompanying notes are an integral
part of the financial statements

**TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Basis of Presentation

As provided by authorizing legislation, the Authority has issued bonds to construct various modern express highways to facilitate vehicle traffic, remove many of the present handicaps and hazards in the congested highways in the Commonwealth and promote the agricultural and industrial development of the Commonwealth. To set forth obligations and agreements of the Authority with regard to these bonds, the Authority adopted the 1984 Trust Indenture Agreement and the First Supplemental Trust Indenture Agreement on June 1, 1986, a Second Supplemental Agreement on June 1, 1993, a Third Supplemental Agreement on May 1, 1995, a Second Supplemental Trust Indenture dated as of July 1, 2001 and a Third Supplemental Trust Indenture dated as of May 1, 2003.

Among other requirements, the Trust Indenture sets forth various accounting principles which are to be followed by the Authority and which differ in certain respects from generally accepted accounting principles, 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 financial statements are reported in a format which differs from generally accepted accounting principles. 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 generally accepted accounting principles.

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 and the effective interest rate.

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.

Continued

**TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY**

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies, Continued

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.

2. General Information

Purpose

Toll Road Revenue Refunding Bonds (the "Bonds") were issued by The Turnpike Authority of Kentucky (the "Authority") to refund and defease part of the previously issued and outstanding Toll Road Revenue Bonds. These original Bonds were issued upon direction of the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet") to finance the cost of design, engineering and construction of various toll roads (turnpikes) throughout the Commonwealth of Kentucky, which are intended to facilitate vehicular traffic.

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 Toll Road Projects bond issues and are not intended to present the activities of the Turnpike Authority of the Commonwealth of Kentucky, as a whole.

Continued

**TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY**

NOTES TO FINANCIAL STATEMENTS

2. General Information, Continued

Security

The Bonds are special obligations of the Authority secured by and payable solely from monies pledged for the payment thereof under the 1984 Trust Indenture and the First Supplemental Trust Indenture Agreement dated June 1, 1986, a Second Supplemental Trust Indenture Agreement on June 1, 1993, a Third Supplemental Agreement on May 1, 1995, a Second Supplemental Trust Indenture on July 1, 2001 and a Third Supplemental Trust Indenture on May 1, 2003 (the "Indenture"). Subject only to the provisions of the Indenture 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 of all the funds (and all accounts thereof) established pursuant to the Indenture and monies and securities therein. There are to be deposited in such funds and accounts (i) proceeds derived from the sale of Bonds, (ii) monies received by the Authority as rental payments from the Cabinet under the lease and (iii) during such times as the lease shall not be in effect, tolls from the system not required by the law or by previous binding contract to be otherwise applied, as collected by the Commonwealth and paid to the Authority.

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 of or interest on the Bonds.

Trust Indenture

In connection with the issuance of the Bonds, the Authority entered into the Indenture with Bank of Louisville, Louisville, Kentucky (the "Trustee"). The Indenture (dated as of October 15, 1984 and amended by the First Supplemental Trust Indenture on June 1, 1986, the Second Supplemental Trust Indenture Agreement on June 1, 1993, the Third Supplemental Agreement on May 1, 1995, the Second Supplemental Trust Indenture on July 1, 2001 and a Third Supplemental Trust Indenture on May 1, 2003) contains 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:

Revenue Fund - a depository for collections of monies received under lease agreements with the Cabinet. Transfers are made from this account according to funding requirements of the Indenture. The Revenue Fund also shares in an operating account with other bond issues for payment of administration and paying agent costs;

Continued

TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO FINANCIAL STATEMENTS

2. General Information, Continued

Trust Indenture, Continued

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

Repair and Replacement Fund - this fund was established May 21, 1985 as a depository for excess earnings on escrow funds which exceed the required amount for the retirement of bonds. Monies in this fund may be used for (i) repair of any system road, (ii) fees and expenses of the escrow trustee and (iii) other fees in connection with the purchase, carrying, sale or redemption of any obligation held under the Escrow Agreement;

Bond Fund:

Bond Service Account - payment of Bond principal and interest;

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

Redemption Account - a depository for collections of monies received under lease agreements with the Cabinet. Transfers are made from this account according to funding requirements of the Indenture;

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 Deposit Trust Fund - established May 1, 1995 to manage monies transferred for the purchase of securities under a Forward Delivery Agreement for defeasance of bonds.

Continued

**TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY**

NOTES TO FINANCIAL STATEMENTS

3. Investments

Investments are included in the Statement of Assets, Liabilities and Net Assets in the captions "Marketable Securities" and "Cash Equivalents". As of June 30, 2009, the Toll Road Projects of the Turnpike Authority had no investments.

Credit Risk

State law 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.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, will not be able to recover the value of its investments, or collateral securities that are in the possession of an outside party. All of the Toll Road Project's investments are held by the Trustee counterparty, not in the name of the Turnpike Authority.

4. Toll Road Revenue Refunding Bonds

At June 30, 2009, the Toll Road Revenue Refunding Bonds had been fully retired.

5. Prior-year Defeasance of Debt

In prior years, the Authority defeased certain bonds by placing monies in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. As of June 30, 2009 approximately \$53.4 million of bonds outstanding are considered defeased.

Continued

SUPPLEMENTAL INFORMATION

SUPPLEMENTAL INFORMATION

TOLL 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, 2009

	Bond Service Account	Capitalized Interest Account	Redemption Account	Total Bond Fund
Revenues	\$ -	\$ -	\$ -	\$ -
Expenses	-	-	-	-
Excess of revenues over expenses	-	-	-	-
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Excess of revenues and other financing sources over expenses and other uses	-	-	-	-
Net assets, beginning of year	-	-	-	-
Net assets, end of year	\$ -	\$ -	\$ -	\$ -

SUPPLEMENTAL INFORMATION
TOLL ROAD PROJECTS OF THE
TURNPIKE AUTHORITY OF KENTUCKY

CONSTRUCTION FUND -

SCHEDULE OF PROJECT COSTS

January 24, 1985 to June 30, 2009

	Balance <u>June 30, 2009</u>
Construction	
Earthwork	\$ 124,305,533
Bridges	44,854,581
Interchanges	4,555,807
Drainage	22,455,882
Appurtenances	26,477,412
Surfacing and shoulders	64,207,217
Right-of-way	28,827,468
Utility adjustments	2,690,756
Engineering	30,436,116
Lighting and signing	2,884,652
Toll booths and equipment	2,250,662
Access roads	2,062,108
Administrative and legal	1,723,360
Other costs	<u>520,343</u>
	358,251,897
Capitalized interest expense during construction	75,417,713
Interest income on Construction Fund investments during construction	(65,432,664)
Capitalized debt issuance costs during construction	<u>11,139,208</u>
Total all projects	379,376,154
Less: Project transferred to Transportation Cabinet Road Fund	<u>(379,376,154)</u>
Net project cost at June 30, 2009	<u>\$ -</u>