

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

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

JUNE 30, 2017

**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 financial statements of the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky (the "Authority"), which comprise the Statement of Assets, Liabilities and Fund Balances – Trust Indenture Basis as of June 30, 2017, and the related Statements of Revenues, Expenses and Changes in Fund Balances - Trust Indenture Basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including 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 financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances of the Economic Development Revitalization Road Projects of the Authority, as of June 30, 2017, and the revenues, expenses, and changes in fund balances, for the year then ended, in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes that the accompanying financial statements were prepared in conformity with the accounting principles specified in Section 709 of the Trust Indenture, as amended, between the Authority 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 an opinion on the Authority's 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 financial statements.

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

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 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 November 30, 2017, 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.

Restriction on Use

This report is intended solely for the information and use of the board of directors and management of the Authority, the Finance and Administration Cabinet, the Auditor of Public Accounts and The Bank of New York Mellon Trust Company, N.A. as successor to Citizens Fidelity Bank and Trust, and is not intended to be and should not be used anyone other than these specified parties.

Blue & Co., LLC

Lexington, Kentucky
November 30, 2017

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

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES – ALL FUNDS
TRUST INDENTURE BASIS
JUNE 30, 2017

ASSETS		
Construction Fund		
Cash and cash equivalents	\$ 6,586,081	
Investments	71,912,203	
Cost of projects	2,368,073,536	
Unamortized debt issuance costs	<u>5,728,301</u>	
Total assets - Construction Fund		2,452,300,121
Revenue Fund		
Cash and cash equivalents	122,826,982	
Investments	<u>194,380</u>	
Total assets - Revenue Fund		123,021,362
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	3,364,909	
Due from Revenue Fund	122,806,055	
Capitalized Interest Account		-0-
Redemption Account		-0-
Rebate Account	<u>-0-</u>	
Total assets - Bond Fund		<u>126,170,964</u>
Total assets - all funds		<u><u>\$ 2,701,492,447</u></u>

See accompanying notes to financial statements.

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

STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES – ALL FUNDS
TRUST INDENTURE BASIS (CONTINUED)
JUNE 30, 2017

LIABILITIES AND FUND BALANCES

Construction Fund		
Accounts payable	\$	74
Economic Development Revitalization Revenue		
Refunding Bonds		1,447,759,470
Fund balance - restricted for Transportation Cabinet		<u>1,004,540,577</u>
Total liabilities and fund balance - Construction Fund		2,452,300,121
Revenue Fund		
Due to Bond Service Account		122,806,055
Fund balance - restricted for Transportation Cabinet		<u>215,307</u>
Total liabilities and fund balance - Revenue Fund		123,021,362
Debt Service Reserve Fund		
Total liabilities and fund balance - Debt Service Reserve Fund		-0-
Escrow Fund		
Total liabilities and fund balance - Escrow Fund		-0-
Bond Fund		
Bond Service Account		
Accrued interest payable		33,086,626
Unearned income		1,680,209
Fund balance - restricted for bond principal payment, July 1, 2017, \$88,590,000		91,404,129
Capitalized Interest Account		-0-
Redemption Account		-0-
Rebate Account		<u>-0-</u>
Total liabilities and fund balance - Bond Fund		<u>126,170,964</u>
Total liabilities and fund balance - all funds		<u>\$ 2,701,492,447</u>

See accompanying notes to financial statements.

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

CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
TRUST INDENTURE BASIS
YEAR ENDED JUNE 30, 2017

Revenues:	
Investment income	\$ 461,942
Amortization of bond premiums	17,374,816
Other	<u>6,179</u>
Total revenues	17,842,937
Expenses:	
Amortization of deferred losses on refunding	4,326,678
Amortization of issuance costs	<u>927,997</u>
Total expenses	<u>5,254,675</u>
Excess of revenues over expenses	12,588,262
Other financing sources (uses):	
Bonds retired in Bond Service Account	88,590,000
Operating transfers out	<u>(36,476)</u>
Total other financing sources	<u>88,553,524</u>
Excess of revenues and other financing sources over expenses and other financing uses	101,141,786
Fund balance, beginning of year	<u>903,398,791</u>
Fund balance, end of year	<u><u>\$ 1,004,540,577</u></u>

See accompanying notes to financial statements.

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

REVENUE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
TRUST INDENTURE BASIS
YEAR ENDED JUNE 30, 2017

Revenues:	
Lease rentals from Transportation Cabinet	\$ 153,187,226
Supplemental lease income	100,000
Other income	82,290
Investment income	<u>1,092</u>
Total revenues	153,370,608
Expenses	<u>84,496</u>
Excess of revenues over expenses	153,286,112
Other financing sources/(uses):	
Operating transfers in	-0-
Operating transfers out	<u>(153,187,226)</u>
Total other financing uses	<u>(153,187,226)</u>
Excess of revenues and other financing sources over expenses and other financing uses	98,886
Fund balance, beginning of year	<u>116,421</u>
Fund balance, end of year	<u><u>\$ 215,307</u></u>

See accompanying notes to financial statements.

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

DEBT SERVICE RESERVE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
TRUST INDENTURE BASIS
YEAR ENDED JUNE 30, 2017

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/>
Fund balance, beginning of year		-0-
		<hr/>
Fund balance, end of year	\$	-0-
		<hr/> <hr/>

See accompanying notes to financial statements.

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

ESCROW FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
TRUST INDENTURE BASIS
YEAR ENDED JUNE 30, 2017

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/>
Fund balance, beginning of year		-0-
		<hr/>
Fund balance, end of year	\$	-0-
		<hr/> <hr/>

See accompanying notes to financial statements.

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

BOND FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCE
TRUST INDENTURE BASIS
YEAR ENDED JUNE 30, 2017

Revenues:	
Investment income	\$ 7,611
Interest expense reimbursement	3,356,812
	3,364,423
Expenses:	
Interest expense	65,184,496
Principal amount of bonds redeemed	88,590,000
	153,774,496
Deficiency of revenues over expenses	(150,410,073)
Other financing sources/(uses):	
Operating transfers in	153,223,702
Operating transfers out	(646)
	153,223,056
Excess of revenues and other financing sources over expenses and other financing uses	2,812,983
Fund balance, beginning of year	88,591,146
Fund balance, end of year	\$ 91,404,129

See accompanying notes to financial statements.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Authority's 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 following 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.

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 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; the Fifteenth Supplemental Agreement, dated as of June 1, 2014; the Sixteenth Supplemental Agreement, dated as of July 1, 2015; the Seventeenth Supplemental Agreement, dated as of April 1, 2016; and the Eighteenth Supplemental Agreement, dated as of November 1, 2016.

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 for governmental funds, principally as follows:

Costs of Projects

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, expenditures for capital assets are reported as fund expenditures in the period incurred. The cost of projects balance differs from this accounting principle in that this balance represents the Authority's cumulative design, right-of-way, utilities and construction expenditures for road projects.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Economic Development Road Revenue Bonds

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, long-term debt and obligations are not recognized as liabilities. The reported balance for the Economic Development Road Revenue Bonds differs from this accounting principle in that the bonds are reported at the outstanding principal balance, as adjusted for any unamortized bond premiums, bond discounts, and deferred losses on refunding.

Debt Issuance Costs

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, costs related to the issuance of long-term debt are reported as fund expenditures in the period incurred. The reported balance for debt issuance costs differs from this accounting principle in that these costs are capitalized and amortized over the life of the bond issue applying the effective interest method.

Bond Premium and Discounts

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, long-term debt and obligations are not recognized as liabilities. The reported balance for the Economic Development Road Revenue Bonds differs from this accounting principle in that bond premium and discounts are reported as additions to or reductions of bonds outstanding and are amortized over the life of the bond issue applying the effective interest method.

Deferred Loss on Refunding

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, long-term debt and obligations are not recognized as liabilities. The reported balance for the Economic Development Road Revenue Bonds differs from this accounting principle in that the deferred loss on early retirement of debt is reported as a reduction of bonds outstanding and is amortized applying the effective interest method over the remaining life of the old debt or the life of the new debt, whichever is less.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Other Revenue Sources

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Authority occasionally receives income from the sale of excess of surplus property acquired for construction of roads. Also, the Authority receives excess earnings from funds previously escrowed for bond defeasance. However, these items are considered to be measureable and available only when cash is received.

Cash 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.

Lease Income

The Trust Indenture Agreement provides for the Authority, at six month intervals, to request sufficient funds from the Transportation Cabinet of the Commonwealth (the "Cabinet") to make principal and interest payments due on outstanding bonds plus supplemental lease income 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.

Use of Estimates

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

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

2. GENERAL INFORMATION

Purpose

Economic Development Road Revenue Bonds (Revitalization Projects), Series 1990, were issued by 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 Cabinet as Economic Development Revitalization Road Projects.

Economic Development Road Revenue Bonds (Revitalization Projects), Series 2006A (the "2006 Series A Bonds"), were issued by the Authority 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 "2006 Series B Bonds"), were issued by the Authority 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 "2008 Series A Bonds"), were issued by the Authority 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 "2009 Series A Bonds"), were issued by the Authority 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 "2010 Series A Bonds") were issued by the Authority 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 2010 Series A Bonds and to pay for certain capitalized interest.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Economic Development Road Revenue Bonds (Revitalization Projects) 2010 Series B, (Federally Taxable – Build America Bonds – Direct Payment to the Authority), (the “2010 Series B Bonds”) were issued by the Authority 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 2010 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 “2011 Series A Bonds”) were issued by the Authority 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 2011 Series A Bonds and to pay for certain capitalized interest.

Economic Development Road Revenue Bonds (Revitalization Projects), Series 2012 A (the “2012 Series A Bonds”) were issued by the Authority pursuant to a 2011 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 2012 Series A Bonds.

Economic Development Road Revenue Bonds (Revitalization Projects), Series 2013 A (the “2013 Series A Bonds”) were issued by the Authority 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 2013 Series A Bonds.

ECONOMIC DEVELOPMENT REVITALIZATION ROAD PROJECTS OF THE TURNPIKE AUTHORITY OF KENTUCKY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

Economic Development Road Revenue and Revenue Refunding 2014 Series A (Revitalization Projects), (the "2014 Series A Bonds") were issued by the Authority 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 of outstanding Economic Development Road Revenue Bonds, and to pay certain costs of issuance of the 2014 Series A Bonds.

Economic Development Road Revenue 2015 Series A (Revitalization Projects), (the "2015 Series A Bonds") were issued by the Authority pursuant to a 2015 Resolution adopted on May 12, 2015 to provide for the financing of certain Economic Development Road Projects and to pay certain costs of issuance of the 2015 Series A Bonds.

Economic Development Road Revenue Refunding 2015 Series B (Revitalization Projects), (the "2015 Series B Bonds") were issued by the Authority pursuant to a 2015 Resolution adopted on May 12, 2015 to refund certain series of outstanding Economic Development Road Revenue Bonds and to pay certain costs of issuance of the 2015 Series B Bonds.

Economic Development Road Revenue and Revenue Refunding 2016 Series A (Revitalization Projects), (the "Series A Bonds") were issued by The Turnpike Authority of Kentucky pursuant to a 2016 Resolution adopted on February 5, 2016 to refund certain series of outstanding Economic Development Road Revenue Bonds and pay certain costs of issuance of the Series A Bonds.

Economic Development Road Revenue and Revenue Refunding 2016 Series B (Revitalization Projects), (the "Series B Bonds") were issued by The Turnpike Authority of Kentucky pursuant to a 2016 Resolution adopted on October 13, 2016 to provide for the financing of certain Economic Development Road Projects and to pay certain costs of issuance of the Series B 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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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; the Fifteenth Supplemental Agreement, dated as of June 1, 2014; the Sixteenth Supplemental Agreement, dated as of July 1, 2015; the Seventeenth Supplemental Agreement, dated as of April 1, 2016; and the Eighteenth Supplemental Agreement, dated November 1, 2016. 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, 2014, 2015 and 2016 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 as of 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; a Sixteenth Supplemental Lease Agreement, dated as of July 1, 2015; a Seventeenth Supplemental Lease Agreement, dated as of April 1, 2016; an Eighteenth Supplemental Lease

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Agreement, dated November 1, 2016, and (iii) during such times as the lease shall not be in effect, the 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 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 (the "Trustee" and 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 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, 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:

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 the 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.

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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.

Interfund Transfers

Interfund transfers for the year ended June 30, 2017 consisted of the following:

	Transfer from		
	Construction Fund	Revenue Fund	Total
Transfer to Bond Fund	\$ 36,476	\$ 153,187,226	\$ 153,223,702

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Transfers are used to move receipts restricted to debt service from the funds collecting the receipts to the Bond Fund as debt service payments become due.

3. CONCENTRATION OF CREDIT RISK

At June 30, 2017, the Authority maintained \$78,704,269 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 Kentucky Revised Statutes ("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 Kentucky Administrative Regulations ("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 balance with the State Investment Commission at June 30, 2017, but it owns a proportionate interest in the securities held in the respective pools.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

At June 30, 2017, the Economic Development Revitalization Road Projects of the Authority held cash and cash equivalents consisting of the following:

State pool cash and equivalents	\$ 6,597,686
U.S. Government money market funds	126,180,286
	<u>\$ 132,777,972</u>

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At June 30, 2017, the Economic Development Revitalization Road Projects of the Authority had the following investments and maturities:

Investment Type	Fair Value	Less than One Year	1-5 Years
State Pool Investments	\$ 72,106,583	-0-	\$ 72,106,583

Interest Rate Risk

The State Investment Pools are managed within statute, administrative regulation and under review of the 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 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, 2017, 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, 2017, 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. PRIOR YEAR'S DEBT DEFEASANCE

Concurrent with the issuance of the 2016 Series A in April 2016, the Authority refunded a portion of the 2008 Series A and a portion of the 2009 Series A. Proceeds from the new bonds were used to purchase certain direct obligations of the United States of America, which were deposited with the Trustee in a refunding escrow account and pledged to pay debt service and interest on the refunded bonds. For financial reporting purposes, the debt has been considered defeased, and therefore removed as a liability from the Authority's financial statements. The total amount of defeased debt that remains outstanding at June 30, 2017, is approximately \$ 235.2 million.

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6. ECONOMIC DEVELOPMENT REVITALIZATION ROAD REVENUE BONDS

At June 30, 2017, Economic Development Revitalization Road Revenue Bonds outstanding were as follows:

2008 Series A

Serial Bonds, 3.62% to 5.00%, refunded partially by 2016 Series A, with remaining annual payments ranging from \$10,105,000 to \$10,600,000. Final scheduled maturity is July 1, 2018. \$ 20,705,000

2009 Series A

Serial Bonds, 2.75% to 5.00%, refunded partially by 2016 Series A, with remaining annual payments ranging from \$6,755,000 to \$7,335,000. Final scheduled maturity is July 1, 2019. 21,110,000

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2010 Series A

Serial Bonds, 2.00% to 5.00%, due annually in amounts ranging from \$20,955,000 to \$24,030,000. Final scheduled maturity is July 1, 2020.

89,830,000

2010 Series B

Term Bonds, 5.24% to 5.72%, 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.

102,005,000

2012 Series A

Serial Bonds, 2.00% to 5.00%, due annually in amounts ranging from \$9,080,000 to \$18,285,000. Final scheduled maturity is July 1, 2032.

209,425,000

2013 Series A

Serial Bonds, 2.00% to 5.00%, due annually in amounts ranging from \$7,015,000 to \$14,620,000. Final scheduled maturity is July 1, 2033.

174,625,000

2014 Series A

Serial Bonds, 1.00% to 5.00%, due annually in amounts ranging from \$10,320,000 to \$14,740,000. Final scheduled maturity is July 1, 2025.

111,370,000

2015 Series A

Serial Bonds, 2.00% to 5.00%, due annually in amounts ranging from \$2,530,000 to \$4,795,000. Final scheduled maturity is July 1, 2033.

58,610,000

Term Bond, 4.00%. Final scheduled maturity is July 1, 2035.

10,270,000

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2015 Series B

Serial Bonds, 3.00% to 5.00%, due annually in amounts ranging from \$5,000,000 to \$14,970,000.

Final scheduled maturity is July 1, 2026. 122,005,000

2016 Series A

Serial Bonds, 2.00% to 5.00%, with the first maturity date of July 1, 2016 in the amount of \$3,300,000.

After this first payment starting on July 1, 2019, payments are due annually in amounts ranging from \$9,975,000 to \$26,595,000. Final scheduled maturity is July 1, 2029. 219,370,000

2016 Series B

Serial Bonds, 3.00% to 5.00% due annually in amounts ranging from \$1,040,000 to \$3,070,000. Final schedule maturity is July 1, 2034. 32,885,000

Term Bond, 3.90%. Final scheduled maturity is July 1, 2036. 9,095,000

1,368,945,000

Unamortized bond premium 105,887,337

Deferred loss on refunding (27,072,867)

\$ 1,447,759,470

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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 Subsidies	Total
2018	\$ 91,400,000	\$ 64,040,161	\$ (3,605,598)	\$ 151,834,563
2019	96,190,000	59,774,503	(3,605,598)	152,358,905
2020	99,515,000	55,380,465	(3,605,598)	151,289,867
2021	92,000,000	50,976,986	(3,605,598)	139,371,388
2022	96,310,000	46,543,594	(3,605,599)	139,247,995
2023-2027	474,080,000	164,188,025	(12,746,077)	625,521,948
2028-2032	336,405,000	57,315,866	(4,015,013)	389,705,853
2033-2037	83,045,000	5,680,113	-0-	88,725,113
	<u>\$ 1,368,945,000</u>	<u>\$ 503,899,713</u>	<u>\$ (34,789,081)</u>	<u>\$ 1,838,055,632</u>

The following is a summary of long-term debt activity of the Economic Development Revitalization Road Projects for the year ended June 30, 2017:

	Balance July 1, 2016	Additions	Reductions	Amortization	Balance June 30, 2017	Due Within One Year
Bonds Payable	\$1,415,555,000	\$ 41,980,000	\$ (88,590,000)	\$ -0-	\$1,368,945,000	\$91,400,000
Bonds Premium	119,943,277	3,318,876	-0-	(17,374,816)	105,887,337	
Deferred Loss	(31,399,545)	-0-	-0-	4,326,678	(27,072,867)	
Total	<u>\$1,504,098,732</u>	<u>\$ 45,298,876</u>	<u>\$ (88,590,000)</u>	<u>\$ (13,048,138)</u>	<u>\$1,447,759,470</u>	

Redemption Provisions

2008 Series A Bonds

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

Optional Redemption - The 2008 Series 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.

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Selection of Bonds - If less than all of the 2008 Series A Bonds are to be called for redemption, the Authority will determine the maturities of the 2008 Series A Bonds to be redeemed. If less than all of the 2008 Series A Bonds of a single maturity are to be redeemed, the selection of the 2008 Series 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 Series A Bonds remain in book-entry form, be made by the depository and the participants (currently by the 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 Series 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 Series A Bonds to be redeemed as shown on the bond register for those 2008 Series A Bonds at the close of business on the 15th day preceding such mailing.

2009 Series A Bonds

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

Optional Redemption - The 2009 Series 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, 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 Series 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 Series A Bonds of a single maturity are to be redeemed, the selection of the 2009 Series 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 Series 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 Series 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 Series A Bonds to be redeemed as shown on the bond register for those 2009 Series A Bonds at the close of business on the 15th day preceding such mailing.

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2010 Series A Bonds

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

2010 Series B Bonds

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

Optional Redemption - The 2010 Series 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 Series 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 Series B Bonds to be redeemed, less any original issue discount and plus any original issue premium related to such 2010 Series 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 Series 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 Series B Bonds are to be redeemed, discounted to the date on which such 2010 Series 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 Series 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.

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Selection of Bonds - If less than all of the 2010 Series B Bonds are to be called for redemption, the Authority will determine the maturities of the 2010 Series B Bonds to be redeemed. If less than all of the 2010 Series B Bonds of a single maturity are to be redeemed, the selection of the 2010 Series 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 Series 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 Series 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 Series 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 Series 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 Series A Bonds are to be called for redemption, the Authority will determine the maturities of the 2011 Series A Bonds to be redeemed. If less than all of the 2011 Series A Bonds of a single maturity are to be redeemed, the selection of the 2011 Series 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 Series 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 Series 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 Series A Bonds at the close of business on the 15th day preceding such mailing.

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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 Series 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 Series A Bonds are to be called for redemption, the Authority will determine the maturities of the 2012 Series A Bonds to be redeemed. If less than all of the 2012 Series A Bonds of a single maturity are to be redeemed, the selection of the 2012 Series 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 Series 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 Series 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 Series A Bonds to be redeemed as shown on the bond register for those 2012 Series A Bonds at the close of business on the 15th day preceding such mailing.

2013 Series A Bonds

The 2013 Series A Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2013 Series 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 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 Series A Bonds are to be called for redemption, the Authority will determine the maturities of the 2013 Series A Bonds to be redeemed. If less than all of the 2013 Series A Bonds of a single maturity are to be redeemed, the selection of the 2013 Series 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 Series 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.

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Notice of Redemption - Notice of call for any redemption of the 2013 Series 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 Series A Bonds to be redeemed as shown on the bond register for those 2013 Series A Bonds at the close of business on the 15th day preceding such mailing.

2014 Series A Bonds

The 2014 Series A Bonds are not subject to optional or mandatory sinking fund redemption.

2015 Series A Bonds

The 2015 Series A Bonds are subject to mandatory sinking fund and optional redemption prior to maturity as set forth below:

Mandatory Sinking Fund Redemption – The 2015 Series A Term Bonds maturing on or after July 1, 2036 are subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date of redemption, and will be redeemed on July 1, 2034 and July 1, 2035 in the principal amount of \$5,035,000 and \$5,235,000, respectively.

Optional Redemption - The 2015 Series A Bonds maturing on or after July 1, 2026 are subject to optional 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, 2025 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 2015 Series A Bonds are to be called for redemption, the Authority will determine the maturities of the 2015 Series A Bonds to be redeemed. If less than all of the 2015 Series A Bonds of a single maturity are to be redeemed, the selection of the 2015 Series A Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2015 Series 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 2015 Series 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 2015 Series A Bonds to be redeemed as shown on the bond register for those 2015 Series A Bonds.

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2015 Series B Bonds

The 2015 Series B Bonds are not subject to optional or mandatory sinking fund redemption.

2016 Series A Bonds

The 2016 Series A Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2016 Series A Bonds maturing on or after July 1, 2027 are subject to optional 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, 2026 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 2016 Series A Bonds are to be called for redemption, the Authority will determine the maturities of the 2016 Series A Bonds to be redeemed. If less than all of the 2016 Series A Bonds of a single maturity are to be redeemed, the selection of the 2016 Series A Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple thereof, will, so long as the 2016 Series 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 2016 Series 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 2016 Series A Bonds to be redeemed as shown on the bond register for those 2016 Series A Bonds.

2016 Series B Bonds

The 2016 Series B Bonds are subject to optional redemption prior to maturity as set forth below:

Optional Redemption - The 2016 Series B Bonds maturing on or after July 1, 2027 are subject to optional 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, 2026 at the redemption prices equal to 100% of principal amount redeemed plus accrued interest to the redemption date.

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Selection of Bonds - If less than all of the 2016 Series B Bonds are to be called for redemption, the Authority will determine the maturities of the 2016 B Bonds to be redeemed. If less than all of the 2016 A Bonds of a single maturity are to be redeemed, the selection of the 2016 A Bonds to be redeemed, or portions thereof in the amounts of \$5,000 or any integral multiple therefore will be made by the Trustee in such matter as the Authority in its discretion may deem proper.

Notice of Redemption - Notice of call for any redemption of the 2016 Series 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 2016 B Bonds to be redeemed as shown on the bond register for those 2016 B Bonds.

7. ENCUMBRANCES

At June 30, 2017, there were encumbrances outstanding at the Cabinet for construction costs on the Economic Development Revitalization Projects in the amount of \$49,162,061, which the Authority will be responsible for in future years.

8. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If an asset or liability has a specified (contractual) term, the level 2 inputs must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

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The asset or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

U.S Government money market funds: Generally, transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

The following table sets forth by level, within the hierarchy, the Authority’s assets measured at fair value at June 30, 2017:

		Level 1		Level 2		Level 3		Total
U.S. Government money market funds	\$	-0-	\$	126,180,286	\$	-0-	\$	126,180,286
State Pool Investments		-0-		72,106,583		-0-		72,106,583
	\$	-0-	\$	198,286,869	\$	-0-	\$	198,286,869

The Authority’s policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the year ended June 30, 2017.

9. SUBSEQUENT EVENTS

On June 15, 2017, a resolution was adopted approving the issuance of Economic Development Bond Revenue and Revenue Refunding Bonds, 2017 Series A (the “2017 Series A Bonds”) and B (the “2017 Series B Bonds”), with an aggregate par value not to exceed \$174.335 million. The 2017 Series A Bonds, which provide funds to pay for the financing of certain Economic Development Road Projects and provide funds to pay certain costs of the issuance of the 2017 Series A Bonds. The par value of the 2017 Series A Bonds is \$27,415,000, and the sale of the bonds closed on August 23, 2017. The 2017 Series B Bonds, which provide for the refunding of certain series of outstanding Economic Development Road Revenue Bonds, and provide funds to pay certain costs of issuance of the 2017 Series B Bonds. The par value of the 2017 Series B Bonds is \$146,920,000, and the sale of the bonds closed on August 23, 2017.

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 FUND BALANCES
TRUST INDENTURE BASIS
YEAR ENDED JUNE 30, 2017

	<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	\$ 7,611	\$ -0-	\$ -0-	\$ -0-	\$ 7,611
Interest expense reimbursement	3,356,812	-0-	-0-	-0-	3,356,812
Total revenues	3,364,423	-0-	-0-	-0-	3,364,423
Expenses:					
Interest expense	65,184,496	-0-	-0-	-0-	65,184,496
Principal amount of bonds redeemed	88,590,000	-0-	-0-	-0-	88,590,000
Total expenses	153,774,496	-0-	-0-	-0-	153,774,496
Deficiency of revenues over expenses	(150,410,073)	-0-	-0-	-0-	(150,410,073)
Other financing sources (uses):					
Operating transfers in	153,223,702	-0-	-0-	-0-	153,223,702
Operating transfers out	(646)	-0-	-0-	-0-	(646)
Total other financing sources	153,223,056	-0-	-0-	-0-	153,223,056
Excess of revenues and other financing sources over expenses and other financing uses	2,812,983	-0-	-0-	-0-	2,812,983
Fund balances, beginning of year	88,591,146	-0-	-0-	-0-	88,591,146
Fund balances, end of year	<u>\$ 91,404,129</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 91,404,129</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, 2017

Design	\$	75,856,718
Construction		1,946,902,960
Right-of-Way		154,440,659
Utilities		190,474,332
Planning		<u>398,867</u>
Total All Projects	\$	<u><u>2,368,073,536</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
Frankfort, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Economic Development Revitalization Road Projects of the Turnpike Authority of Kentucky (the "Authority"), as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated as of the date of this letter. 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, 2017, 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. Our report included an emphasis-of-matter paragraph stating the financial statements were prepared on a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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 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 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 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
November 30, 2017

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

SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2017

Summary of Auditor's Results

We have issued an unmodified opinion dated November 30, 2017, 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, 2017, prepared in conformity with the accounting principles specified in Section 709 of the Trust Indenture, as amended, between the Authority 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.

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

Findings Related to the 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, 2016.