

KANSAS DEPARTMENT OF TRANSPORTATION

A DEPARTMENT OF THE STATE OF KANSAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED

JUNE 30, 2014

NOTE: This information is available in alternative accessible formats. To obtain an alternative format, contact Transportation Information, Eisenhower Building, 700 SW Harrison, 2nd Floor West, Topeka, KS, 66603-3754, or (785) 296-3585 (Voice)/Hearing Impaired - 711.

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JUNE 30, 2014

PREPARED BY: BUREAU OF FISCAL SERVICES

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Kansas Department of Transportation
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014

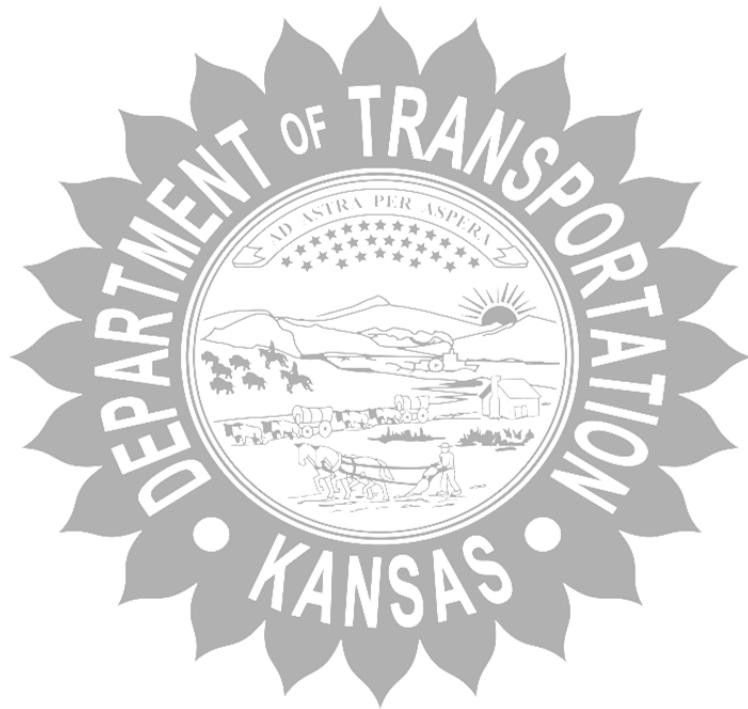
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INTRODUCTORY SECTION

**Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2014**



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Kansas Department
of Transportation**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

A handwritten signature in black ink, appearing to read "Jeffrey P. Evans".

Executive Director/CEO

Dwight D. Eisenhower State Office
Building
700 S.W. Harrison Street
Topeka, KS 66603-3745

Mike King, Secretary



Phone: 785-296-3461
Fax: 785-296-0287
Hearing Impaired - 711
publicinfo@ksdot.org
<http://www.ksdot.org>

Sam Brownback, Governor

October 31, 2014

The Honorable Sam Brownback, Governor
Members of the Kansas Legislature, and
Citizens of the State of Kansas:

Kansas Statutes Annotated 68-2315 requires the Kansas Department of Transportation (the Department) to annually prepare a comprehensive financial report of all funds for the preceding year, which shall include a report by an independent public accountant attesting that the financial statements present fairly the financial position of the Department in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to that requirement, we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Department for the fiscal year ended June 30, 2014.

This report consists of management's representations concerning the finances of the Department. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report.

Department managers are responsible for establishing and maintaining internal controls to protect the Department's assets from loss, theft, or misuse, and to enable adequate accounting data to be compiled for preparation of financial statements in conformity with GAAP as applied to governmental units. The Department's internal controls are designed to provide reasonable but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by departmental managers.

For the fiscal year ended June 30, 2014, the independent audit required by statute was performed by CliftonLarsonAllen LLP. The auditors concluded that there was a reasonable basis for rendering unmodified opinions and that the financial statements for the fiscal year ended June 30, 2014 are fairly presented in conformity with GAAP. Their report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This transmittal letter is designed to complement MD&A and should be read in conjunction with it. The Department's MD&A can be found immediately following the report of the independent auditors.

Profile of the Department

The Department is an operating department of the State of Kansas and represents separate funds of the State that are not a part of the State General Fund. The Department was created by the Kansas Legislature in 1975 to succeed the State Highway Commission, which was established in 1917. The Secretary of Transportation is appointed by the Governor with the consent of the

Senate. The Department has statutory responsibility to coordinate planning, development, and operation of various modes and systems of transportation in the State. However, the Department's actual authority varies by mode and system. Although the Kansas Turnpike Authority (KTA) cooperates with the Department to achieve these objectives, the KTA is not a part of this reporting entity.

The Department's annual budget is approved by the Kansas Legislature. The budget is prepared by fund with some of the expenditures appropriated with legal limits and other expenditures appropriated without legal limits. Those budget items appropriated with legal limits can only be amended with Legislative approval. Budget items appropriated without legal limits can be amended by the Department's management without Legislative approval.

Economic Condition and Outlook

Economic forecasts are developed using a consensus process that involves the Legislative Research Department, Division of the Budget, and Department of Revenue for the State plus three consulting economists from state universities. The Consensus Group meets bi-annually in April and November. The economic condition and outlook are based upon the April 2014 meeting.

While the U.S. and Kansas economies continue to grow, the growth has not been as strong as previous post-recession recoveries. Uncertainty remains as a number of economic indicators are estimated to show only modest improvements over the next few years. Significant concerns persist for the economy as a whole relative to uncertainty regarding federal fiscal policy and for the agricultural sector in particular due to drought conditions and the impact of the new Farm Bill. The nominal Kansas Gross State Product is expected to grow by 3.9 percent in 2014 (the November estimate had been 3.8 percent) and 4.5 percent in 2015 (the November estimate had been 4.6 percent). Current forecasts call for the nominal U.S. Gross Domestic Product to grow by 4.9 percent in 2014 (the November estimate had been 4.4 percent) and by 5.2 percent in 2015 (the November estimate had been 5.1 percent). The Consensus estimates contained in this memo are based on this continued economic growth in the state and nation during the balance of FY 2014 and FY 2015.

Kansas Personal Income (KPI) in 2013 increased by 2.4 percent over the 2012 level. KPI is currently expected to increase by 3.8 percent in 2014 and 4.2 percent in 2015. The new estimate for 2014 improved slightly from the KPI forecast used in November which showed KPI increasing by 3.5 percent in 2014, while the new estimate for 2015 is slightly lower than the 4.2 percent reported in the November estimate. Current estimates are that overall U.S. Personal Income (USPI) growth will grow faster than KPI, with nominal USPI estimates of 4.8 percent in 2014 and 5.0 percent in 2015.

Data obtained from the Kansas Department of Labor indicates that employment levels continue to improve. The most recent monthly data shows that total Kansas non-farm private sector employment from March 2013 to March 2014 has increased by 17,200 jobs, while public sector jobs increased by only 100 jobs. Sectors with the largest amount of job gains over the last year include professional and business services, construction, and education and health services. Current estimates indicate that the overall Kansas unemployment rate, which was 5.4 percent in CY 2013, is expected to decrease to 4.9 percent in CY 2014 and 4.7 percent in CY 2015. The national unemployment rate is expected to remain above the Kansas rate, with the U.S. rate now expected to be 6.8 percent in 2014 and 6.5 percent in 2015.

Federal Funding

Moving Ahead for Progress in the 21st Century Act (MAP-21), which authorizes federal funding for FFY 2013-2014, replaced SAFETEA-LU and went into effect on October 1, 2012. The funding levels under MAP-21 provide Kansas with similar levels of funding to what has been received under the previous legislation. Surface transportation programs will be funded at over \$105 billion along with creation of a streamlined, performance-based, and multimodal program.

Highway Trust Fund

The Highway Trust Fund (HTF) was created by the Federal Highway Revenue Act of 1956 as the primary tool for receiving highway user taxes and distributing the funds to state and local governments for qualifying highway project expenditures. The major revenue sources for the HTF are the federal motor fuels tax, truck-related taxes on tires and the sale of trucks and trailers, and heavy vehicle use.

For decades the Highway Trust Fund adequately funded the nation's roads, and in later years transit projects, as the revenue sources continued to support the spending on federal projects. However, in recent years the balances in the HTF began to take a downward slope and the solvency of the Highway Account of the Trust Fund became a major concern.

With the passage of MAP-21, there are approximately \$18 billion in offsets that are considered non-transportation funding. There were no additional ongoing revenue sources identified to fund the legislation after its FFY 2014 expiration. While these actions have preserved the HTF for the immediate future, without additional revenues or transfers, the HTF is expected to continue to face a shortfall into FFY 2015.

Obligation Limitation

Since the passage of SAFETEA-LU, there have been numerous rescissions of federal funding resulting from Congressional action in annual transportation appropriations bills and other federal legislation. These rescissions require states to deduct a set amount of unobligated funds which accumulate because states are not permitted to spend the entire amount of contract authority they receive due to a required obligation limitation.

Although there were no rescissions in FFY 2012 and FFY 2011, \$717,334 was rescinded in FFY 2013, which is much lower than in previous years. In prior years, the amounts of unobligated balances rescinded for the State were: \$20.7 million in FFY 2010; \$29.6 million in FFY 2009; and \$30.1 million in FFY 2008. Because these rescinded funds are taken from unobligated apportionment balances, there has not been a direct impact on programs or projects. However, in the future, there will not be the balances of unobligated funds that Kansas and all states have relied on as a cushion to meet the requirements of the rescissions and for flexibility needed to obligate funding for selected projects.

In addition to the rescissions, the sequestration of funds also impacted the National Highway Performance Program (NHPP) in FFY 2013. Our NHPP allocation was reduced by \$330,733.

Conclusion

The problems on the Federal level with the timeliness of authorization and appropriations processes can result in risk and uncertainty for the Department. Because of the truncated time frame, two years, for the MAP-21 reauthorization, Congress needed to begin early to seriously consider reauthorization issues. To this point, Congress has failed to come to agreement on new legislation with only a few weeks remaining before the expiration of MAP-21. This results in a lack of predictability for future funding. At the same time, many of the new requirements for MAP-21 are still being implemented. Federal funding is clearly an important source of revenue for implementing the T-WORKS program. It is critical for future planning purposes that federal funding be stable and predictable.

Future financial planning and budgetary outlook

With the passage of the ten year Transportation Works for Kansas (T-WORKS) Program during the 2010 Legislative Session, the Department's activities are geared towards delivering a program focused on preserving the existing transportation system and protecting the public investment made in our system, while also supporting the transportation needs and economic development of the state. The purpose of T-WORKS is to provide for:

- Construction, improvement, reconstruction and maintenance of the state highway system,
- Assistance, including credit and credit enhancements, to cities and counties in meeting their responsibilities for the construction, improvement, reconstruction and maintenance of the roads and bridges not on the state highway system,
- Assistance for the preservation and revitalization of the rail service in the State,
- Assistance for the planning, constructing, reconstructing or rehabilitating the facilities for public use general aviation airports,
- Public transit programs to aid elderly persons, persons with disabilities and the general public,
- Assistance for transportation-sensitive economic opportunities on a local or regional basis,
- Analysis of the feasibility of constructing new toll or turnpike projects or designating existing highways or portions thereof as toll or turnpike projects, and
- Expenditure or committing at least \$8 million in each county of the State.

Expenditures for the T-WORKS program are estimated to be \$16.6 billion, including construction expenditures estimated to be \$8.1 billion. The T-WORKS program began in FY 2011.

The T-WORKS program authorizes the Secretary to issue highway revenue bonds so long as the Secretary certifies that, as of the date of issuance of any such bonds, the maximum annual debt service on all outstanding bonds and on such bonds proposed to be issued will not exceed 18% of revenues projected for the then-current or any future fiscal year.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its CAFR for the fiscal year ended June 30, 2013. This was the 26th consecutive year that the Department has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Department believes the current report continues to meet the Certificate of Achievement Program's requirements and it will be submitted to the GFOA to determine its eligibility for another certificate.

Other Information

This information is available in alternative accessible formats. To obtain an alternative format, contact Transportation Information, Eisenhower Building, 700 SW Harrison, 2nd Floor West, Topeka, KS, 66603-3754, or (785) 296-3585 (Voice)/Hearing Impaired - 711.

The timely preparation of this report was achieved by the efficient and dedicated service of the entire staff of the Bureau of Fiscal Services. I would like to express appreciation to members of the Bureau and others throughout the Department who assisted and contributed to this report.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mike King".

Mike King
Secretary of Transportation

KANSAS DEPARTMENT OF TRANSPORTATION

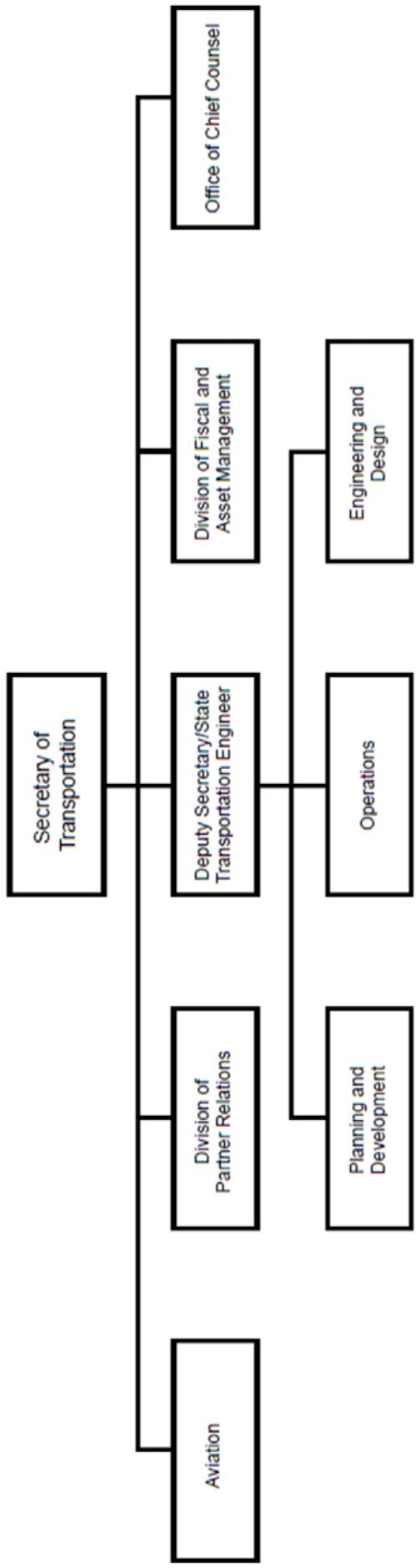
LIST OF PRINCIPAL OFFICIALS

**Comprehensive Annual Financial Report
As of June 30, 2014**

EXECUTIVE STAFF

<u>TITLE</u>	<u>NAME</u>
Secretary of Transportation	Mike King
Deputy Secretary and State Transportation Engineer	Jerry Younger
Director, Division of Operations	Catherine Patrick
Director, Division of Partner Relations	Wade Wiebe
Director, Division of Fiscal and Asset Management	Kent Olson
Director, Division of Engineering and Design	Jim Kowach
Director, Division of Planning and Development	Chris Herrick
Chief Counsel	Barbara W. Rankin
Director, Division of Aviation	Jesse Romo

Kansas Department of Transportation



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FINANCIAL SECTION

**Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2014**



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INDEPENDENT AUDITORS' REPORT

Secretary of Transportation
Kansas Department of Transportation
Topeka, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kansas Department of Transportation (the Department), which are major funds, special revenue fund, and enterprise funds of the State of Kansas, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Emphasis of A Matter

As discussed in Note 1 to the financial statements, the financial statements referred to above present only the financial position, results of operations and cash flows of the Department. They do not purport to and do not present fairly the financial position of the State of Kansas as of June 30, 2014 and results of operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2014, and the respective changes in financial position, the State Highway Fund Budget to Actual, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, infrastructure assets reported using the modified approach, and schedule of funding progress for other post employment benefits on pages 18-28 and 74-77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Secretary of Transportation
Kansas Department of Transportation

procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the Department'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 controls over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Broomfield, Colorado
October 31, 2014



Management's Discussion and Analysis

**Kansas Department of Transportation
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
(amounts expressed in thousands)**

The following section of our annual financial report presents our discussion and analysis of the Department's financial performance during the year. It is intended to assist you, the reader, in understanding how the various statements relate to each other and provide an objective and easily readable analysis of the Department's financial activities based on currently known facts, decisions and conditions. We encourage you to consider the information presented here in conjunction with the additional information furnished in our letter of transmittal. Unless otherwise indicated, amounts are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

- At June 30, 2014, the Department's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$10,829,971. Of this amount, \$606,628 is unrestricted and available to use to meet future obligations to citizens and creditors.
- The Department's net position increased by \$343,486 during the year.
- At the end of the fiscal year, the combined ending fund balances of the Department's governmental funds were \$229,202.
- The ending fund balances of governmental funds increased by \$100,682.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this Comprehensive Annual Financial Report consists of the auditors' report, this Management's Discussion and Analysis (MD&A), the basic financial statements, required supplementary information and other supplementary information. This MD&A is intended to serve as an introduction to the Department's basic financial statements.

The basic financial statements consist of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Department's finances, in a manner similar to a private-sector business. These statements take a much longer view of the Department's finances than the fund-level statements.

The Statement of Net Position presents information on all of the Department's assets, liabilities, deferred outflows of resources, and deferred inflows of resources. The net between these four items is reported as the Department's net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.

The Statement of Activities presents information showing how the Department's net position changed during the last fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The Department's governmental activities include: maintenance and preservation; communications system; local support; general government; rail, air and public transportation; and interest on long-term debt. The business-type activities are the Transportation Revolving Fund and the Communication System Revolving Fund.

Fund financial statements

The fund financial statements provide more detailed information about the Department's most significant funds – not the Department as a whole. A fund is an accounting device used to keep track of specific sources of funding and spending for particular purposes. Funds are used to ensure and demonstrate compliance with financial related legal requirements.

The Department has three kinds of funds:

- Governmental funds – Governmental funds focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a short-term view that helps determine whether there are more or fewer financial resources that can be spent in the future to finance the Department's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information explaining the differences between them is provided on the subsequent pages.

The Department maintains ten individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Statement of Revenues, Expenditures and Changes in Fund Balances for the State Highway Fund (the Agency's general fund), the Debt Service Fund, and the Capital Projects Fund. These funds are considered to be major funds. Information from the other governmental funds is combined into a single, aggregated column. Individual fund data for each of these nonmajor funds is provided in the form of combining statements elsewhere in the CAFR.

A Budgetary Comparison Statement is provided for the State Highway Fund to demonstrate compliance with its budget. A reconciliation statement between this budgetary statement and the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance is also provided.

- Proprietary funds – The proprietary fund statements report the business-type activities in the government-wide statements in more detail. The Transportation Revolving Fund is considered to be the only major fund.
- Agency funds – The Department functions as an agent for the cities and counties in holding tax money until it is distributed to those entities. Since these funds cannot be used to finance the Department's operations, they are excluded from the government-wide financial statements.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund-level financial statements.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this section of our report presents certain information required to support the use of the modified approach for the reporting of infrastructure assets and information concerning the Department's progress in funding its obligation to provide other post employment benefits.

Other information

Combining statements referred to earlier in connection with nonmajor governmental funds and budgetary schedules for funds not presented earlier are presented immediately following the required supplementary information.

CONDENSED GOVERNMENT-WIDE FINANCIAL STATEMENTS AND ANALYSIS

Net Position

The following table compares summary government-wide financial data at the end of the last two fiscal years:

	Summary of Net Position					
	Governmental Activities		Business-type Activities		Total	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Current and other assets	\$ 702,427	\$ 632,961	\$ 115,640	\$ 122,534	\$ 818,067	\$ 755,495
Capital assets	<u>11,908,357</u>	<u>11,751,526</u>	<u>0</u>	<u>0</u>	<u>11,908,357</u>	<u>11,751,526</u>
Total assets	<u>12,610,784</u>	<u>12,384,487</u>	<u>115,640</u>	<u>122,534</u>	<u>12,726,424</u>	<u>12,507,021</u>
Deferred outflows of resources						
Unamortized loss	16,761	0	0	0	16,761	0
Derivative instrument - interest rate swap	<u>23,024</u>	<u>26,117</u>	<u>0</u>	<u>0</u>	<u>23,024</u>	<u>26,117</u>
Total deferred outflows of resources	<u>39,785</u>	<u>26,117</u>	<u>0</u>	<u>0</u>	<u>39,785</u>	<u>26,117</u>
Less liabilities:						
Other liabilities	616,902	638,764	7,885	8,661	624,787	647,425
Long-term liabilities	<u>1,264,361</u>	<u>1,346,096</u>	<u>47,090</u>	<u>53,132</u>	<u>1,311,451</u>	<u>1,399,228</u>
Total liabilities	<u>1,881,263</u>	<u>1,984,860</u>	<u>54,975</u>	<u>61,793</u>	<u>1,936,238</u>	<u>2,046,653</u>
Net position:						
Net investments in capital assets	10,185,136	9,932,249	0	0	10,185,136	9,932,249
Restricted	0	0	38,207	38,475	38,207	38,475
Unrestricted	<u>584,170</u>	<u>493,495</u>	<u>22,458</u>	<u>22,266</u>	<u>606,628</u>	<u>515,761</u>
Total net position	<u>\$ 10,769,306</u>	<u>\$ 10,425,744</u>	<u>\$ 60,665</u>	<u>\$ 60,741</u>	<u>\$ 10,829,971</u>	<u>\$ 10,486,485</u>

As noted earlier, over time, total net position may serve as a useful indicator of a government's financial position. At the end of the year, total net position was \$10,829,971, an increase of \$343,486.

The vast majority of the Department's net position reflects its investment in capital assets such as land, buildings, equipment, and infrastructure, less any debt still outstanding used to acquire those assets. The Department uses these assets to provide services to the traveling public and they are not available for future spending. Although this investment is reported net of related debt, it

Management's Discussion and Analysis

should be noted that the resources needed to repay this debt must be provided from current sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Department's net position is restricted for use as debt service. The remaining balance of unrestricted net position is available for use in meeting ongoing obligations to citizens, creditors and employees.

The increase in net position investment in capital assets, reflects the activities of constructing new highways. Unrestricted net position increased due to favorable operating results in the current year.

Changes in Net Position

The following table summarizes and compares governmental and business-type activities for the years ended June 30, 2014 and 2013.

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Capital grants	\$ 275,729	\$ 222,787	\$ 0	\$ 0	\$ 275,729	\$ 222,787
Operating grants	243,236	218,536	0	0	243,236	218,536
Vehicle registrations and drivers' licenses	211,644	198,120	0	0	211,644	198,120
Charges for service & other	6,769	20,437	2,064	4,399	8,833	24,836
General revenues						
Motor fuels tax	294,285	274,437	0	0	294,285	274,437
Sales and use taxes	500,808	323,667	0	0	500,808	323,667
Investment earnings	(6,005)	28,337	743	744	(5,262)	29,081
Unrestricted appropriations from other state funds	2,595	1,636	0	0	2,595	1,636
Total revenue	1,529,061	1,287,957	2,807	5,143	1,531,868	1,293,100
Expenses						
Maintenance and preservation	648,197	780,005	0	0	648,197	780,005
Communications system	7,158	13,470	217	1,350	7,375	14,820
Local support	139,735	106,826	0	0	139,735	106,826
General government	309,922	195,470	0	0	309,922	195,470
Rail, air and public transportation	19,451	14,825	0	0	19,451	14,825
Interest	61,036	58,562	0	0	61,036	58,562
Transportation revolving fund	0	0	2,666	2,558	2,666	2,558
Total expenses	1,185,499	1,169,158	2,883	3,908	1,188,382	1,173,066
Increase in net position before transfers						
Transfers	343,562	118,799	(76)	1,235	343,486	120,034
Change in net position	343,562	118,807	(76)	1,227	343,486	120,034
Net position - beginning	10,425,744	10,306,937	60,741	59,514	10,486,485	10,366,451
Net position - ending	\$ 10,769,306	\$ 10,425,744	\$ 60,665	\$ 60,741	\$ 10,829,971	\$ 10,486,485

As a result of the activities of the Department during the past year net position increased \$343,486. Overall revenues increased by 18% and expenses increased by 1%.

Governmental activities

Revenues for the year increased \$241,104 or about 19%. This increase was due primarily to the Department's portion of sales and use taxes increasing starting in fiscal year 2014. Also during fiscal year 2014, the amount the Department received for motor fuels tax increased slightly. Capital and operating grants also contributed to the increase in revenues. The grants increased due to receiving more advanced construction grants.

Expenses for the year increased \$16,341 or about 1%. The most significant increase was for general government activities. Expenditures for general government activities include transfers

and payments to other governments for services or statutory transfers. Statutory transfers increased for FY 2014. There was a large decrease in maintenance and preservation expenditures in fiscal year 2014. Some larger projects were getting started at the end of fiscal year 2014. The T-WORKS program was designed around these large projects for cash flow purposes.

Business-type activities

Business-type activities reflect the activities in the Transportation Revolving Fund and the Communications System Revolving Fund. Total revenues for these funds had a \$2,336 or 45% decrease. Total expenses decreased by \$1,025 or about 26% for these funds. In fiscal year 2014, revenues for the programs decreased in comparison to fiscal year 2013 due to early payments on loans and leases received in FY 2013. Expenses decreased in comparison to fiscal year 2013 with the interest credited to leases due to a large early payment.

INDIVIDUAL FUND ANALYSIS

As noted earlier, the Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. This information is useful in assessing the Department's short-term financing requirements. In particular, unreserved fund balance may serve as a measure of the net resources available for spending at the end of the year.

Management's Discussion and Analysis

The following table summarizes and compares the balance sheets of the governmental funds at June 30, 2014 and June 30, 2013.

Comparative Summary of Governmental Funds' Balance Sheets

	<u>6/30/2014</u>	<u>6/30/2013</u>	<u>Change</u>	<u>% Change</u>
Assets				
Cash and investments	\$ 526,574	\$ 515,022	\$ 11,552	2
Receivables	146,621	76,650	69,971	91
Prepaid Insurance	1,096	0	1,096	
Inventories	23,983	24,363	(380)	(2)
Long-term receivable	4,153	4,487	(334)	(7)
Total assets	<u>\$ 702,427</u>	<u>\$ 620,522</u>	<u>\$ 81,905</u>	<u>13</u>
Liabilities				
Current liabilities	\$ 61,067	\$ 55,401	\$ 5,666	10
Bonds payable on demand	383,215	405,735	(22,520)	(6)
Deferred revenue	12,270	30,866	(18,596)	(60)
Total liabilities	<u>456,552</u>	<u>492,002</u>	<u>(35,450)</u>	<u>(7)</u>
Deferred inflows of resources				
Unavailable revenue	<u>16,673</u>	<u>0</u>	<u>16,673</u>	
Total deferred inflows of resources	<u>16,673</u>	<u>0</u>	<u>16,673</u>	
Fund balances				
Nonspendable:				
Materials & supplies	23,983	24,363	(380)	(2)
Prepaid Insurance	1,096	0	1,096	
Long-term receivable	4,153	4,487	(334)	(7)
Restricted for:				
Other purposes	29,014	19,348	9,666	50
Assigned to:				
Debt Service	121,317	109,231	12,086	11
Unassigned	<u>49,639</u>	<u>(28,909)</u>	<u>78,548</u>	<u>(272)</u>
Total fund balances	<u>229,202</u>	<u>128,520</u>	<u>100,682</u>	<u>78</u>
Total liabilities deferred inflows of resources, and fund balances	<u>\$ 702,427</u>	<u>\$ 620,522</u>	<u>\$ 81,905</u>	<u>13</u>

Total fund balances for all governmental funds increased by \$100,682 during the year.

This increase is the result of assets increasing and liabilities decreasing. The increase in assets was primarily the result of an increase in federal aid receivables of advanced construction at the end of fiscal year 2014. The liabilities decreased slightly because of principal payments for Bonds Payable on Demand. The State Highway Fund's (the agency's general fund) increase in fund balance is the result of increasing assets. The State Highway Fund assets increase is attributable to an increase in federal aid receivables during fiscal year 2014.

The negative balance in the other unassigned fund balances in fiscal year 2013 was a result of the required GAAP reporting of the bonds payable on demand issued in prior years. Since the bonds

Management's Discussion and Analysis

are payable on demand, they are required to be reported as a current liability in the Capital Projects Fund. The decrease in this negative balance is the result of refunding Bonds Payable on Demand to a long term liability. In fiscal year 2014, the unassigned fund balance increased, causing it to be positive at the end of the fiscal year. Increases to the unassigned fund balance were caused mainly by the increase in federal aid receivables and principal payments for Bonds Payable on Demand.

The following table summarizes the governmental funds' revenue, expenditures and other financing sources (uses) and compares them to the prior year.

Comparative Statement of Governmental Funds Revenues, Expenditures and Other Financing Sources (Uses)

	FYE 6/30/2014	FYE 6/30/2013	<u>Change</u>	<u>% Change</u>
Revenues				
Motor fuel taxes	\$ 293,707	\$ 274,337	\$ 19,370	7
Vehicle registrations and permits	211,644	198,120	13,524	7
Operating grants	243,714	220,676	23,038	10
Capital grants	279,527	224,983	54,544	24
Sales and use taxes	501,291	320,756	180,535	56
Investment earnings	584	866	(282)	(33)
Other	7,950	22,997	(15,047)	(65)
Appropriations from other state funds	2,595	1,636	959	59
Total revenues	<u>1,541,012</u>	<u>1,264,371</u>	<u>276,641</u>	<u>22</u>
Expenditures				
Current operating:				
Maintenance	125,934	132,830	(6,896)	(5)
Preservation	378,348	397,608	(19,260)	(5)
Modernization	27,850	67,102	(39,252)	(58)
Expansion and Enhancement	272,014	247,549	24,465	10
Communications system	7,140	6,443	697	11
Local support	139,735	106,826	32,909	31
Rail, air and public transportation	19,452	14,826	4,626	31
Management	55,653	69,671	(14,018)	(20)
Distributions to other state funds	270,382	115,366	155,016	134
Debt Service:				
Principal	80,790	67,090	13,700	20
Interest and fees	62,652	68,436	(5,784)	(8)
Total expenditures	<u>1,439,950</u>	<u>1,293,747</u>	<u>146,203</u>	<u>11</u>
Excess (deficiency) of revenues over expenditures	101,062	(29,376)	130,438	(444)
Other financing sources (uses)				
Issuance of debt	0	496,250	(496,250)	
Premium on issuance of debt	0	85,738	(85,738)	
Payment to refunded bonds escrow agent	0	(186,227)	186,227	
Transfers-in	309,046	474,238	(165,192)	(35)
Transfers-out	(309,046)	(474,230)	165,184	(35)
Total other financing sources (uses)	0	395,769	(395,769)	
Net change in fund balances	101,062	366,393	(265,331)	(72)
Fund balances - beginning of year	128,520	(237,295)	365,815	(154)
Other changes in fund balances:				
Change in reserve for materials and supplies inventory	(380)	(578)	198	(34)
Fund balances - end of year	<u>\$ 229,202</u>	<u>\$ 128,520</u>	<u>\$ 100,682</u>	<u>78</u>

Revenues for the year increased by \$276,641 or 22%. Expenditures for the year increased by \$146,203 or 11%. The increase in revenues was a result of the Department's portion of sales and

use taxes increasing starting in fiscal year 2014. As discussed earlier, the expenditure increase was the result of decreases in statutory distributions to other state funds.

Proprietary funds

The proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. See the discussion of business-type activities at the government-wide section above.

BUDGETARY HIGHLIGHTS

During the course of the year, the budget for the State Highway Fund was amended by the State Legislature to reflect updated revenue projections and to more accurately reflect the level of activity being accomplished by the Department. In addition, certain budget changes were made to reflect conditions of the state economy. The original budget (adopted by the 2013 Legislature) projected a budgetary deficit of \$236,822. The final budget (adopted by the 2013 Legislature) projected a budgetary deficit of \$460,185. These budgetary deficits contribute to reserves held by the State Highway Fund.

Significant differences between the original and final budget include:

- The budgets for construction without legal limits were increased for the anticipated level of activity expected to be accomplished by the Department.
- The budget for Transfers out to other Department funds was decreased to only reflect bond proceeds for the 2012C bond series.

Some expenditures are appropriated by the Legislature with legal limitations and other expenditures are appropriated without legal limits. These appropriations are made at the fund level and are displayed on the Budgetary Statements included in this document. The allocations of the appropriations displayed are for internal control and reporting purposes only. The legal level of budgetary control is at the cumulative total, not at the "line item" displayed on the accompanying budget statements. For additional detail of these appropriations, see Note 2 to the financial statements.

Actual expenditures for those items with legal limits did not exceed those limits.

Significant variances from the final approved budget and actual end-of-year results include:

- The budget variance for Intergovernmental revenues increased due to more advanced construction conversion during the fiscal year.
- The budget variance without legal limits for construction decreased due to shifting projects from one fiscal year to future fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2014, the total investment in capital assets was \$11,908,357. The following table summarizes those assets.

	Summary of Capital Assets (net of depreciation)	
	Governmental Activities	
	6/30/2014	6/30/2013
Land (excluding right of way)	\$ 5,236	\$ 5,237
Right of way	195,990	188,722
Total land	201,226	193,959
Roadways	8,738,790	8,659,930
Bridges	2,121,138	2,065,339
Construction in progress	631,024	611,013
Total infrastructure and related construction in progress	11,490,952	11,336,282
Buildings	45,152	45,341
Machinery and equipment	171,027	175,944
Total buildings and equipment	216,179	221,285
 Total capital assets	 <u>\$ 11,908,357</u>	 <u>\$ 11,751,526</u>

The above amounts are stated at cost or estimated historical cost net of depreciation on those assets being depreciated. For additional information related to capital assets, see Note 5 to the financial statements. The Department has elected to report qualified infrastructure assets using the modified approach. See the discussion later in this document for an explanation of the modified approach and required disclosures.

Long-term debt. At the end of the fiscal year, Highway Revenue debt was \$1,634,305 and the Department had total bonds outstanding of \$1,686,791. This includes \$383,215 of bonds payable on demand, \$88,916 of net unamortized premium (discount), and \$119,335 par value of bonds due in the next fiscal year. The Department has acted as the issuer on all State Highway Fund debt.

During the year the Department issued no bonds. However, there were bonds issued and refunded before the report was issued. See Note 15 for more information.

All bonds issued by the Department have been rated by the three national bond-rating agencies. The initial ratings for debt issued in 1992 were Aa2, AA2, and AA by Moody's, Standard and Poor's and Fitch, respectively. Since 1992, the rating-agencies have upgraded their ratings of the highway revenue bonds, including the previously issued debt. In 2014, the Moody's Investors Service downgraded highway revenue bonds from Aa1 to Aa2. The ratings assigned to the Department's bonds that have not been refunded are as follows:

	Fixed-rate Bonds	Variable-rate Bonds
Moody's Investors Service	Aa2	VMIG 1
Standard & Poor's Rating Services	AAA	A-1+
Fitch Ratings	AA+	F1+

Additional information about the Department's long-term debt and derivative instruments can be found in Notes 8 and 9 to the financial statements.

THE MODIFIED APPROACH TO REPORTING INFRASTRUCTURE ASSETS

Typically, capital assets are capitalized and subsequently depreciated, thereby spreading their costs to governmental activities over the estimated useful lives of the assets. When reporting infrastructure assets, an alternative to the recording of depreciation has been developed and is recognized as GAAP. This "modified approach" assumes that infrastructure assets have an indefinite life if they are properly maintained and preserved. When this approach is employed, the assets are not depreciated. However, expenses that preserve the asset and return it to its original state are recorded in the year when they are incurred. Only those expenditures that increase the efficiency or capacity of the asset are capitalized.

Before a government can use the modified approach, it must meet two requirements. First, the government must manage the eligible assets using an asset management system that has the characteristics set forth below. Second, the government must document that the eligible assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

To meet the first requirement, the asset management system should:

- a. Have an up-to-date inventory of infrastructure assets,
- b. Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale, and
- c. Estimate each year the annual amount to maintain and preserve the eligible infrastructure assets at the conditional level established and disclosed by the government.

The Department's infrastructure assets (the State Highway System) are made up of two networks: Roadway system network and Bridge system network.

The roadway system network consists of both Interstate and Non-interstate systems. Roadways are also referred to as Roadway Pavement.

The condition of the roadway systems is assessed using a Pavement Management System which measures the condition of the pavement surface. Management has defined a goal and minimum acceptable performance level for both the Interstate and Non-interstate systems. The measurement scale used to summarize the roadway condition is made up of three performance levels. These performance levels are defined as:

- PL-1 – Road surface is in good condition and needs only routine or light preventative maintenance,
- PL-2 – Roadway surface needs at least routine maintenance, and
- PL-3 – Roadway surface is in poor condition and needs significant work.

In fiscal year 2012, the Department realigned its minimum acceptable performance level with its goals for roadways. The stated goal and minimum acceptable performance level is to maintain the Interstate system such that at least 85% of the mileage is at PL-1. Many factors outside the control of the Department contribute to the ongoing condition of the highways. The latest reported measurements of performance indicate that 98% of Interstate roads are at PL-1. The stated goal and minimum acceptable performance level for Non-interstate roads is 80% in PL-1.

The latest reported measurements indicate 89% of the Non-interstate roads are at PL-1. These measurements were made in the spring of 2014.

The second network that makes up the Department's infrastructure assets is the bridge system. The condition of this network is assessed using the Pontis Bridge Management System. This system evaluates the condition of several elements within each bridge using a rating scale of 1 to 5. These element ratings are weighted and aggregated to establish a health index of 0 to 100 for each bridge. The individual bridge indexes are aggregated to establish a health index for the entire system.

In fiscal year 2012, the Department realigned its minimum acceptable performance level with its goals for bridges. The stated goal is to maintain these assets at an overall health index of 85. The latest evaluation, based on inspections made throughout the year, indicates a current health index of 87.

ECONOMIC AND OTHER FACTORS

Fiscal year 2014 was the fourth year for the Transportation Works for Kansas (T-WORKS) Program that was passed by the 2010 Legislature. The intent of the T-WORKS program is to provide for:

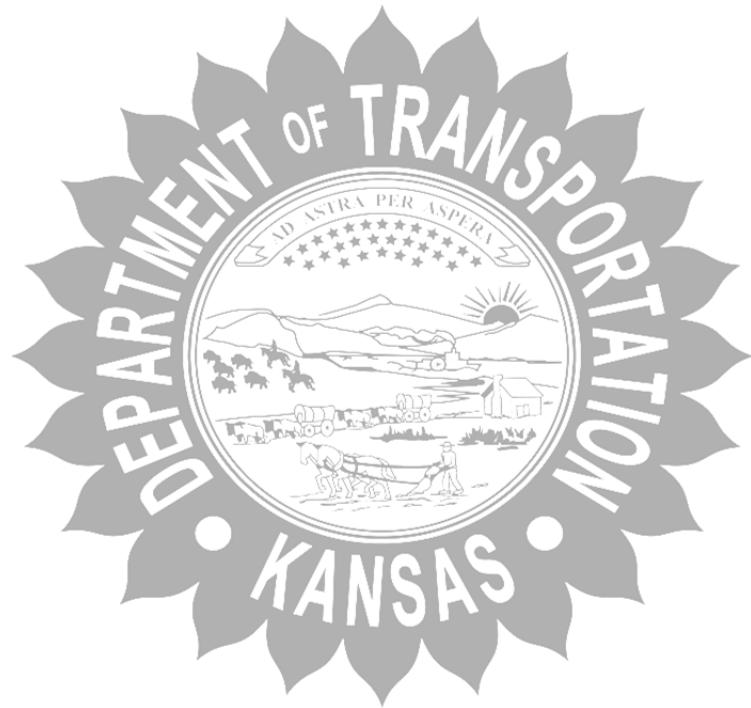
- Construction, improvement, reconstruction and maintenance of the state highway system,
- Assistance, including credit and credit enhancements, to cities and counties in meeting their responsibilities for the construction, improvement, reconstruction and maintenance of the roads and bridges not on the state highway system,
- Assistance for the preservation and revitalization of the rail service in the State,
- Assistance for the planning, constructing, reconstructing or rehabilitating the facilities for public use general aviation airports,
- Public transit programs to aid elderly persons, persons with disabilities and the general public,
- Assistance for transportation-sensitive economic opportunities on a local or regional basis,
- Analysis of the feasibility of constructing new toll or turnpike projects or designating existing highways or portions thereof as toll or turnpike projects, and
- Expenditure or committing at least \$8 million for projects in each county of the State.

In order to pay for this program, the 2010 legislation provided for an increase in heavy truck registration effective in fiscal year 2013 and the Department's share of the State sales tax effective in fiscal year 2014. In addition, the Department will be allowed to issue additional bonds.

The Department has the authority to issue additional bonds provided that at the time of issuance the projected debt service on State Highway Fund (SHF) debt in the current or any future year is estimated to not exceed 18% of the expected SHF revenues in any future year.

REQUESTS FOR INFORMATION

This Comprehensive Annual Financial Report is intended to provide the reader a general overview of the finances of the Kansas Department of Transportation. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the Office of Transportation Information, Eisenhower Building, 700 SW Harrison, 2nd Floor West, Topeka, KS, 66603-3754, or (785) 296-3585 (Voice)/Hearing Impaired - 711.



Basic Financial Statements

Government-wide Financial Statements

Kansas Department of Transportation
 Statement of Net Position
 June 30, 2014
 (amounts in thousands)

	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash:			
Unrestricted	\$ 388,580	\$ 22,124	\$ 410,704
Restricted	71,937	30,747	102,684
Investments, at fair value	66,057	15,277	81,334
Receivables	146,621	6,457	153,078
Prepaid Insurance	1,096	0	1,096
Materials and supplies	23,983	0	23,983
Other long-term receivables	4,153	41,035	45,188
Capital assets:			
Land, including right of way	201,226	0	201,226
Infrastructure (including construction in progress)	11,490,952	0	11,490,952
Buildings and improvements (net of accumulated depreciation)	45,152	0	45,152
Road, office and shop equipment (net of accumulated depreciation)	171,027	0	171,027
Total assets	<u>12,610,784</u>	<u>115,640</u>	<u>12,726,424</u>
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized loss	16,761	0	16,761
Accumulated decrease in fair value of hedging derivatives	<u>23,024</u>	<u>0</u>	<u>23,024</u>
Total deferred outflows of resources	<u>39,785</u>	<u>0</u>	<u>39,785</u>
LIABILITIES			
Accounts payable and other current liabilities	71,189	635	71,824
Bonds payable on demand	383,215	0	383,215
Accrued Interest	21,935	0	21,935
Unearned revenues and other credits	12,270	1,130	13,400
Compensated absences:			
Due within one year	7,070	0	7,070
Due in more than one year	1,596	0	1,596
Bonds payable:			
Due within one year	90,065	5,930	95,995
Due in more than one year	<u>1,249,941</u>	<u>47,090</u>	<u>1,297,031</u>
Arbitrage rebate liability	0	190	190
Derivative instrument - interest rate swap	31,158	0	31,158
Other post employment benefits obligation	12,824	0	12,824
Total liabilities	<u>1,881,263</u>	<u>54,975</u>	<u>1,936,238</u>
NET POSITION			
Net investment in capital assets	10,185,136	0	10,185,136
Restricted for:			
Debt service	0	38,207	38,207
Unrestricted	<u>584,170</u>	<u>22,458</u>	<u>606,628</u>
Total net position	<u>\$ 10,769,306</u>	<u>\$ 60,665</u>	<u>\$ 10,829,971</u>

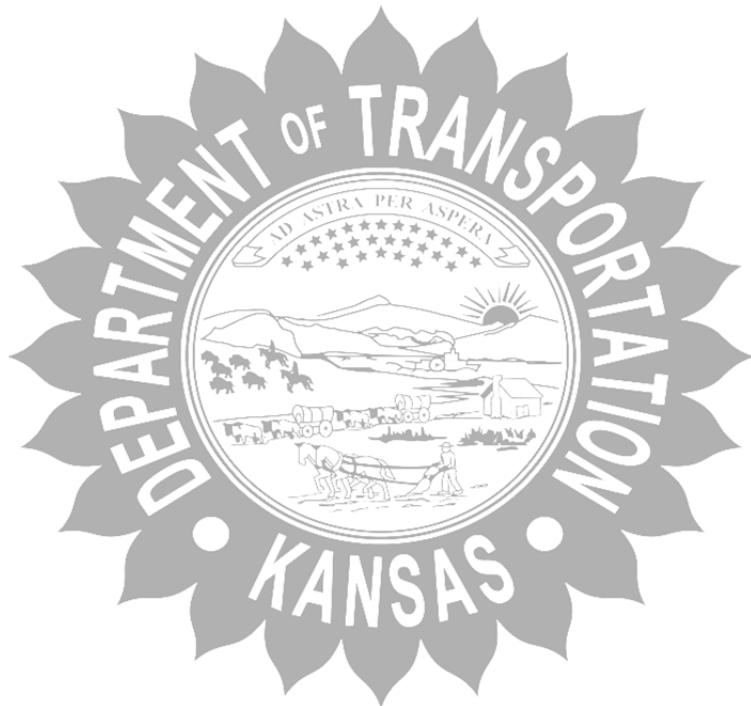
The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
 Statement of Activities
 For the Year Ended June 30, 2014
 (amounts in thousands)

Functions/Programs	Expenses	Program Revenues					Net (Expense) Revenue and Changes in Net Position				
		Charges for Services									
		Vehicle Registrations and Drivers' Licenses	Other	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities		Business-type Activities		Total	
Functions/Programs	Expenses										
Governmental activities											
Maintenance and preservation	\$ 648,197	\$ 0	\$ 0	\$ 166,090	\$ 275,729	\$ (206,378)	\$ 0	\$ 0	\$ (206,378)		
Communications system	7,158	0	0	0	0	(7,158)	0	0	(7,158)		
Local support	139,735	0	0	71,258	0	(68,477)	0	0	(68,477)		
General government	309,922	211,644	6,769	5,888	0	(85,621)	0	0	(85,621)		
Rail, air and public transportation	19,451	0	0	0	0	(19,451)	0	0	(19,451)		
Interest on long-term debt	61,036	0	0	0	0	(61,036)	0	0	(61,036)		
Total governmental activities	1,185,499	211,644	6,769	243,236	275,729	(448,121)	0	0	(448,121)		
Business-type activities											
Transportation revolving fund	2,666	0	1,677	0	0	0	(989)	0	(989)		
Communications system	217	0	387	0	0	0	0	170	170		
Total business-type activities	2,883	0	2,064	0	0	0	(819)	0	(819)		
Total	\$ 1,188,382	\$ 211,644	\$ 8,833	\$ 243,236	\$ 275,729	(448,121)	\$ (819)	\$ (819)	\$ (448,940)		
General revenues											
Motor fuel taxes						294,285	0	0	294,285		
Sales and use taxes						500,808	0	0	500,808		
Investment earnings						(6,005)	743	743	(5,262)		
Unrestricted appropriations from other state funds						2,595	0	0	2,595		
Transfers						0	0	0	0		
Total general revenues						791,683	743	743	792,426		
Change in net position						343,562	(76)	(76)	343,486		
Net position - beginning of year						10,425,744	60,741	60,741	10,486,485		
Net position - ending						\$ 10,769,306	\$ 60,665	\$ 60,665	\$ 10,829,971		

The notes to the financial statements are an integral part of this statement.

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Basic Financial Statements

Fund Financial Statements

Kansas Department of Transportation
 Balance Sheet
 Governmental Funds
 June 30, 2014
 (amounts in thousands)

	State Highway Fund (agency's general fund)	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash:					
Unrestricted	\$ 359,325	\$ 0	\$ 0	\$ 29,255	\$ 388,580
Restricted	13,800	58,137	0	0	71,937
Investments, at fair value	3,033	63,024	0	0	66,057
Receivables:					
Federal aid	60,798	0	0	0	60,798
Accrued taxes	77,882	0	0	0	77,882
Local governments	6,306	0	0	0	6,306
Accrued interest	27	156	0	1	184
Other State funds	200	0	0	0	200
Loans and other	146	0	0	1,105	1,251
Prepaid Insurance	1,096	0	0	0	1,096
Materials and supplies	23,983	0	0	0	23,983
Long-term receivable:					
Loans and other	0	0	0	4,153	4,153
Total assets	<u>\$ 546,596</u>	<u>\$ 121,317</u>	<u>\$ 0</u>	<u>\$ 34,514</u>	<u>\$ 702,427</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Vouchers payable	\$ 48,433	\$ 0	\$ 0	\$ 1,347	\$ 49,780
Retainage payable	1,437	0	0	0	1,437
Accrued salaries and wages	9,850	0	0	0	9,850
Bonds payable on demand	0	0	383,215	0	383,215
Unearned revenue	12,270	0	0	0	12,270
Total liabilities	<u>\$ 71,990</u>	<u>0</u>	<u>383,215</u>	<u>1,347</u>	<u>456,552</u>
Deferred inflows of resources					
Unavailable revenue	16,673	0	0	0	16,673
Total deferred inflows of resources	<u>16,673</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16,673</u>
Fund Balances:					
Nonspendable:					
Materials & supplies	23,983	0	0	0	23,983
Prepaid Insurance	1,096	0	0	0	1,096
Long-term receivable	0	0	0	4,153	4,153
Restricted for:					
Other Purposes	0	0	0	29,014	29,014
Assigned to:					
Debt Service	0	121,317	0	0	121,317
Unassigned	432,854	0	(383,215)	0	49,639
Total fund balances	<u>457,933</u>	<u>121,317</u>	<u>(383,215)</u>	<u>33,167</u>	<u>229,202</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 546,596</u>	<u>\$ 121,317</u>	<u>\$ 0</u>	<u>\$ 34,514</u>	<u>\$ 702,427</u>

The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
 Reconciliation of the Balance Sheet of the Governmental Funds
 to the Statement of Net Position
 June 30, 2014
 (amounts in thousands)

Total fund balances - Governmental Funds	\$ 229,202
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Land, including right of way	\$ 201,226
Infrastructure (including construction in progress)	11,490,952
Other capital assets net of depreciation	<u>216,179</u>
	11,908,357
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Bonds payable (including unamortized premiums)	\$ (1,340,006)
Accrued Interest	(21,935)
Claims	(10,122)
Compensated absences	(8,666)
Derivative instruments (including net interest rate swap positions and change in fair value of hedging derivatives)	(8,134)
Other post employment benefits obligation	<u>(12,824)</u>
	(1,401,687)
Loss on Refunding	16,761
Some revenues will be collected after year-end, but are not available soon enough to pay the current year's expenditures and therefore are deferred in the funds.	
	<u>16,673</u>
Net Position of Governmental Activities	\$ 10,769,306

The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2014
 (amounts in thousands)

	State Highway Fund (agency's general fund)	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Motor fuel taxes	\$ 293,707	\$ 0	\$ 0	\$ 0	\$ 293,707
Vehicle registrations and permits	211,644	0	0	0	211,644
Operating grants	235,894	0	0	7,820	243,714
Capital grants	279,527	0	0	0	279,527
Sales and use taxes	501,291	0	0	0	501,291
Investment earnings	329	128	0	127	584
Other	5,544	0	0	2,406	7,950
Appropriations from other state funds	2,595	0	0	0	2,595
Total revenues	<u>1,530,531</u>	<u>128</u>	<u>0</u>	<u>10,353</u>	<u>1,541,012</u>
Expenditures					
Current Operating:					
Maintenance	123,921	0	0	2,013	125,934
Preservation	378,348	0	0	0	378,348
Modernization	27,850	0	0	0	27,850
Expansion and enhancement	272,014	0	0	0	272,014
Communication system	7,140	0	0	0	7,140
Local Support	139,429	0	0	306	139,735
Rail, air and public transportation	0	0	0	19,452	19,452
Management	55,403	0	0	250	55,653
Distributions to other state funds	266,882	0	0	3,500	270,382
Debt Service:					
Principal	0	80,790	0	0	80,790
Interest and fees	0	62,652	0	0	62,652
Total expenditures	<u>1,270,987</u>	<u>143,442</u>	<u>0</u>	<u>25,521</u>	<u>1,439,950</u>
Excess (deficiency) of revenues over (under) expenditures	<u>259,544</u>	<u>(143,314)</u>	<u>0</u>	<u>(15,168)</u>	<u>101,062</u>
Other financing sources (uses)					
Transfers-in	83,976	178,051	22,519	24,500	309,046
Transfers-out	<u>(202,473)</u>	<u>(22,651)</u>	<u>(83,922)</u>	<u>0</u>	<u>(309,046)</u>
Total other financing sources (uses)	<u>(118,497)</u>	<u>155,400</u>	<u>(61,403)</u>	<u>24,500</u>	<u>0</u>
Net change in fund balances	141,047	12,086	(61,403)	9,332	101,062
Fund balances - beginning of year	317,266	109,231	(321,812)	23,835	128,520
Change in reserve for materials and supplies	<u>(380)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(380)</u>
Fund balances - end of year	<u>\$ 457,933</u>	<u>\$ 121,317</u>	<u>\$ (383,215)</u>	<u>\$ 33,167</u>	<u>\$ 229,202</u>

The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
 Reconciliation of the Statement of Revenues, Expenditures
 and Changes in Fund Balances of the Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2014
 (amounts in thousands)

Net change in fund balances - governmental funds \$ 101,062

Amounts reported for governmental activities in the statement of activities are different because:

The costs of acquiring or constructing capital assets (including infrastructure) are reported as expenditures in the governmental funds. In the Statement of Activities, the cost of non-infrastructure assets is spread over the useful lives of the assets through the recording of depreciation expense. In the current period, capital outlays exceeded depreciation.

Cost of acquisition or construction of infrastructure assets	\$	154,670
net of value of infrastructure assets replaced		21,701
Cost of acquisition or construction of other capital assets		<u>(21,264)</u>
Depreciation expense		155,107

In governmental funds, the proceeds of the sale of capital assets are reported as an increase in financial resources (revenue), but in the statement of activities, only the gain on the sale of those assets is reported. The difference is the book value of the assets sold or otherwise replaced.

1,724

The issuance of long-term debt (bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds.

However, neither of these transactions has any effect on the net position of the government taken as a whole. Also, governmental funds report the effect of premiums, discounts and similar items when the debt is issued.

These amounts are deferred and amortized in the statement of activities. The net effect of these differences is as follows:

Bond principal payments	\$	80,790
Amortization of deferred charges and other bond related costs		<u>2,432</u>
		83,222

Due to the difference between accrual and modified accrual basis of accounting some expenses recorded in the Statement of Activities are recorded in different periods in the governmental funds. These expenses include interest, the inventory for materials and supplies and the liability for compensated absences and claims.

6,626

Revenues recorded on the Statement of Activities that do not provide current financial resources are not recorded in governmental funds.

(4,179)

Change in net position of governmental activities \$ 343,562

The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
 Statement of Revenues, Expenditures and Other Financing Sources (Uses)
 State Highway Fund (Agency's General fund)
 Budget and Actual -- Budgetary Basis
 For the Year Ended June 30, 2014
 (amounts in thousands)

	Budgeted Amounts			Actual	Variance with <u>Final Budget</u> Positive (Negative)
	Original	Final			
Revenues:					
Motor fuel taxes	\$ 287,917	\$ 285,239	\$ 291,383	\$ 6,144	
Vehicle registrations and permits	211,093	219,356	212,142	(7,214)	
Intergovernmental	425,194	399,585	461,472	61,887	
Sales and use taxes	487,290	485,167	485,458	291	
Investment earnings	606	308	319	11	
Other	9,016	19,723	20,336	613	
Transfers from other state funds	1,399	1,544	2,595	1,051	
Total revenues	<u>1,422,515</u>	<u>1,410,922</u>	<u>1,473,705</u>	<u>62,783</u>	
Expenditures, with legal limits:					
Current operating:					
Maintenance	138,484	140,047	138,225	1,822	
Construction	66,861	67,019	61,137	5,882	
Local support	7,262	7,374	6,905	469	
Management	54,184	53,057	47,727	5,330	
Transfers to other state funds	<u>263,828</u>	<u>263,828</u>	<u>263,828</u>	<u>0</u>	
Expenditures with legal limits	<u>530,619</u>	<u>531,325</u>	<u>517,822</u>	<u>13,503</u>	
Expenditures, without legal limits:					
Current operating:					
Maintenance	540	430	435	(5)	
Construction	1,015,490	1,172,470	1,035,533	136,937	
Local support	32,285	32,529	44,527	(11,998)	
Management	1,104	8,385	1,095	7,290	
Transfers to other state funds	0	0	0	0	
Expenditures without legal limits	<u>1,049,419</u>	<u>1,213,814</u>	<u>1,081,590</u>	<u>132,224</u>	
Total expenditures	<u>1,580,038</u>	<u>1,745,139</u>	<u>1,599,412</u>	<u>145,727</u>	
Excess (deficiency) of revenues over expenditures	<u>(157,523)</u>	<u>(334,217)</u>	<u>(125,707)</u>	<u>208,510</u>	
Other financing sources (uses):					
Transfers-in	150,000	83,844	83,976	132	
Transfers-out	(229,299)	(209,812)	(202,473)	7,339	
Total other financing sources (uses)	<u>(79,299)</u>	<u>(125,968)</u>	<u>(118,497)</u>	<u>7,471</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (236,822)</u>	<u>\$ (460,185)</u>	<u>\$ (244,204)</u>	<u>\$ 215,981</u>	

The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
 Reconciliation of
 Statement of Revenues, Expenditures and Other Financing Sources (Uses)
 State Highway Fund (Agency's general fund)
 Budget and Actual -- Budgetary Basis
 to
 Statement of Revenues, Expenditures, and Changes in Fund Balance
 State Highway Fund (Agency's general fund)
 For the Year Ended June 30, 2014
 (amounts in thousands)

Excess (deficiency) of revenues and other sources over expenditures and other uses - Budgetary Basis	\$ (244,204)
Budgetary basis revenues and transfers from other state funds are adjusted to GAAP basis	56,826
Net encumbrances are reported as expenditures for budgetary reporting purposes	409,777
Budgetary expenditures and transfers to other state funds have been adjusted for GAAP basis	<u>(81,352)</u>
Net Change in Fund Balance as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 141,047</u>

The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
 Statement of Net Position
 Proprietary Funds
 June 30, 2014
 (amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
ASSETS			
Current Assets:			
Cash:			
Unrestricted	\$ 19,815	\$ 2,309	\$ 22,124
Restricted	30,747	0	30,747
Interest and other receivables	924	17	941
Current portion of loans and leases receivable	<u>5,067</u>	<u>449</u>	<u>5,516</u>
Total current assets	<u>56,553</u>	<u>2,775</u>	<u>59,328</u>
Noncurrent assets			
Loans and leases receivable	38,827	2,208	41,035
Investments	<u>15,277</u>	<u>0</u>	<u>15,277</u>
Total noncurrent assets	<u>54,104</u>	<u>2,208</u>	<u>56,312</u>
Total assets	<u>110,657</u>	<u>4,983</u>	<u>115,640</u>
LIABILITIES			
Current liabilities:			
Vouchers payable	91	0	91
Interest payable	530	14	544
Current portion of bonds payable	<u>5,730</u>	<u>200</u>	<u>5,930</u>
Total current liabilities	<u>6,351</u>	<u>214</u>	<u>6,565</u>
Noncurrent liabilities			
Bonds payable	46,094	996	47,090
Arbitrage rebate liability	190	0	190
Unearned lease revenue	<u>0</u>	<u>1,130</u>	<u>1,130</u>
Total noncurrent liabilities	<u>46,284</u>	<u>2,126</u>	<u>48,410</u>
Total liabilities	<u>52,635</u>	<u>2,340</u>	<u>54,975</u>
NET POSITION			
Restricted for debt service and bond reserves	38,207	0	38,207
Unrestricted	<u>19,815</u>	<u>2,643</u>	<u>22,458</u>
Total net position	<u>\$ 58,022</u>	<u>\$ 2,643</u>	<u>\$ 60,665</u>

The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
 Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 For the Year Ended June 30, 2014
 (amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
Operating revenues:			
Interest on loans	\$ 1,567	\$ 0	\$ 1,567
Service fees	110	5	115
Lease income	0	382	382
Total operating revenues	<u>1,677</u>	<u>387</u>	<u>2,064</u>
Operating expenses:			
Professional fees	21	38	59
Arbitrage rebate expense	115	0	115
Commodities	0	81	81
Total operating expenses	<u>136</u>	<u>119</u>	<u>255</u>
Operating income	<u>1,541</u>	<u>268</u>	<u>1,809</u>
Nonoperating revenues (expenses):			
Investment earnings	741	2	743
Amortization of premium (net)	(350)	(34)	(384)
Interest expense on bonds	(2,180)	(64)	(2,244)
Total nonoperating revenues (expenses)	<u>(1,789)</u>	<u>(96)</u>	<u>(1,885)</u>
Transfers			
Transfers in	0	0	0
Transfers out	0	0	0
Total transfers	<u>0</u>	<u>0</u>	<u>0</u>
Change in Net Position			
Total net position - beginning	(248)	172	(76)
Total net position - ending	<u>\$ 58,270</u>	<u>2,471</u>	<u>60,741</u>
	<u>\$ 58,022</u>	<u>\$ 2,643</u>	<u>\$ 60,665</u>

The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
 Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2014
 (amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
Cash flows from operating activities:			
Principal collections on loans	\$ 10,928	\$ 0	\$ 10,928
Interest on loans collected	1,671	0	1,671
Service fees collected	116	(29)	87
Collection on leases	0	577	577
Loan and lease advances	(4,957)	0	(4,957)
Payments for inventory	0	(98)	(98)
Proceeds from sale of inventory	0	0	0
Professional and contractual fees paid	(21)	(38)	(59)
Arbitrage expenses paid	(165)	0	(165)
Net cash provided by operating activities	<u>7,572</u>	<u>412</u>	<u>7,984</u>
Cash flows from noncapital financing activities			
Debt service on bonds	(8,339)	(257)	(8,596)
Net cash provided by (used in) noncapital financing activities	<u>(8,339)</u>	<u>(257)</u>	<u>(8,596)</u>
Cash flows from investing activities			
Interest received on investments	736	2	738
Net cash provided by investing activities	<u>736</u>	<u>2</u>	<u>738</u>
Net increase in cash	(31)	157	126
Cash - beginning	50,593	2,152	52,745
Cash - ending	<u>\$ 50,562</u>	<u>\$ 2,309</u>	<u>\$ 52,871</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 1,541	\$ 268	\$ 1,809
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in loans receivable	5,971	0	5,971
Change in receivable	111	(17)	94
Change in leases receivable	0	463	463
Change in deferred lease revenue	0	(159)	(159)
Change in vouchers payable	(51)	0	(51)
Change in due to other KDOT funds	0	(143)	(143)
Total adjustments	<u>6,031</u>	<u>144</u>	<u>6,175</u>
Net cash provided by operating activities	<u>\$ 7,572</u>	<u>\$ 412</u>	<u>\$ 7,984</u>

The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
Statement of Fiduciary Net Position
Agency Funds
June 30, 2014
(amounts in thousands)

ASSETS

Cash	\$ 36,480
Receivables	13,759
Total assets	<u>\$ 50,239</u>

LIABILITIES

Due to cities and counties	\$ 50,239
Total liabilities	<u>\$ 50,239</u>

The notes to the financial statements are an integral part of this statement.

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Basic Financial Statements

Notes to the Financial Statements

Kansas Department of Transportation

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Kansas Department of Transportation
Notes to the Financial Statements
June 30, 2014
(amounts expressed in thousands)

Note 1. Summary of Significant Accounting Policies

The financial statements of the Kansas Department of Transportation (the Department or Agency), a Department of the State of Kansas (the State), have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the Department are described below.

A. Reporting entity – The Department is an operating department of the State and represents separate funds of the State that are not a part of the State General Fund. There are no component units. The Secretary of Transportation is appointed by the Governor. The Department was created in 1975 by the Kansas Legislature to succeed the State Highway Commission, which was established in 1917. The Department has statutory responsibility to coordinate planning, development, and operation of the various modes and systems of transportation in the State. However, the actual authority varies by mode and system. Although the Kansas Turnpike Authority (KTA) cooperates with the Department to achieve its objectives, the KTA is not a part of this reporting entity.

B. Government-wide and fund financial statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the Department. The fiduciary responsibilities of the Department are reported in the agency funds. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation.

In March 2012, GASB Statement No. 65, “Items Previously Reported as Assets and Liabilities” was issued. This statement reclassifies certain items to deferred inflows of resources or deferred outflows of resources that were previously reported as assets or liabilities. The statement also recognizes certain items that were previously reported as assets and liabilities as inflows of resources (revenues) or outflows of resources (expenses). The Department adopted GASB 65 in Fiscal Year 2014.

The Statement of Net Position presents the Department’s non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Assets plus deferred outflows of resources less liabilities and deferred inflows of resources are reported as net position. Net position is displayed in three categories: *net investment in capital assets* which consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds attributable to the acquisition, construction or improvement of those assets; *restricted net position* which results when constraints are placed on asset use either externally (creditors, contributors, etc.) or by law either through constitutional provisions or enabling legislation; and *unrestricted net position* which consists of the net position portion that does not meet the definitions of the two preceding categories.

Unrestricted net position may have constraints imposed by management, but these can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate statements are provided for governmental funds, proprietary funds and agency funds. However, proprietary and agency funds are excluded from the government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. In addition to the State Highway Fund, the Capital Projects Fund and Debt Service Fund are reported as major funds. The State Highway Fund is the Agency's general fund, which is the primary operating fund and accounts for all financial resources except those required to be accounted for in another fund. The Capital Projects Fund is the fund that accounts for bonds proceeds. The Debt Service Fund accounts for the resources accumulated for and payments made for principal and interest on the Department's highway related bonded debt. All other governmental funds are aggregated and reported as nonmajor funds.

The Transportation Revolving Fund (TRF) provides assistance for transportation projects to local governmental units in Kansas and is reported as a major proprietary fund. The nonmajor proprietary fund was established to purchase communication system equipment for sale or lease to public safety agencies with a goal of creating a statewide interoperable communication system and related activities.

The agency funds account for assets temporarily held by the Department for the various local city and county governments.

C. Measurement focus, basis of accounting, and financial statement presentation – The government-wide financial statements are prepared using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary funds financial statements. The economic resources measurement focus accounts for and reports all economic resources and liabilities no matter when they affect current financial resources. The accrual basis of accounting reports revenues when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenues as soon as all eligibility requirements have been met.

Governmental funds financial statements are prepared using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The current financial resources measurement focus primarily measures and reports the sources, uses and balances of current financial resources. The modified accrual basis of accounting reports revenues when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the end of the fiscal year for tax revenues and 30 days of the end of the fiscal year for all other revenues. Expenditures generally are recorded when a liability is incurred, as in accrual

accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when the payment is due.

Those revenues susceptible to accrual are sales and use taxes, motor fuel taxes, federal grant revenues, certain reimbursable city and county construction costs incurred by the Department and other monies received shortly after the end of the fiscal year. Federal grant monies are received after the incurrence of qualifying expenditures. As a result, the federal share of all qualifying services, commodities, or capital outlay received or performed prior to year-end has been accrued.

Agency fund financial statements do not have a measurement focus, but are prepared using the accrual basis of accounting discussed above.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services and administrative expenses. Other revenues and expenses are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and investments – Cash includes amounts in the “common cash pool” in the State Treasury, which is invested by the Pooled Money Investment Board (PMIB). Interest is allocated to the Department based on the average daily cash balance in the State Highway Fund, the Rail Service Improvement Fund, the Capital Projects Fund, the Highway Bond Debt Service Fund, the Transportation Revolving Fund and the Communication System Revolving Fund. The State General Fund retains earnings on cash in other Departmental funds. In compliance with GASB Statement 31, investments are reported at fair value and any change in fair value is reported as an adjustment to investment earnings. Fair value is based on quoted market prices. Long-term investments are expected to be held to maturity and redeemed at face value.

E. Inventories – Materials and supplies inventories are valued at cost using the weighted average cost method. In the government-wide financial statements, inventories are reported using the consumption method whereby an expense is recognized when the inventory is consumed. In the governmental funds financial statements, the cost of inventories is reported using the purchases method where expenditures are recorded when an inventory item is purchased and a portion of the fund balance is reserved to denote it is not available for subsequent expenditure.

F. Restricted assets – For the highway revenue bonds, the Department is required to make monthly transfers to the Debt Service Fund equal to one-sixth of the amount due on the next semi-annual interest payment date. In addition, monthly transfers equal to one-twelfth of the principal due on the next principal payment date must be transferred to the Debt Service Fund. Funds to service the Transportation Revolving Fund bonds are provided primarily by the periodic collection of principal and interest on the loans outstanding in the fund. Funds to service the communications system lease program bonds are primarily provided by collections of the various leases outstanding in the fund.

G. Capital assets – Capital assets which include land, buildings, equipment, infrastructure and construction in progress are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$250,000 for software assets and

\$5,000 for all other assets (amounts not rounded and not expressed in thousands) and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if constructed prior to June 30, 2001. Donated capital assets are recorded at estimated fair value at the date of donation.

In the case of the initial capitalization of general infrastructure assets (those long lived assets reported by governmental activities that are normally stationary in nature and can normally be preserved for a significantly longer life than most capital assets), the Department chose to include all such items regardless of their acquisition date or amount. The Department was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the assets being recorded and using an appropriate price-level index to deflate the cost to the estimated construction year.) As the Department constructs or acquires additional infrastructure assets, they are capitalized and reported at historical cost.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Buildings and equipment are depreciated using the straight-line method over the following estimated lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Road equipment	5 to 25
Office equipment	8
Shop equipment	8
Other equipment	8

Infrastructure assets are reported using the modified approach as defined in GASB Statement 34. When using the modified approach, only those projects that add efficiency or capacity to the highway system are capitalized. Infrastructure assets are not depreciated. Expenditures that preserve those assets are expensed.

H. Compensated absences – A liability (including associated payroll taxes) is recorded in the government-wide statements for accumulated vacation leave that is expected to be liquidated at a future date. Under certain circumstances retiring employees can be paid for a portion of their unused sick leave. The Department contributes to a State fund to cover these payments and no additional accrual is required.

I. Long-term obligations – Long-term debt is reported as a liability on the government-wide and proprietary funds financial statements. In addition, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs are expensed when incurred. In the governmental fund financial statements, bond premiums and discounts are recognized in the period bonds are sold. The face amount of the debt issued plus premiums received on issuance is reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs are reported as debt service expenditures on the government-wide and proprietary funds financial statements.

J. Fund balance reporting and classifications – GASB 54 established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Under this standard, the fund balance classifications are: nonspendable, restricted, committed, assigned, and unassigned.

Fund balance classification policies and procedures

Nonspendable – assets that are not available in a spendable form such as inventory, prepaid expenditures, and long-term receivables not expected to be converted to cash in the near term. It also includes funds that are legally or contractually required to be maintained intact such as the corpus of a permanent fund or foundation.

Restricted – amounts that are required by external parties to be used for a specific purpose. Constraints are externally imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation.

Committed – amounts constrained on use, imposed by formal action of the government's highest level of decision making authority. For the committed fund balance, the Department's highest level of decision-making authority is the State Legislature. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is through the passage of a legislative bill. Committed fund balances do not lapse at year-end.

Assigned – amounts intended to be used for specific purposes. This is determined by the governing body, the budget or finance committee or a delegated Department official. For assigned fund balance, the Department is authorized to assign amounts to a specific purpose. By statute, the authorization to assign fund balances is delegated by the State Legislature to the Secretary.

Unassigned – all other resources; the remaining fund balance after non-spendable, restrictions, commitments, and assignments. This class only occurs in the State Highway Fund (the Department's general fund) except for cases of negative fund balances. Negative fund balances are always reported as unassigned, no matter which fund the deficit occurs in.

For the classification of the fund balances, the Department considers restricted amounts to have been spent first when expenditures are incurred for the purposes for which both restricted and unrestricted fund balance is available. Expenditures are to be spent from restricted fund balance first, followed by committed, assigned, and unassigned, respectively.

K. Use of estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

L. Future Governmental Accounting Standards Board Statements – At June 30, 2014, GASB has issued statements not yet required to be implemented by the Department. The following statements might impact the Department:

GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”, was issued June 2012. This statement establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, “Accounting for Pensions by State and Local Government Employers”, as well as the requirements of Statement No. 50, “Pension

Disclosures”, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The provisions of this statement are effective for the Department for fiscal years beginning after June 15, 2014 and will materially impact the reported liabilities and net position when implemented.

Note 2. Budgeting, Budgetary Control and Legal Compliance

Annual budgets are submitted to the Governor in accordance with State law. The budgets are legally enacted as appropriations after approval by the Governor and the State Legislature. All budgets are adopted on a budgetary basis consistent with State policies whereby cash basis transactions and encumbrances are recognized. All appropriations lapse at year-end unless carried over by the State Legislature.

Some expenditures are appropriated by the State Legislature with legal limitations and other expenditures are appropriated by the State Legislature without legal limitations. The Department's executive management can modify those expenditures without limitations, subject to the availability of funds. Increases to spending limitations can only be affected through actions by the Governor and State Legislature. Allocations to the Departmental functions are made for internal control purposes only.

FY 2014 appropriated budgets subject to legal limitations were adopted by the State Legislature for the agency operations portion of the State Highway Fund. This includes: regular maintenance, construction (internal payroll and other operating expenditures for design, right of way and inspection), local planning support (excluding local aid programs), management (excluding claims and contracts with other state agencies), payment for city connecting links and capital improvements for buildings, and certain transfers to other state funds. The legal level of budgetary control is the cumulative total of appropriations of the State Highway Fund (the agency's general fund) subject to legal limitations.

Appropriated budgets with no legal limitations were adopted by the State Legislature for the following funds: Rail Service Improvement, Interagency Motor Vehicle Fuel Sales, Traffic Records Enhancement, North Central Kansas Air Passenger Service Support, Coordinated Public Transportation Assistance, Other Federal Grants and Public Use General Aviation Airport Development special revenue funds; the Highway Bond Debt Service Fund, and the following portions of the State Highway Fund: preservation, support for local aid programs, management (claims and contracts with other state agencies), capital improvements for other than buildings, and certain transfers to other state funds.

Throughout the fiscal year, the Department updates budgetary data. Those budgets are subject to legal limitations by the State Legislature and can only be amended with the Legislature's approval. The Department can amend the budgets without legal limitations without legislative approval. For the year ended June 30, 2014, several individual expenditure groups without legal limitations exceeded the budget established by the Department's internal budgeting process in the State Highway, Interagency Motor Vehicle Fuel Sales, and Other Federal Grants Funds.

Note 3. Cash and Investments

Cash and investments held on the Department's behalf are governed by State statute. The Secretary of Transportation, by statute, is responsible for management of the Department's invested monies. The PMIB has been designated as the investment agent for the direct investments of the Department. The Kansas Development Finance Authority (KDFA) administers certain investments of the Transportation Revolving Fund (TRF). The Department has adopted an investment policy which relates to the State Highway Fund, the Debt Service Fund, the Capital Projects Fund and the Rail Service Improvement Fund and seeks to mitigate various risks associated with the investment of money in debt securities yet meets the Department's investment objectives. These objectives are: preservation of capital, maintenance of liquidity and return on investment. It is the Department's policy to diversify its investment portfolio so as to mitigate custodial credit risk, credit risk, concentration risk, and interest rate risk.

Custodial Credit Risk – Deposits and Investments

The custodial credit risk is the risk that, in the event of the failure of a bank or other counterparty, the Department's deposits or the value of its investments may not be recovered.

Cash, other than imprest and petty cash funds, is part of the common cash pool of the State Treasury. The PMIB invests funds in the common cash pool. Collateral is required for deposits made by the common cash pool that are not covered by federal deposit insurance. The market value of the collateral must equal 100% of the uninsured deposit and is held by the State Treasurer or an independent third party in the State Treasurer's name. In addition, securities are segregated for the benefit of the Department. The Department's deposits and investments are not exposed to custodial credit risk. At June 30, 2014, the Department's share in the State's common cash pool is summarized in the following table.

Total cash	
Statement of Net Position:	
Unrestricted Cash	\$ 410,704
Restricted Cash	102,684
Agency Funds Statement	36,480
Less:	
Goldman Sachs Collateral	(13,800)
Imprest and Petty Cash Funds	(33)
Department's Share Cash in State's Common Cash Pool	<u>\$ 536,035</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. In order to mitigate credit risk, the Department's policy limits investments to securities in one of the top two long-term or short-term rating categories by Moody's Investor's Service and Standard & Poor's Corporation. The investments for the TRF administered by KDFA are unrated. However, the investment provider to these investment agreements met the required AAA rating when the agreement was entered into. The investments of the Bond Reserve Funds for the TRF are collateralized in excess of 100% by agency securities held by an independent third party in the Department's name.

The Standard & Poor's Corporation's ratings of the debt securities in the Department's investment portfolio as of June 30, 2014 are summarized in the following table.

Quality Rating	U.S. Government Securities	Government Agency Securities	Commercial Paper	Guaranteed Investment Contracts	Total
AA+ (Long-term)	\$ 3,000	\$ 33	\$ -	\$ -	\$ 3,033
A1+ (Short-term)	-	-	21,998	-	21,998
A1 (Short-term)	-	-	41,026	-	41,026
Not rated	-	-	-	15,277	15,277
	\$ 3,000	\$ 33	\$ 63,024	\$ 15,277	\$ 81,334

U.S. Government Securities are treasury securities explicitly guaranteed by the U.S. government.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Department's investment policy places the following concentration limits on a single issuer:

U.S. Treasury	100%
Each Federal Agency	50%
Each Repurchase Agreement Counterparty	10%
All other issuers	5%

KDFA places no limit on the amount that may be invested with any one provider as long as the type of investment is authorized by the TRF bond documents.

While none of these exceeds the limits of the investment policy, the Department had investments in debt securities that exceeded 5% of the total investment portfolio in the following securities at June 30, 2014:

Credit Suisse	\$20,998
Guaranteed Investment Contracts	15,277
GE Capital Corporation	14,998
Bank of Nova Scotia	12,509
Deutsche Bank Financial	7,520
Toyota Motor Credit Corporation	6,999

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The longer the period until a security matures the greater the risk of interest fluctuation. The Department's investment policy establishes the following maximum maturities by investment type:

Bankers' Acceptances and Commercial Paper	270 days
Repurchase Agreements	1 year
Guaranteed Investment Contract	1 year*
* - or Term Related to Fund	
Certificate of Deposit	2 years
Corporate Bonds	3 years
Municipal Bonds	5 years
U.S. Treasury and Federal Agency Obligations	10 years

In addition, the Department manages its investments with the goal of holding securities until maturity.

Investments administered by PMIB for the governmental funds as of June 30, 2014 and their weighted average maturity are summarized in the following schedule.

<u>Investment Type</u>	<u>Fair Value</u>	<u>WAM*</u>
U. S. Government		
Treasury strips	\$ 3,000	0.1
Agency Securities	33	2.8
Commercial Paper	<u>63,024</u>	0.1
	<u><u>\$ 66,057</u></u>	
Portfolio Weighted Average Maturity		
* - Weighted Average Maturity (years)		

The bond reserve funds for the TRF are managed by KDFA. The following table summarizes the maturities of these investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>More Than 10 Years</u>
Guaranteed Investment Contracts					
2005 TR Series	\$ 9,485	\$ -	\$ -	\$ -	\$ 9,485
2006 TR Series	5,792	-	-	-	5,792
	<u><u>\$ 15,277</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 15,277</u></u>

Note 4. Interfund Transactions

A. From/To other state funds - As required by State law, the Department receives from and makes transfers to certain funds involving other State agencies. The table on the following page summarizes the FY 2014 appropriations from other state funds and distributions to other state funds.

Appropriations from:		
Department of Administration (a)	\$	1,408
Kansas Corporation Commission (b)		1,036
Highway Patrol (c)		150
Other transfers		1
Appropriations to governmental funds from other state funds		<u>\$ 2,595</u>
Distributions to:		
Department of Education (d)	\$	140,477
Highway Patrol (c)		55,143
Department of Revenue (e)		45,650
State General Fund (f)		18,710
Department of Commerce (g)		5,000
Wildlife, Parks, and Tourism (h)		2,436
University of Kansas (i)		942
Kansas State University (i)		682
Other state funds		1,342
Total distributions to other state funds		<u>\$ 270,382</u>

- (a) The Department receives an amount equal to what it would have received had State-owned vehicles been privately owned and paid appropriate registration fees from the State Department of Administration.
- (b) The Department received a transfer from the Kansas Corporation Commission for Motor Carrier License Fees.
- (c) The Department received a transfer from Kansas Highway Patrol due to a reduction in the funding of operations. Transfers to the Kansas Highway Patrol are for the purpose of funding the operations of the Kansas Highway Patrol, financing the Motor Carrier Inspection Program, and other highway safety programs.
- (d) Transfers were made to the Department of Education to fund the transportation weighting piece of the school finance formula for General State Aid and Special Education State Aid and to provide revenues required to regulate the design and operation of school buses in Kansas.
- (e) Throughout the year, the Department transfers funds to the Department of Revenue for the purpose of financing the cost of operation for the Division of Vehicles within the Department of Revenue.
- (f) Transfers were made to the State General Fund (SGF) for the savings incurred by the Department partnering with KTA, for unused money from the Municipal University Forensic Laboratory Fund, and to pay overhead for the Division of Purchasing.
- (g) A transfer was made to the State Affordable Airfare Fund in the Department of Commerce.
- (h) Transfers were made to the Department of Wildlife, Parks, and Tourism for the purpose of financing the Access Road Fund and the Bridge Maintenance Fund.
- (i) The Department contracts with state universities to conduct transportation related research studies.

B. Intra-agency fund transfers – Monthly transfers are made from the State Highway Fund to the Debt Service Fund to fund the debt service requirements for the Department. As mandated by the legislature, annual transfers are made from the State Highway Fund to fund the activities of the non-major Rail Service Improvement Fund, Public Use General Aviation Airport Development Fund, Coordinated Public Transportation Assistance Fund, Municipal University Forensic Laboratory Fund and the Other Federal Grants Fund.

A transfer from the Debt Service Fund to the Capital Projects Fund was recorded to reduce the balance of Demand Obligations for current maturities. A transfer from the Debt Service Fund to the State Highway Fund was recorded for interest earnings.

Transfers are made from the Capital Projects Fund to reimburse the State Highway Fund for Net Qualified Expenditures and to transfer interest earnings to the Debt Service Fund.

	State Highway	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Transfer out:					
State Highway Fund	\$ -	\$ 177,973	\$ -	\$ 24,500	\$ 202,473
Debt Service Fund	132	-	22,519	-	22,651
Capital Projects Fund	83,844	78	-	-	83,922
	<u>\$ 83,976</u>	<u>\$ 178,051</u>	<u>\$ 22,519</u>	<u>\$ 24,500</u>	<u>\$ 309,046</u>

Note 5. Capital Assets

Capital asset activity related to governmental activities for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 193,959	\$ 7,470	\$ (203)	\$ 201,226
Infrastructure	10,725,269	182,288	(47,629)	10,859,928
Construction in progress	611,013	181,252	(161,241)	631,024
Total capital assets not being depreciated	<u>11,530,241</u>	<u>371,010</u>	<u>(209,073)</u>	<u>11,692,178</u>
Capital assets being depreciated:				
Buildings	94,834	3,986	(130)	98,690
Machinery & equipment	355,704	10,246	(2,060)	363,890
Total capital assets being depreciated	<u>450,538</u>	<u>14,232</u>	<u>(2,190)</u>	<u>462,580</u>
Less accumulated depreciation:				
Buildings	(49,493)	(4,128)	83	(53,538)
Machinery & equipment	(179,760)	(17,136)	4,033	(192,863)
Total accumulated depreciation	<u>(229,253)</u>	<u>(21,264)</u>	<u>4,116</u>	<u>(246,401)</u>
Total capital assets being depreciated, net	<u>221,285</u>	<u>(7,032)</u>	<u>1,926</u>	<u>216,179</u>
Total capital assets, net	<u>\$ 11,751,526</u>	<u>\$ 363,978</u>	<u>\$ (207,147)</u>	<u>\$ 11,908,357</u>

Depreciation expense was charged to the functions as follows:

Maintenance and preservation	\$ 16,694
Communications system	19
General government	4,551
	<hr/>
	\$ 21,264

Note 6. Leasing Activity

The department's leasing operations consist of leasing communications equipment and tower space to local units of government and other public safety agencies. The leases are classified as sales-type leases with terms from five to thirty years. Total minimum lease payments to be received in the future are \$2,657 and unearned lease revenue at June 30, 2014 was \$1,130.

Future minimum lease payments to be received are indicated in the following table.

Fiscal year ending June 30	
2015	\$ 449
2016	451
2017	441
2018	440
2019	306
2020-2024	543
2025-2029	13
2030-2034	9
2035-2037	5
	<hr/>
	\$ 2,657

Note 7. Compensated Absences

Changes in the liability for compensated absences are reflected in the following table.

	<u>Governmental Activities</u>
Beginning balance	\$ 8,630
Retired	(7,213)
Increase in leave balance	7,249
Ending balance	<hr/> \$ 8,666
Amount due within one year	<hr/> \$ 7,070

Compensated absences in the governmental funds are liquidated from the State Highway Fund.

Note 8. Bonds Payable

Bonds Payable for the year ended June 30, 2014 is comprised of the following amounts:

Series	Final Scheduled Maturity	Original Principal Amount	6/30/2013 Balance	Additions	Reductions	Principal Outstanding	Amount due Within One Year
Governmental Funds							
State of Kansas Highway Revenue Bonds:							
Series 1998, Refunding	09/01/13	\$ 189,195	\$ 11,465	\$ 0	\$ 11,465	\$ 0	\$ 0
Series 2002B, Refunding*	09/01/19	170,005	137,455	0	11,970	125,485	12,395
Series 2002C, Refunding*	09/01/19	150,000	121,280	0	10,550	110,730	10,945
Series 2003A, Refunding	09/01/13	164,275	46,250	0	46,250	0	0
Series 2004A	03/01/19	250,000	76,235	0	0	76,235	0
Series 2004B	09/01/24	200,000	200,000	0	0	200,000	0
Series 2004C*	09/01/24	147,000	147,000	0	0	147,000	0
Series 2009A, Refunding	09/01/20	176,680	176,680	0	0	176,680	0
Series 2010A	09/01/35	325,000	325,000	0	0	325,000	0
Series 2012A, Refunding	09/01/15	151,365	151,365	0	23,075	128,290	90,065
Series 2012B, Refunding	09/01/22	144,885	144,885	0	0	144,885	0
Series 2012C	09/01/32	200,000	200,000	0	0	200,000	0
Total before adjustments						1,634,305	113,405
Adjustments							
*Less - Bonds payable on demand						(383,215)	(23,340)
Net unamortized premium (discount)						88,916	0
Total after adjustments		\$ 1,737,615	\$ 0	\$ 103,310	\$ 1,340,006	\$ 90,065	
Proprietary Funds							
Transportation Revolving Fund							
Series 2005-TR	10/01/25	\$ 32,690	\$ 19,955	\$ 0	\$ 2,265	\$ 17,690	\$ 2,295
Series 2006-TR	10/01/26	24,755	14,485	0	1,855	12,630	1,960
Series 2009-TR	10/01/27	30,950	22,950	0	1,980	20,970	1,475
Communications System Revolving Fund							
Series 2008-CRF	04/01/23	14,200	1,387	0	191	1,196	200
Total before adjustments						\$ 52,486	
Adjustments							
Net unamortized premium (discount)						534	
Total after adjustments		\$ 58,777	\$ 0	\$ 6,291	\$ 53,020	\$ 5,930	

In August 2010, the Department issued \$325,000 Highway Revenue Bonds Series 2010A (Build America Bonds – Direct Payment to Issuer) for the purpose of paying a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. The bonds have a stated interest rate of 4.596% and maturities in fiscal years 2032 through 2036. After deducting the 32.48% Federal subsidy of interest, the net interest cost to the Department is 3.10%.

The Highway Revenue bonds are special obligations of the State, secured by and payable from a gross pledge of all revenues in the State Highway Fund (the Agency's general fund). The Transportation Revolving Fund and the Communications System Revolving Fund bonds are secured by a pledge of the revenues to be received from the loans (principal and interest) and leases which were issued as part of the revolving loan fund programs. Annual principal and interest payments on the Highway Revenue bonds are expected to require approximately 11.6% of the pledged revenue. The total principal and interest remaining to be paid on the Highway Revenue bonds is \$2,184,466. Annual principal and interest payments on the Transportation Revolving Fund and the Communications System Revolving Fund bonds are expected to require approximately 149.5% of the pledged revenue. The total principal and interest remaining to be paid on the Transportation Revolving Fund and the Communications System Revolving Fund bonds is \$64,675.

The coupon interest rate on outstanding fixed rate bonds varies from 2.25% to 5.50%. In addition, various bonds were issued as variable rate instruments whose rates change on a weekly basis. During the year, interest rates ranged from 0.02% to 0.42% on the weekly adjustable bonds.

All Highway Revenue bonds were issued pursuant to the provisions of Section 68-2314 et seq. of the Kansas Statutes Annotated and the 1992 Resolution and supplements thereto. The statutes provide that, as of July 1, 1991, the Secretary of Transportation was authorized to issue bonds in an aggregate principal amount of \$890 million. This maximum amount was reached in 1994. As of July 1, 1999, the Secretary was authorized to issue additional bonds in the aggregate principal amount of \$995 million. Effective July 1, 2001, this authority again was increased by \$277 million. With the issuance of the 2004C Series Bonds, the Department again reached the maximum amount authorized. The Statutes also provide that any bonds issued for the purpose of refunding these outstanding bonds do not count toward the limit on the aggregate principal amount of bonds authorized.

The 2010 Legislature authorized the Secretary to issue additional highway revenue bonds so long as the Secretary certifies that, as of the date of issuance of any such bonds, the maximum annual debt service on all outstanding bonds and on such bonds proposed to be issued will not exceed 18% of the revenues projected for the then-current or any future fiscal year.

Certain bonds (indicated by * in the previous table) are demand obligations and are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, various liquidity providers have agreed to purchase the bonds and hold them for a maximum of 180 days. Contracts with these liquidity providers have expiration dates ranging from September 2014 to September 2017 and require annual commitment fees ranging from 0.325% to 0.500%. The liquidity provider agreement expiring in September 2013 was extended until September 2014 with the rate decreased from 0.525% to 0.34%. Since there is not a long-term financing option in place at June 30, 2014 for bonds that have been tendered, the demand obligation bonds have been recorded as liabilities of the Capital Projects Fund resulting in a deficit fund balance in that fund. However, some bonds that were refunded after June 30, 2014 eliminated the liquidity providers. Only one liquidity provider remains after the refunding. This liquidity provider contract was extended from March 2014 to September 2017 and requires an annual commitment fee of 0.325%.

The Department has a covenant to provide annual revenues to the State Highway Fund (the agency's general fund) at least equal to 300% of the annual debt service requirement of the Highway Revenue bonds. The following chart indicates that the GAAP basis revenues, adjusted in conformity with bond covenants, as a percentage of current year's required debt service exceeds the coverage requirement.

Calculation of Revenue Bond Coverage					
Adjusted GAAP Revenues	Bond Principal	Bond Service Charges	Total	Bond Coverage	
\$ 1,502,254	\$ 103,310	\$ 47,917	\$ 151,227	993 %	

A resolution adopted by the Secretary of Transportation in anticipation of issuing the Series 1999 Bonds changed the definition of revenues to be used for the above bond coverage test. With the retirement of all pre-1999 Series bonds, the definition of adjusted revenues has been expanded to

include reimbursements received from the federal government. All pre-1999 Series bonds were retired on September 1, 2013.

Debt service requirements to the maturity of the bonds (including the demand obligation bonds), based upon the current debt service schedule, are indicated in the following schedule.

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
Governmental Funds			
2015	\$ 113,405	63,940	177,345
2016	102,670	60,284	162,954
2017	107,310	56,249	163,559
2018	108,285	52,599	160,884
2019	116,635	47,729	164,364
2020 - 2024	574,000	154,607	728,607
2025 - 2029	147,000	65,566	212,566
2030 - 2034	229,150	44,940	274,090
2035 - 2036	135,850	4,247	140,097
	\$ 1,634,305	\$ 550,161	\$ 2,184,466
Proprietary Funds			
2015	\$ 5,930	2,063	7,993
2016	5,634	1,842	7,476
2017	5,689	1,622	7,311
2018	5,194	1,403	6,597
2019	4,197	1,211	5,408
2020 - 2024	18,322	3,530	21,852
2025 - 2028	7,520	518	8,038
	\$ 52,486	\$ 12,189	\$ 64,675

For the Highway Revenue bonds, the Department is required to make monthly transfers to the Debt Service Fund equal to one-sixth of the amount due on the next semi-annual interest payment date. In addition, monthly transfers equal to one-twelfth of the principal due on the next principal payment date must be transferred to the Debt Service Fund. Accrued interest is paid on the variable rate bonds on a monthly basis. Monthly transfers are made from the State Highway Fund in amounts sufficient to meet these obligations. Debt service for the Transportation Revolving Fund bonds and the Communications System Revolving Fund bonds is accumulated from principal and interest and lease payments received from the loans and leases issued as part of the revolving loan fund programs.

Prior to June 30, 2013, the Department defeased earlier bond issues by placing funds in irrevocable trusts to provide for all future debt service on the defeased bonds. Accordingly, the trust account assets and bond liability for the defeased bonds are excluded from the Department's financial statements. The amounts of bonds considered defeased at June 30, 2014 are shown in the following table.

Bond Series	Principal Defeased
1998 Highway Revenue	\$ 12,020
Total	\$ 12,020

As of June 30, 2014, aggregate debt service requirements of the Department's variable rate debt and net receipts/payments on associated hedging derivative instruments are in the following table. This table assumes that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their entire term. However, these rates will vary. This will require interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments to also vary. Refer to Note 9 for information on derivative instruments.

Fiscal Year Ended June 30	Principal	Interest	Hedging Derivative Instruments (Net)	Total
2015	\$ 113,405	\$ 190	\$ 11,869	\$ 125,464
2016	75,225	169	8,866	84,260
2017	38,145	146	7,100	45,391
2018	39,520	122	5,911	45,553
2019	49,945	93	4,552	54,590
2020-2024	148,265	227	9,956	158,448
2025-2029	47,000	3	387	47,390
Total	<u>\$ 511,505</u>	<u>\$ 950</u>	<u>\$ 48,641</u>	<u>\$ 561,096</u>

Note 9. Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2014, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows debit (credit):

	Change in Fair Value		Fair Value at June 30, 2014		
	Classification	Amount	Classification	Amount	Notional
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ (3,093)	Debt	\$ (23,024)	\$ 435,490
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	1,084	Investment	(8,134)	75,000
Basis swap *	Investment revenue	5,506	Investment	0	0

* - Swap was terminated in FY 2014

In June 2008, the GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments. GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The Department adopted GASB 53 in Fiscal Year 2010. All derivatives are reported on the statement of net assets at fair value and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results,

the changes in fair value are either reported on the statement of net assets as a deferral or in the statement of activities as investment revenue or loss. Most derivatives are stand-alone instruments. At certain instances, as outlined in GASB 53, for those that have an additional embedded instrument (hybrid instruments), the statement calls for bifurcating and accounting for the transaction as two separate components.

In June 2011, the GASB issued Statement No. 64, an amendment of GASB 53, addressing the application of hedge accounting termination provisions. GASB 64 requires for hedge accounting to cease upon the replacement of a swap counterparty unless the counterparty has committed or experienced an act of default or a termination event as described in the swap agreement. It was applicable for periods beginning after June 15, 2011. The Department adopted GASB 64 beginning Fiscal Year 2012.

The Department engaged an independent party to perform the valuations and required tests on the swaps. Of the swaps that qualify for hedge accounting under GASB 53, the changes in fair value for this period are to be offset by a corresponding deferred inflow/outflow account on the statement of net assets.

All pay-fixed swap transactions are associated with variable debt. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed “synthetic” fixed rate debt. It is called “synthetic” because the economics are similar to fixed rate debt, but another instrument is involved unlike regular fixed rate debt. Each time the Department created “synthetic” fixed rate debt, a comparison and determination was made that the fixed rate on regular debt would have been higher than the fixed rate on the swap.

For all swaps, there are three main strategies the Department pursues with respect to each transaction. Each swap can achieve one or more of these strategies. Then as a result of execution of the derivative, its value will change with respect to how prevailing rates on each reporting period compare to when the derivative was put in place. The accumulated changes in fair value, or total fair value of all the derivatives, are a function of how prevailing interest rates and other market factors affect each transaction at each reporting period. Pursuant to GASB 53, each swap transaction is then evaluated to determine what type of accounting treatment to apply.

(i) Mitigate the effect of fluctuations in variable interest rates. This is the primary function of the swaps. The Department pays a fixed rate and receives a floating rate. In an interest rate environment whose level is generally higher than the rate at which the Department is fixed, the swap would result in a positive value to the Department. Correspondingly, a lower rate environment than the fixed rate would result in a negative value to the Department. The value primarily depends on the overall level of interest rates on the reporting date compared to what the Department pays. The overall level of long term interest rates from period to period is the primary driver of changes in value recorded from the investment derivatives where the Department pays fixed and receives a floating rate. Interest rates have trended lower since inception of the pay fixed swaps. Therefore, the mark-to-market value is generally more negative to the Department.

(ii) Reduce interest expense from expected benefit resulting from the difference between short and long term rates. This is the function of a swap where the Department receives floating amounts based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which the Department pays on the variable bonds. Therefore, when shorter term interest rates came close to, or exceeded longer term rates, the Department

entered into a swap whose receipts on the receive floating leg are based on a longer term index that is expected to outperform the payments on the Department's variable debt. Part of the fair value of this swap is determined by the prevailing level of short term versus long term rates, that is, the steepness of the yield curve. The higher the level of long term rates compared to shorter term rates, the higher the expected benefit to the Department, therefore, the higher the mark-to-market value of the swap. The Department pays a fixed rate on one of the swap transactions, therefore the other part of the value of this swap is determined by the prevailing level of interest rates compared to when the Department entered into the swap transaction. Since interest rates have trended lower since inception, the mark-to-market value will be more negative to the Department, even though the Department may be receiving a net benefit from the receipts based on the 10 Year CMS Index. Since the long term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem such transactions investment instruments.

(iii) Reduce interest expense from expected benefit resulting from the difference between tax-exempt and taxable rates. This is a function of swaps where the Department receives a percentage of 1-Month LIBOR when hedging tax-exempt variable debt, with the expectation of receiving an ongoing net benefit from paying a lower fixed rate at the time of putting on the swap transaction. The historical average ratio of 1-Month LIBOR (short-term taxable rates) versus tax-exempt rates (a direct function of tax rates) is approximately 67%. However, the ratio of long-term taxable rates and long-term tax-exempt rates is normally significantly higher than 67%. Therefore, the fixed rate payable in exchange for a smaller percentage of LIBOR will be significantly less than a long-term tax-exempt fixed rate. This reduction in fixed rate is the value of the benefit (the risk being tax rates change over the life of the percentage of LIBOR swap) or the variable rates on the Department's hedged bonds do not closely match the percentage of LIBOR variable rate on the swap. The value of such a swap is determined by the prevailing level of taxable interest rates, with no reference to tax-exempt interest rates.

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2014.

Associated Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Ratings
* Series 2002 B & C	\$200,000	\$147,632	10/23/02	9/1/2019	3.164%	67% of USD-LIBOR	(\$11,746)	Goldman Sachs Bank USA	A2/A-/A
* Series 2002 B & C	\$120,005	\$88,583	3/1/12	9/1/2019	0.8166% GASB 64 At-the-Market	67% of USD-LIBOR	(\$230)	The Bank of New York Mellon	Aa2/AA-/AA-
** Series 2012 A	\$150,275	\$127,275	5/7/12	9/1/2015	0.2254% GASB 53 At-the-Market	3.3590% Contractual; Lesser of ABR/71% of USD-LIBOR 'til 9/2010; 71% of USD-LIBOR thereafter	(\$123)	Merrill Lynch Derivative Products AG	Aa3/A+/NR
* Series 2004 C	\$147,000	\$72,000	11/23/04	9/1/2024	3.571%	63.5% of USD-LIBOR + 0.29%	(\$11,048)	Goldman Sachs Bank USA	A2/A-/A
** Series 2004 C	\$75,000	\$75,000	7/1/07	9/1/2024	3.571%	62.329% of 10 Year CMS	(\$8,011)	Goldman Sachs Bank USA	A2/A-/A
* - Considered fair value hedge							Total Fair Value	(\$31,158)	
** - Considered investment derivative									

Detailed Discussion

Objective of the swaps. In order to protect against the potential of rising interest rates, the Department has entered into five separate pay-fixed, receive-variable interest rate swaps at a cost less than what the Department would have paid to issue fixed-rate debt.

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2014, are shown in the table on the previous page. The

Department's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

2002B and C Swaps - In connection with the issuance of \$320,005 of variable-rate Series 2002B & 2002C Highway Revenue Refunding Bonds on October 3, 2002, the Department competitively bid a floating-to-fixed 67% of LIBOR interest rate swap. Goldman Sachs was awarded \$200,000 of notional principal and Salomon Smith Barney was awarded \$120,005 of notional principal. The executed transaction consisted of a \$320,005 17-year amortizing interest rate swap under which the Department pays Goldman/Citibank a fixed rate of 3.164% and receives 67% of LIBOR. The Department was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

On March 1, 2012, the Department assigned with no termination payment due to or from the Department, the Series 2002B&C swap that was with Citigroup Financial Products Inc. as counterparty to The Bank of New York Mellon, a bank counterparty with stronger credit ratings. According to GASB 64, the Department terminated hedge accounting on the swap with the prior counterparty and continues with hedge accounting on a new at-the-market swap with a fixed rate computed at prevailing interest rates on the day of termination.

2012A Swap (formerly 2008A, 2003C Swap) - In connection with the issuance of \$150,275 of variable-rate Series 2003C Highway Revenue Refunding Bonds on November 20, 2003, the Department competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$150,275 12-year amortizing floating-to-fixed interest rate swap whereby the Department pays the counterparty a fixed rate of 3.359% and receives the lesser of the Actual Bond Rate and 71% of 1-mo LIBOR until September 1, 2010 and 71% of LIBOR thereafter. The Department was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

On May 13, 2008, the Department refunded the Series 2003C Bonds with Series 2008A Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and new bonds. This can result in a hybrid instrument that consists of an at-the-market fixed rate swap with a pay fixed rate computed on the date of the refunding. The hybrid instrument has an imputed borrowing that is considered a cost of refunding and is therefore amortized over the shorter of the life of the new bonds or refunded bonds.

On May 7, 2012, the Department assigned with no termination payment due to or from the Department the Series 2008A swap that was with Citigroup Financial Products Inc. as counterparty to The Bank of New York Mellon, a bank counterparty with stronger credit ratings. According to GASB 64, the Department terminated hedge accounting on the swap with the prior counterparty and continues with hedge accounting on a new at-the-market swap with a fixed rate computed at prevailing interest rates on the day of termination.

On August 30, 2012, the Department refunded the Series 2008A Bonds with Series 2012A Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and new bonds. This can result in a hybrid instrument that consists of an at-the-market fixed rate swap with a pay fixed rate computed on the date of the refunding. The hybrid instrument has an imputed borrowing that is considered a cost of refunding and is therefore amortized over the shorter of the life of the new bonds or refunded bonds.

2004B and C Swaps - In connection with the issuance of \$147,000 of variable-rate Series 2004B and 2004C Highway Revenue Bonds on November 12, 2004, the Department competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$147,000 20-year amortizing floating-to-fixed interest rate swap whereby the Department pays the counterparty a fixed rate of 3.571% and receives 63.5% of LIBOR plus 29 basis points. The Department was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

Since many tax-exempt and municipal issuers fund capital projects with long-term traditional or synthetic fixed-rate debt, but are constrained to investing short-term for liquidity reasons, in a normal or upwardly sloped yield curve they incur “negative carry” (cost of borrowing exceeds investment rate). The Department determined that it could mitigate this imbalance through the execution of the two Constant Maturity Swaps (CMS). On June 15, 2007, based on the results of a previously distributed competitively bid request for quotes for a swap provider, the Department amended the floating index from 63.5% + 29 basis points to 62.329% of the 10-year LIBOR CMS rate on \$75,000 of the existing \$147,000 swap. This was effective July 1, 2007.

On March 11, 2014, the Department terminated a \$75,000 CMS where the Department paid a floating rate of 67% of LIBOR in exchange for receiving 61.56% of 10-year LIBOR CMS rate, with JP Morgan Chase Bank, N.A. as the counterparty. The counterparty paid the Department a termination amount of \$5,300.

Fair value. These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market’s best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

The Department has no credit risk exposure on the rest of the swap transactions because the swaps have negative fair values, meaning the counterparties are exposed to the Department in the amount of the derivatives’ fair values. However, should interest rates change and the fair values of the swaps become positive, the Department would be exposed to credit risk.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty’s credit rating fall below the applicable thresholds.

Basis risk. Basis risk is the risk that the interest rate paid by the Department on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. The Department bears basis risk on each of its swaps. The swaps have basis risk since the Department receives a percentage of LIBOR to offset the actual variable bond rate the Department pays on its bonds. The Department is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Department pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination risk. The Department or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the

time of termination the swap has a negative fair value, the Department would be liable to the counterparty for a payment equal to the swap's fair value.

Note 10. Commitments

Contractual commitments encumbered at June 30, 2014 were \$884.6 million. These contractual commitments will be funded by revenues from various Federal, State, and local sources. These revenues will be primarily in the form of matching Federal highway construction funds, motor fuel tax monies and vehicle registrations and permits. This revenue is expected to be received in time to meet cash requirements as the obligations become due.

Note 11. Contingent Liabilities

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is also a defendant in various lawsuits. In the opinion of the Department's Chief Counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the Department. In compliance with State statute, the Department retains the risk of loss and the liability for claims, other than those covered by commercial vehicle liability. Settlements did not exceed coverage in any of the last three years.

In addition, the Department participates in the State's Workers Compensation Self-Insurance Fund (the Fund). The Department pays a premium to the State for coverage under the Fund. For calendar year 2014, the Department's contribution rate is 2.756% of covered payroll. The State retains all the risk of loss related to the Fund.

Any uninsured losses are accounted for in the State Highway Fund (the agency's general fund). Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated based on historic experience and counsel's legal opinion.

At June 30, 2014, the amount of these liabilities included in accounts payable of the government-wide Statement of Net Position was \$10,122 and is the Department's best estimate based on available information. Changes in the reported liability since June 30, 2013, resulted from the following:

Fiscal Year	Beginning Liability	Current Claims and			Ending Liability
		Changes in Estimates	Claims Paid		
2013	17,012	8,552	97	25,467	
2014	25,467	(14,900)	445	10,122	

Note 12. Pension Plan

A. Pension plan description - The Department participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit plan (the Plan). The Plan provides retirement and disability benefits as well as life insurance benefits to its members and their beneficiaries. Benefits are defined by statutory formula. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Kansas Public Employees Retirement System, 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803 or by calling 1-888-275-5737.

B. Pension plan funding policy – As of June 30, 2014, plan members are required to contribute 5% if hired before July 1, 2009 or 6% if hired after July 1, 2009 of their annual covered salary and the Department is required to contribute at a statutorily determined rate. The statutory rate for FY 2014 was 11.12%. The contribution requirements of Plan members and the Department are established by statute. The Department’s contributions to KPERS for the years ended June 30, 2014, 2013, 2012, were \$11.5 million, \$11.0 million, and \$10.7 million, respectively, and were equal to 100% of the required contributions for each year.

The contributions for plan members hired before July 1, 2009 has changed during Fiscal Year 2014 in accordance with the 2012 HB (Sub House Bill) 2333. The following table provides a summary of the changes in the contributions for the plan members hired before July 1, 2009:

Date	Contribution Rate
Before January 1, 2014	4%
January 1, 2014	5%
January 1, 2015	6%

Note 13. Other Postemployment Healthcare Benefits

A. Plan description - As a department of the State of Kansas, the Department participates in the State’s health insurance benefit plan. Kansas statutes provide that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements. The health insurance benefit generally provides the same coverage for retirees and their dependents as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Department of Health and Environment. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. Non-Medicare participants are subsidized by the State, thus resulting in a liability to the Department. Accounting for the health insurance benefits for retirees is included in the State’s Self-Insurance Health fund, with the subsidy provided from the Self-Insurance Health fund.

B. Funding policy – The State provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 75-6511). Kansas statutes, which may be amended by the State Legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs. In August 2011, the State announced a Voluntary Retirement Incentive Program (VRIP) which was intended to generate salary and benefit savings. The program offered to pay either: a one-time lump sum payment of \$6,500 to an employee, the employer’s share of Post-Retirement Group Health Insurance Coverage member-only coverage for the lesser of 60 months or until the employee reaches age 65, or to pay the employer’s share of Post-Retirement Group Health Insurance Coverage for member-plus-

dependent coverage for 42 months. The Department is responsible for paying the employer's share of health coverage applicable to 128 retirees. The dollar amount of subsidy for 2014 is \$582.92 (dollar amount not in thousands) for single coverage and \$852.72 (dollar amount not in thousands) for member-plus-dependent coverage. However, the Department made a lump sum payment of \$1,096 for the amount remaining related to the VRIP in FY 2014. Therefore, no changes to employee data and plan assumptions related to the VRIP were included in the most recent actuarial valuation since it has been paid in full.

The State does not pay retiree benefits directly. They are paid implicitly over time through employer subsidization of active premiums that would be lower if retirees were not part of the experience group.

C. Annual OPEB cost and net OPEB obligation – The Department's annual OPEB (Other Post-Employment Benefits) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the Department's annual OPEB cost for the year, the amount contributed to the plan, and changes in the net OPEB obligation.

Annual required contribution:	
Amortization of unfunded actuarial accrued liability (UAAL)	\$ 1,410
Normal cost (with interest)	<u>1,053</u>
Annual required contribution (ARC) - Annual OPEB Cost	2,463
Interest on Net OPEB Obligation	459
Adjustment to the ARC	(677)
Annual OPEB Cost	<u>\$ 2,245</u>
Claims and Admin Paid on Behalf of Retirees	2,737
Contributions made	<u>(1,390)</u>
Net Employer Contributions	<u>\$ 1,347</u>
Other post employment benefits obligations at July 1, 2013	11,926
Annual OPEB Cost	2,245
Net Employer Contributions	<u>(1,347)</u>
Other post employment benefits obligations at June 30, 2014	<u>\$ 12,824</u>

Schedule of Employer Contributions (for the fiscal year ended June 30)

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2012	2,781	2,398	86%	11,139
2013	2,657	1,870	70%	11,926
2014	2,245	1,347	60%	12,824

D. Funded status and funding progress - As of June 30, 2014 (the most recent actuarial valuation date), the actuarial accrued liability for benefits was \$25,329. The Department's policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$25,329. The covered payroll (annual payroll of active employees covered by the plan) was \$104,484, and the ratio of the UAAL to the covered payroll was 24%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. The actuarial assumptions do not include increases in projected salary and post-retirement benefits. Amounts determined regarding the funded status of the plan and the annual required contributions of employers are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress presented as Required Supplementary Information presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

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

These assumptions include the Level Dollar Amortization Method and Level Percentage of Projected Payroll Amortization Method. With the Level Dollar Amortization Method methods, the dollar amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time. In the Level Percentage of Projected Payroll Amortization Method, amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases (e.g., due to inflation); in dollars adjusted for inflation, the payments can be expected to remain level.

In the June 30, 2014 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85% discount (inflation) rate and a 3.85% investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 7.75% in 2014 decreasing to 5% in 2026. The UAAL is being amortized over a 30 year open period in level dollar amounts. The valuation assumes no increase in salary benefit or cost-of-living (post-retirement benefits) adjustments.

The employer contribution, according to GASB 45, is the aggregate amount of the subsidies, which is calculated into the employer contribution for active employees.

Note 14. Relationship with Other State Agencies

The Kansas Department of Administration, the Office of the State Treasurer, the Pooled Money Investment Board, the Department of Revenue, the Kansas Development Finance Authority and the Department of Corrections provide services to the Department. Charges for their services are reflected as expenditures in the financial statements. The Department also participates in projects with the Kansas Turnpike Authority and works with the Department of Health and Environment, the Department of Agriculture and the State Historical Society to assure that projects comply with statutory and regulatory requirements.

The Kansas Highway Patrol (KHP) and the Department share certain facilities throughout the State. The Department also provides some support services to the KHP. Transactions relevant to these joint facilities and support services, other than the Motor Carrier Inspection Program discussed in Note 4, are reflected in the revenues and expenditures in the financial statements.

Note 15. Subsequent Events

In July 2014, the Department issued Highway Revenue Bonds Series 2014A, in the amount of \$250,000. The bonds were issued as premium bonds with interest rates of 5.0% and annual maturities from September 2025 to September 2030. The proceeds generated from the sale will be used to fund the design and construction of highway infrastructure.

In August 2014, the Department issued Highway Revenue Refunding Index Bonds Series 2014B, in the amount of \$212,875. The purpose of these bonds was to refund the Series 2002B&C Bonds. The Series 2014B Bonds were issued in adjustable interest rate mode with interest rates determined on a monthly basis at 67% of the One-Month LIBOR Rate plus the applicable spread. Spreads to the 67% of the One-Month Libor Rate range from -0.01% to 0.40% and maturities of the Series 2014B Bonds range from September 2015 to September 2019. The 2014B series bonds replaced the liquidity providers that would have expired in September 2014. Refer to Note 8 for information on the bonds payable liquidity provider agreements.

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Required Supplementary Information

**Kansas Department of Transportation
Required Supplementary Information
For the Year Ended June 30, 2014**

Information needed to support the use of the Modified Approach for Infrastructure Reporting:

Roadway Pavement

The highway pavement in the state is made up of two systems: Interstate Highways and Non-interstate Highways. Roadway Pavement is also referred to as Roadways. The condition of these systems is assessed annually using a Pavement Management System that measures the condition of the pavement surface. The Pavement condition is a combined score based on three factors: roughness (measured as International Roughness Index or IRI), joint distress in concrete or transverse cracking in asphalt, and faulting in concrete or rutting in asphalt. The road pavement surface condition is classified into the following three performance levels:

- PL-1 Roadway surface is in good condition and needs only routine or light preventative maintenance.
- PL-2 Roadway surface needs at least routine maintenance.
- PL-3 Roadway surface is in poor condition and needs significant work.

The Department has goals to maintain these systems at levels higher than the minimum acceptable condition. The cost to repair or replace deteriorated pavement far exceeds the cost to maintain pavement that is already in good condition; so maintaining our pavement at levels above our minimum acceptable condition requires a pavement management strategy that accounts for life-cycle costs. In fiscal year 2012, the Department decided to raise the minimum acceptable condition level to be more in line with its goals. The Department has redefined the minimum acceptable condition level as having at least 85 percent of the Interstate miles in PL-1 and at least 80 percent of the Non-interstate miles in PL-1. The following table compares the minimum acceptable condition level with the actual condition for the current and prior years.

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum Acceptable Condition Level*	Actual Condition Level*	Minimum Acceptable Condition Level*	Actual Condition Level*
2012	85	98	80	83
2013	85	96	80	83
2014	85	98	80	89

* - Percent of miles in PL-1

The Department's goal is to continually maintain and improve the condition of the State Highway System. To achieve this goal it is necessary to perform maintenance activities and replace those assets that can no longer be economically maintained. The Department concentrates resources on items that are measured. To maintain the Interstate Highways at or above the stated minimum condition level, it was estimated that annual preservation and replacement expenditures must exceed \$90 million in fiscal year 2014. To maintain the Non-interstate Highways at or above the stated minimum condition level, it was estimated that annual preservation and replacement

expenditures must exceed \$223 million in fiscal year 2014. The estimated expenditure amounts are based on the projected T-WORKS program funding levels for preservation that are anticipated to be needed to maintain the system. The actual expenses are based on these project expenditures during the fiscal year. The following table compares the estimated expenditures needed to maintain the system at a minimum acceptable condition level with actual amounts spent for the current and prior years.

Fiscal Year	Interstate Highways		Non-interstate Highways	
	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Condition Level*	Actual Expenses*	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Condition Level*	Actual Expenses*
2010	110,000	54,807	260,000	335,108
2011	110,000	57,550	260,000	395,726
2012	84,000	112,600	208,000	442,608
2013	87,000	119,170	215,000	412,050
2014	90,000	126,485	223,000	375,772

* - amounts in \$1,000

Bridges

Federal law (Title 23 CFR 650) requires that each bridge be inspected at least every 24 months. Bridge condition data for key elements (deck, girders, floor beams, columns, etc.) are collected during these inspections and stored within the Department's Bridge Management System. Each element is given a score based on its condition. These element scores are then weighted and aggregated to establish an overall Bridge Health Index (BHI) which ranges from 0 to 100. A BHI of 100 denotes a bridge that is in "like-new" condition.

Prior to 2012, KDOT Bridge Management's Performance Metric was the Average Health Index of all the bridges on the State system. In 2012, the Bridge Performance Measure for the Department was officially changed to reflect Bridge Management's decision making processes for bridge replacements, rehabilitations and repairs. The current Performance Metric is the percent of state-owned bridges in Good Condition, with the condition state of a bridge being defined as follows:

- Good Condition: $BHI \geq 88$
- Fair Condition: $75 \leq BHI < 88$
- Deteriorated Condition: $BHI < 75$

The table below compares the actual percentage of bridges in good condition to the minimum acceptable percent of bridges in good condition. The Average Health Index is also included in the table because it was the Performance Metric prior to 2012.

The minimum acceptable percentage of bridges in good health has been redefined to an overall state-wide condition level of 85 as the minimum acceptable condition level. This table compares

the minimum acceptable percentage of bridges in good health with the actual measure of bridges in good health for the current and prior years.

Fiscal Year	Minimum Acceptable Condition Level	Actual Condition Level	Average Health Index
2012	85	88	95
2013	85	88	95
2014	85	87	95

The Department's goal is to continually improve the condition of the State's bridge system. To achieve this goal, it is necessary to perform maintenance activities and to replace those bridges that can no longer be economically maintained. To maintain the State's bridges at or above the stated minimum acceptable percentage of bridges in good condition, it is estimated that annual preservation and replacement expenditures must be approximately \$78 million for fiscal year 2014. The following table compares the estimated annual expenditures with the actual expenditures for the current and prior years.

Fiscal Year	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable % Bridges in Good Condition*	Actual Expenses*
2010	75,000	29,219
2011	75,000	69,620
2012	73,000	87,890
2013	76,000	82,046
2014	78,000	92,372

*- amounts in \$1,000

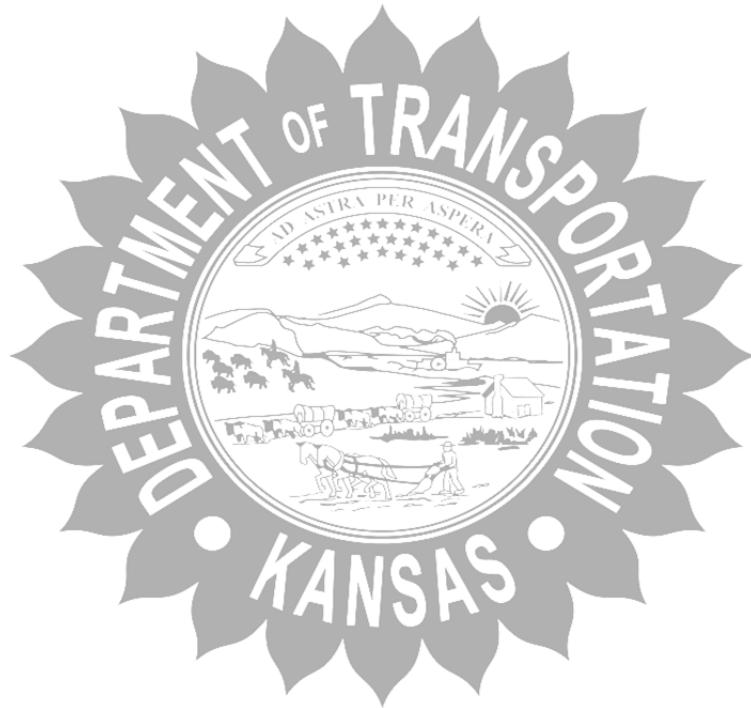
Required Supplementary Information

Information related to Other Post Employment benefits (amounts in thousands):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial			Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
	Actuarial Value of Assets (a)	Accrued Liability (AAL) (b)	Unfunded AAL (b-a)			
06/30/12	0	31,493	31,493	0%	113,204	28%
06/30/13	0	29,595	29,595	0%	109,460	27%
06/30/14	0	25,329	25,329	0%	104,484	24%

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Combining and Individual Fund Statements and Schedules

Governmental Funds

KANSAS DEPARTMENT OF TRANSPORTATION

Nonmajor Governmental Funds

Special Revenue Funds are used to account for particular Department activities created by receipt of grants or designated revenues:

Rail Service Improvement Fund – The purpose of this fund is to facilitate the financing, acquisition, or rehabilitation of railroads in the State.

Interagency Motor Vehicle Fuel Sales Fund – The purpose of this fund is to account for the monies generated from the sale of motor vehicle fuels to other state agencies.

Traffic Records Enhancement Fund – The purpose of this fund is to enhance and upgrade the traffic records system.

Public Use General Aviation Airport Development Fund – The purpose of this fund is to administer a grant program for planning, constructing, reconstructing or rehabilitating the facilities of public use general aviation airports in the State.

Other Special Revenue Funds – This is the combination of 4 funds:

North Central Kansas Air Passenger Service Support Fund – The purpose of this fund is to provide funding for air passenger service support agreements with the Manhattan Area Chamber of Commerce, Inc. and airlines providing air passenger service at the Manhattan regional airport.

Coordinated Public Transportation Assistance Fund – The purpose of this fund is to provide financial assistance to transportation systems that provide coordinated transportation services to elderly persons, persons with disabilities and the general public.

Municipal University Forensic Laboratory Fund – The purpose of this fund is provide funding to Washburn University to design, construct, and equip a new forensic science laboratory, parking, and other related premises at Washburn University for use by the Kansas Bureau of Investigation.

Other Federal Grants Fund – The purpose of this fund is to receive federal grants other than those received on an on-going basis for highway construction.

Kansas Department of Transportation
 Combining Balance Sheet
 Nonmajor Governmental Funds
 June 30, 2014
 (amounts in thousands)

	Special Revenue Funds							
	Rail Service Improvement	Interagency Motor Vehicle Fuel Sales	Traffic Records Enhancement	Public Use General Aviation Airport Development	Other Special Revenue Funds	Total Nonmajor Governmental Funds		
ASSETS								
Cash:								
Unrestricted	\$ 8,524	\$ 191	\$ 1,045	\$ 4,026	\$ 15,469	\$ 29,255		
Restricted	0	0	0	0	0	0		
Investments, at fair value:								
Unrestricted	0	0	0	0	0	0		
Restricted	0	0	0	0	0	0		
Receivables:								
Federal Aid	0	0	0	0	0	0		
Accrued interest	1	0	0	0	0	1		
Loans and other	1,105	0	0	0	0	1,105		
Materials and supplies								
Long-term receivables:								
Loans and other	4,153	0	0	0	0	4,153		
Total assets	<u>\$ 13,783</u>	<u>\$ 191</u>	<u>\$ 1,045</u>	<u>\$ 4,026</u>	<u>\$ 15,469</u>	<u>\$ 34,514</u>		
LIABILITIES AND FUND BALANCES								
Liabilities:								
Vouchers payable	\$ 383	\$ 0	\$ 7	\$ 23	\$ 934	\$ 1,347		
Deferred revenue	0	0	0	0	0	0		
Due to state funds	0	0	0	0	0	0		
Retainage payable	0	0	0	0	0	0		
Bonds payable on demand	0	0	0	0	0	0		
Accrued salaries and wages	0	0	0	0	0	0		
Due to department funds	0	0	0	0	0	0		
Total liabilities	<u>383</u>	<u>0</u>	<u>7</u>	<u>23</u>	<u>934</u>	<u>1,347</u>		
Fund balances:								
Nonspendable:								
Long-term receivables	4,153	0	0	0	0	4,153		
Restricted for:								
Other purposes	9,247	191	1,038	4,003	14,535	29,014		
Total fund balances	<u>13,400</u>	<u>191</u>	<u>1,038</u>	<u>4,003</u>	<u>14,535</u>	<u>33,167</u>		
Total liabilities and fund balances	<u>\$ 13,783</u>	<u>\$ 191</u>	<u>\$ 1,045</u>	<u>\$ 4,026</u>	<u>\$ 15,469</u>	<u>\$ 34,514</u>		

Kansas Department of Transportation
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
 Nonmajor Governmental Funds
 For the Year Ended June 30, 2014
 (amounts in thousands)

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Rail Service Improvement	Interagency Motor Vehicle Fuel Sales	Traffic Records Enhancement	Public Use General Aviation Airport Development	Other Special Revenue Funds		
Revenues							
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0	0	0	0
Operating grants	3,853	0	0	0	3,967		7,820
Capital grants	0	0	0	0	0		0
Sales and use taxes	0	0	0	0	0		0
Investment earnings	127	0	0	0	0		127
Other	0	2,001	397	0	8		2,406
Appropriations from other state funds	0	0	0	0	0		0
Total revenues	3,980	2,001	397	0	3,975		10,353
Expenditures							
Current operating:							
Maintenance	0	2,013	0	0	0		2,013
Communications system	0	0	0	0	0		0
Construction	0	0	0	0	0		0
Local support	0	0	306	0	0		306
Rail, air and public transportation	5,040	0	0	3,352	11,060		19,452
Management	0	0	0	0	250		250
Debt service:							
Principal	0	0	0	0	0		0
Interest and fees	0	0	0	0	0		0
Transfers to other state funds	0	0	0	0	3,500		3,500
Total expenditures	5,040	2,013	306	3,352	14,810		25,521
Excess (deficiency) of revenues over expenditures	(1,060)	(12)	91	(3,352)	(10,835)		(15,168)
Other financing sources (uses)							
Transfers-in	5,000	0	0	5,000	14,500		24,500
Transfers-out	0	0	0	0	0		0
Total other financing sources (uses)	5,000	0	0	5,000	14,500		24,500
Net changes in fund balances	3,940	(12)	91	1,648	3,665		9,332
Fund balances - beginning of year	9,460	203	947	2,355	10,870		23,835
Fund balances - end of year	\$ 13,400	\$ 191	\$ 1,038	\$ 4,003	\$ 14,535		\$ 33,167

Kansas Department of Transportation
 Schedule of Revenues, Expenditures and Other Financing Sources (Uses)
 Rail Service Improvement Fund
 Budget and Actual -- Budgetary Basis
 For the Fiscal Year Ended June 30, 2014
 (amounts in thousands)

	Budgeted Amounts			Variance with <u>Final Budget</u>
	Original	Final	Actual	Positive (Negative)
Revenues:				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0
Intergovernmental	0	0	3,852	3,852
Sales and use taxes	0	0	0	0
Investment earnings	189	129	123	(6)
Other	1,050	990	1,000	10
Transfers from other state funds	0	0	0	0
Total revenues	1,239	1,119	4,975	3,856
 Expenditures, with legal limits:				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, with legal limits	0	0	0	0
 Expenditures, without legal limits:				
Current operating:				
Maintenance	0	0	0	0
Local support	5,000	5,812	3,221	2,591
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, without legal limits	5,000	5,812	3,221	2,591
Total expenditures	5,000	5,812	3,221	2,591
 Excess (deficiency) of revenues over expenditures	(3,761)	(4,693)	1,754	6,447
 Other financing sources (uses):				
Transfers-in	5,000	5,000	5,059	59
Transfers-out	0	0	(11)	(11)
Total other financing sources (uses)	5,000	5,000	5,048	48
 Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ 1,239	\$ 307	6,802	\$ 6,495
 Explanation of the differences between Budgetary Basis and GAAP Basis reporting				
Budgetary basis revenues are adjusted to GAAP basis			(995)	
Budgetary basis expenditures adjusted to GAAP basis			2,623	
Expenditures on prior year encumbrances are not reported for budgetary reporting			(6,345)	
Current year encumbrances are reported as expenditures for budgetary reporting purposes			1,855	
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis			\$ 3,940	

Kansas Department of Transportation
 Schedule of Revenues, Expenditures and Other Financing Sources (Uses)
 Interagency Motor Vehicle Fuel Sales Fund
 Budget and Actual -- Budgetary Basis
 For the Fiscal Year Ended June 30, 2014
 (amounts in thousands)

	Budgeted Amounts			Variance with <u>Final Budget</u> Positive (Negative)
	Original	Final	Actual	
Revenues:				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0
Intergovernmental	0	0	0	0
Sales and use taxes	0	0	0	0
Investment earnings	0	0	0	0
Other	1,500	1,500	2,001	501
Transfers from other state funds	0	0	0	0
Total revenues	<u>1,500</u>	<u>1,500</u>	<u>2,001</u>	<u>501</u>
Expenditures, with legal limits				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local Support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, with legal limits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures, without legal limits:				
Current operating:				
Maintenance	1,500	1,500	2,021	(521)
Local support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, without legal limits	<u>1,500</u>	<u>1,500</u>	<u>2,021</u>	<u>(521)</u>
Total expenditures	<u>1,500</u>	<u>1,500</u>	<u>2,021</u>	<u>(521)</u>
Excess (deficiency) of revenues over expenditures	<u>0</u>	<u>0</u>	<u>(20)</u>	<u>(20)</u>
Other financing sources (uses):				
Transfers-in	0	0	0	0
Transfers-out	0	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ 0</u>	<u>\$ 0</u>	<u>(20)</u>	<u>\$ (20)</u>
Explanation of the differences between Budgetary Basis and GAAP Basis reporting				
Current year encumbrances are reported as expenditures for budgetary reporting purposes			8	
Expenditures on prior year encumbrances are not reported for budgetary reporting			0	
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis			<u>\$ (12)</u>	

Kansas Department of Transportation
 Schedule of Revenues, Expenditures and Other Financing Sources (Uses)
 Traffic Records Enhancement Fund
 Budget and Actual -- Budgetary Basis
 For the Fiscal Year Ended June 30, 2014
 (amounts in thousands)

	Budgeted Amounts			Actual	Variance with Final Budget
	Original	Final	Positive (Negative)		
Revenues:					
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0	0
Intergovernmental	0	0	0	0	0
Sales and use taxes	0	0	0	0	0
Investment earnings	0	0	0	0	0
Other	836	450	397	(53)	
Transfers from other state funds	0	0	0	0	
Total revenues	<u>836</u>	<u>450</u>	<u>397</u>	<u>(53)</u>	
 Expenditures, with legal limits					
Current operating:					
Maintenance	0	0	0	0	0
Construction	0	0	0	0	0
Local support	0	0	0	0	0
Management	0	0	0	0	0
Capital improvements	0	0	0	0	0
Transfers to other state funds	0	0	0	0	
Total expenditures, with legal limits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
 Expenditures, without legal limits:					
Current operating:					
Maintenance	0	0	0	0	0
Local support	836	836	503	333	
Management	0	0	0	0	0
Capital improvements	0	0	0	0	0
Transfers to other state funds	0	0	0	0	
Total expenditures, without legal limits	<u>836</u>	<u>836</u>	<u>503</u>	<u>333</u>	
Total expenditures	<u>836</u>	<u>836</u>	<u>503</u>	<u>333</u>	
 Excess (deficiency) of revenues over expenditures					
	<u>0</u>	<u>(386)</u>	<u>(106)</u>	<u>280</u>	
 Other financing sources (uses):					
Transfers-in	0	0	0	0	0
Transfers-out	0	0	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
 Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>0</u>	\$ <u>(386)</u>	\$ <u>(106)</u>	\$ <u>280</u>	
 Explanation of the differences between Budgetary Basis and GAAP Basis reporting					
Current year encumbrances are reported as expenditures for budgetary reporting purposes			230		
Expenditures on prior year encumbrances are not reported for budgetary reporting			(33)		
Budgetary expenditures have been adjusted for GAAP basis adjustments			(0)		
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis			\$ <u>91</u>		

Kansas Department of Transportation
 Schedule of Revenues, Expenditures and Other Financing Sources (Uses)
 Public Use General Aviation Airport Development Fund
 Budget and Actual -- Budgetary Basis
 For the Fiscal Year Ended June 30, 2014
 (amounts in thousands)

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0
Intergovernmental	0	0	0	0
Sales and use taxes	0	0	0	0
Investment earnings	0	0	0	0
Other	0	0	0	0
Transfers from other state funds	0	0	0	0
Total revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures, with legal limits:				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, with legal limits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures, without legal limits:				
Current operating:				
Maintenance	0	0	0	0
Local support	5,000	6,500	5,620	880
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, without legal limits	<u>5,000</u>	<u>6,500</u>	<u>5,620</u>	<u>880</u>
Total expenditures	<u>5,000</u>	<u>6,500</u>	<u>5,620</u>	<u>880</u>
Excess (deficiency) of revenues over expenditures	<u>(5,000)</u>	<u>(6,500)</u>	<u>(5,620)</u>	<u>880</u>
Other financing sources (uses):				
Transfers-in	5,000	5,000	5,000	0
Transfers-out	0	0	0	0
Total other financing sources (uses)	<u>5,000</u>	<u>5,000</u>	<u>5,000</u>	<u>0</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ 0</u>	<u>\$ (1,500)</u>	<u>(620)</u>	<u>\$ 880</u>
Explanation of the differences between Budgetary Basis and GAAP Basis reporting				
Current year encumbrances are reported as expenditures for budgetary reporting purposes			3,029	
Expenditures on prior year encumbrances are not reported for budgetary reporting			(789)	
Budgetary expenditures have been adjusted for GAAP basis adjustments			28	
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	<u>\$ 1,648</u>			

Kansas Department of Transportation
 Schedule of Revenues, Expenditures and Other Financing Sources (Uses)
 Other Special Revenue Funds
 Budget and Actual -- Budgetary Basis
 For the Fiscal Year Ended June 30, 2014
 (amounts in thousands)

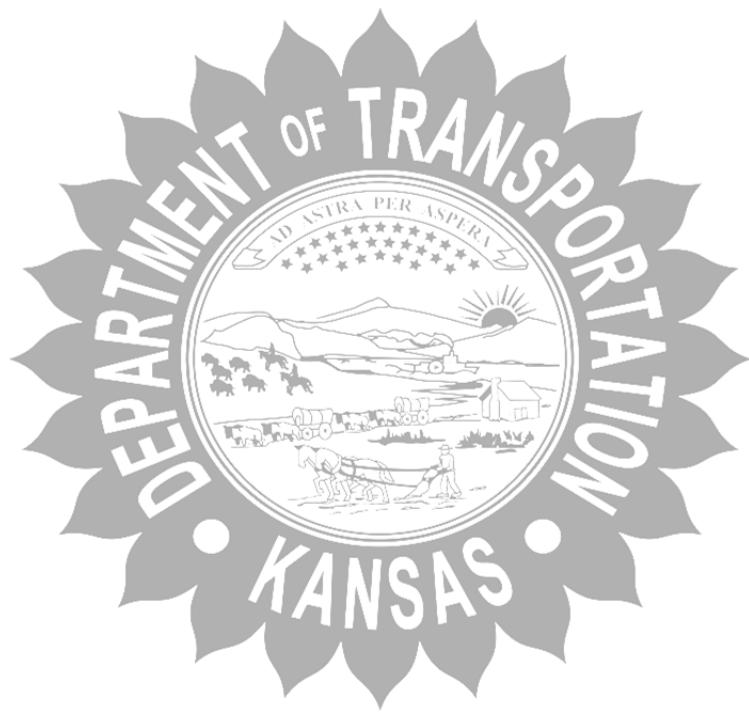
	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues:				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0
Intergovernmental	12,619	2,941	3,967	1,026
Sales and use taxes	0	0	0	0
Investment earnings	0	0	0	0
Other	0	0	0	0
Transfers from other state funds	0	0	8	8
Total revenues	<u>12,619</u>	<u>2,941</u>	<u>3,975</u>	<u>1,034</u>
 Expenditures, with legal limits				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local Support	0	0	0	0
Management	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, with legal limits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Expenditures, without legal limits:				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	10	(10)
Local support	23,365	17,975	12,128	5,847
Management	3,824	386	3	383
Transfers to other state funds	0	3,500	3,500	0
Total expenditures, without legal limits	<u>27,189</u>	<u>21,861</u>	<u>15,641</u>	<u>6,220</u>
Total expenditures	<u>27,189</u>	<u>21,861</u>	<u>15,641</u>	<u>6,220</u>
 Excess (deficiency) of revenues over expenditures	<u>(14,570)</u>	<u>(18,920)</u>	<u>(11,666)</u>	<u>7,254</u>
 Other financing sources (uses):				
Transfers-in	14,500	14,500	14,500	0
Transfers-out	0	0	0	0
Total other financing sources (uses)	<u>14,500</u>	<u>14,500</u>	<u>14,500</u>	<u>0</u>
 Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (70)</u>	<u>\$ (4,420)</u>	<u>2,834</u>	<u>\$ 7,254</u>

Explanation of the differences between Budgetary Basis and GAAP Basis reporting

Current year encumbrances are reported as expenditures for budgetary reporting purposes	3,317
Expenditures on prior year encumbrances are not reported for budgetary reporting	(927)
Budgetary expenditures have been adjusted for GAAP basis adjustments	(1,559)
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	<u>\$ 3,665</u>

Kansas Department of Transportation
 Schedule of Revenues, Expenditures and Other Financing Sources (Uses)
 Highway Bond Debt Service Fund
 Budget and Actual -- Budgetary Basis
 For the Fiscal Year Ended June 30, 2014
 (amounts in thousands)

	Budgeted Amounts			Variance with Final Budget	
	Original	Final	Actual	Positive (Negative)	
Revenues:					
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0	0
Vehicle registrations, fees, and permits	0	0	0	0	0
Intergovernmental	0	0	0	0	0
Sales and use taxes	0	0	0	0	0
Investment earnings	240	136	80	(56)	
Other	0	0	0	0	0
Transfers from other state funds	0	0	0	0	0
Total revenues	<u>240</u>	<u>136</u>	<u>80</u>	<u>(56)</u>	
Expenditures, with legal limits:					
Current operating:					
Maintenance	0	0	0	0	0
Construction	0	0	0	0	0
Local support	0	0	0	0	0
Management	0	0	0	0	0
Capital improvements	0	0	0	0	0
Transfers to other state funds	0	0	0	0	0
Expenditures with legal limits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	
Expenditures, without legal limits:					
Current operating:					
Maintenance	0	0	0	0	0
Local support	0	0	0	0	0
Management	0	0	0	0	0
Capital improvements	0	0	0	0	0
Principal on debt	103,310	103,310	103,310	0	
Interest and fees on debt	79,959	75,154	63,201	11,953	
Transfers to other state funds	0	0	0	0	0
Expenditures without legal limits	<u>183,269</u>	<u>178,464</u>	<u>166,511</u>	<u>11,953</u>	
Total expenditures	<u>183,269</u>	<u>178,464</u>	<u>166,511</u>	<u>11,953</u>	
Excess (deficiency) of revenues over expenditures	<u>(183,029)</u>	<u>(178,328)</u>	<u>(166,431)</u>	<u>11,897</u>	
Other financing sources (uses):					
Transfers-in	196,282	185,312	178,051	(7,261)	
Transfers-out	0	0	(131)	(131)	
Total other financing sources (uses)	<u>196,282</u>	<u>185,312</u>	<u>177,920</u>	<u>(7,392)</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ 13,253</u>	<u>\$ 6,984</u>	<u>11,489</u>	<u>\$ 4,505</u>	
Explanation of the differences between Budgetary Basis and GAAP Basis reporting					
Budgetary basis revenues adjusted to GAAP basis				48	
Budgetary expenditures have been adjusted for GAAP basis reporting				(89)	
Expenditures on prior year encumbrances are not reported for budgetary reporting				(55)	
Current year encumbrances are reported as expenditures for budgetary reporting purposes				<u>693</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis				<u>\$ 12,086</u>	



Combining Fund Statement

Agency Funds

KANSAS DEPARTMENT OF TRANSPORTATION

Agency Funds are used to administer resources received and held by the Department as the agent for others. The use of these funds facilitates the discharge of responsibilities placed upon the Department by virtue of law or other authority.

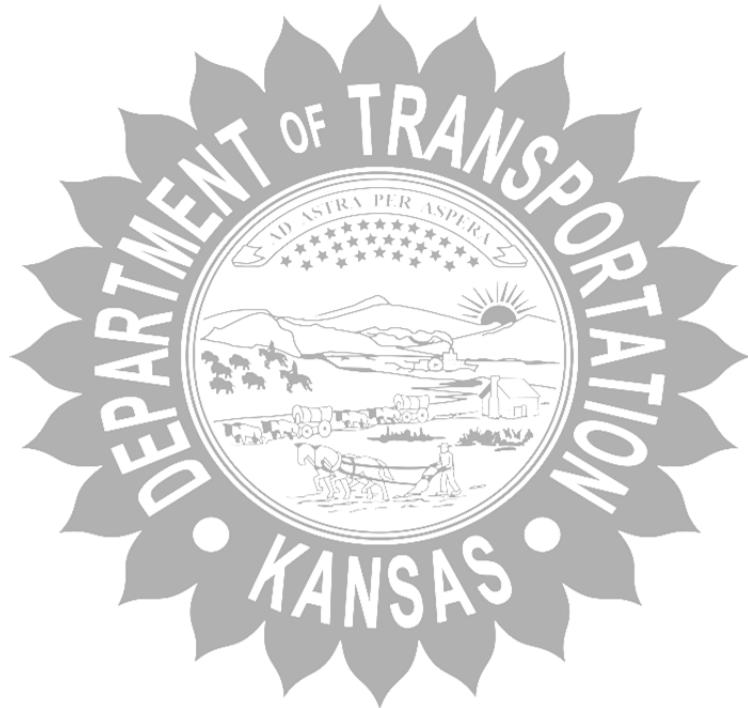
Special City and County Highway Fund – This fund receives a portion of the motor fuel tax revenues, subsequent to refunds and a deposit of \$3.5 million to the Kansas Qualified Agricultural Ethyl Alcohol Producers Incentive Fund, and all motor carrier property tax revenues. These revenues are distributed to the various cities and counties in the state for the financing of county roads and city street construction and maintenance.

County Equalization and Adjustment Fund – The purpose of this fund is to assure that after distribution of the receipts of the Special City and County Highway Fund, each county receives in total at least the amount received from that fund and this fund in fiscal year 1999.

Kansas Department of Transportation
 Combining Statement of Changes in Assets and Liabilities
 Agency Funds
 For the Fiscal Year ended June 30, 2014
 (amounts in thousands)

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014
<u>Special City and County Highway Fund</u>				
Assets:				
Cash	\$ 33,934	\$ 147,750	\$ (145,214)	\$ 36,470
Receivables	<u>12,394</u>	<u>13,759</u>	<u>(12,394)</u>	<u>13,759</u>
Total assets	<u><u>\$ 46,328</u></u>	<u><u>\$ 161,509</u></u>	<u><u>\$ (157,608)</u></u>	<u><u>\$ 50,229</u></u>
Liabilities:				
Due to cities and counties	\$ 46,328	\$ 161,509	\$ (157,608)	\$ 50,229
Total liabilities	<u><u>\$ 46,328</u></u>	<u><u>\$ 161,509</u></u>	<u><u>\$ (157,608)</u></u>	<u><u>\$ 50,229</u></u>
<u>County Equalization and Adjustment Fund</u>				
Assets:				
Cash	\$ 10	\$ 2,500	\$ (2,500)	\$ 10
Total assets	<u><u>\$ 10</u></u>	<u><u>\$ 2,500</u></u>	<u><u>\$ (2,500)</u></u>	<u><u>\$ 10</u></u>
Liabilities:				
Due to cities and counties	\$ 10	\$ 2,500	\$ (2,500)	\$ 10
Total liabilities	<u><u>\$ 10</u></u>	<u><u>\$ 2,500</u></u>	<u><u>\$ (2,500)</u></u>	<u><u>\$ 10</u></u>
<u>Totals</u>				
Assets:				
Cash	\$ 33,944	\$ 150,250	\$ (147,714)	\$ 36,480
Receivables	<u>12,394</u>	<u>13,759</u>	<u>(12,394)</u>	<u>13,759</u>
Total assets	<u><u>\$ 46,338</u></u>	<u><u>\$ 164,009</u></u>	<u><u>\$ (160,108)</u></u>	<u><u>\$ 50,239</u></u>
Liabilities:				
Due to cities and counties	\$ 46,338	\$ 164,009	\$ (160,108)	\$ 50,239
Total liabilities	<u><u>\$ 46,338</u></u>	<u><u>\$ 164,009</u></u>	<u><u>\$ (160,108)</u></u>	<u><u>\$ 50,239</u></u>

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STATISTICAL SECTION

**Comprehensive Annual Financial Report
For the fiscal year ended June 30, 2014**

KANSAS DEPARTMENT OF TRANSPORTATION

Statistical Section

This part of the Comprehensive Annual Financial Report presents information as a context for understanding what the information in the financial statements, note disclosures and required supplementary information says about the Department's financial health. It is presented in five sections:

Financial trends

These four schedules contain trend information to help the reader understand how the Department's financial performance and well-being have changed over time.

Revenue capacity

These seven schedules contain information to help the reader assess the Department's most significant own-source revenue, motor fuel taxes. In addition, information regarding vehicle registrations and sales taxes are presented in compliance with bond covenant continuing disclosure requirements.

Debt capacity

These two schedules present information to help the reader assess the affordability of the Department's current level of outstanding debt and its ability to issue additional debt.

Demographic and Economic Information

These two schedules offer demographic and economic indicators to help the reader understand the environment within which the Department's financial activities take place.

Operating Information

These three schedules contain service and infrastructure data to help the reader understand how the information in the Department's financial report relates to the services the Department provides and the activities it performs.

Sources: Unless otherwise noted, the information in these schedules is derived from the CAFR for the relevant year.

Kansas Department of Transportation
Net Position by Component
 (accrual basis of accounting)
 (amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Governmental Activities:										
Invested in capital assets, net of related debt	\$ 7,884,669	\$ 8,144,626	\$ 8,593,451	\$ 8,816,278	\$ 9,425,607	\$ 9,985,914	\$ 9,921,506	\$ 10,007,187	\$ 9,932,249	\$ 10,185,136
Restricted for:										
Debt service	40,027	47,425	44,812	39,199	77,058	76,632	0	0	0	0
Other purposes	0	0	0	0	0	0	0	0	0	0
Unrestricted	832,473	740,321	632,688	663,003	484,299	275,129	640,329	299,750	493,495	584,170
Total governmental activities net assets	\$ 8,757,169	\$ 8,932,372	\$ 9,270,951	\$ 9,518,480	\$ 9,986,964	\$ 10,337,675	\$ 10,561,835	\$ 10,306,937	\$ 10,425,744	\$ 10,769,306
Business-type Activities:										
Net investments in capital assets	\$ 65	\$ 108	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Restricted for:										
Debt service	0	16,895	30,977	17,617	19,996	15,279	15,277	37,991	38,475	38,207
Unrestricted	(540)	10,684	(1,114)	15,125	13,632	18,315	44,427	21,523	22,266	22,458
Total business-type activities net assets	\$ (475)	\$ 27,687	\$ 29,863	\$ 32,742	\$ 33,628	\$ 33,594	\$ 59,704	\$ 59,514	\$ 60,741	\$ 60,665
Primary Government:										
Net investments in capital assets	\$ 7,884,734	\$ 8,144,734	\$ 8,593,451	\$ 8,816,278	\$ 9,425,607	\$ 9,985,914	\$ 9,921,506	\$ 10,007,187	\$ 9,932,249	\$ 10,185,136
Restricted for:										
Debt service	40,027	64,320	75,789	56,816	97,054	91,911	15,277	37,991	38,475	38,207
Other purposes	0	0	0	0	0	0	0	0	0	0
Unrestricted	831,933	751,005	631,574	678,128	497,931	293,444	684,756	321,273	515,761	606,628
Total	\$ 8,756,694	\$ 8,960,059	\$ 9,300,814	\$ 9,551,222	\$ 10,020,592	\$ 10,371,269	\$ 10,621,539	\$ 10,366,451	\$ 10,486,485	\$ 10,829,971

Kansas Department of Transportation
Changes in Net Position
(accrual basis of accounting)
(amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Expenses										
Governmental activities:										
Maintenance and preservation	\$ 403,474	\$ 612,346	\$ 352,974	\$ 593,645	\$ 174,670	\$ 223,473	\$ 589,587	\$ 765,233	\$ 780,005	\$ 648,197
Communications system	0	10,534	15,636	18,068	13,848	18,630	13,412	15,786	13,470	7,158
Local support	136,238	136,063	195,097	171,046	172,142	194,261	192,813	113,958	106,826	139,735
General government	151,502	141,032	161,103	157,415	215,773	352,490	331,416	382,370	195,470	309,922
Rail, air and public transportation	8,706	7,542	11,094	11,108	11,388	14,222	19,684	43,050	14,825	19,451
Interest on long-term debt	74,262	78,429	77,644	72,452	79,487	70,165	62,152	67,984	58,562	61,036
Total governmental activities expenses	<u>774,182</u>	<u>985,946</u>	<u>813,548</u>	<u>1,023,734</u>	<u>667,308</u>	<u>873,241</u>	<u>1,209,064</u>	<u>1,388,381</u>	<u>1,169,158</u>	<u>1,185,499</u>
Business-type activities:										
Transportation Revolving Fund	0	1,121	1,878	2,459	2,678	3,109	2,896	2,638	2,558	2,666
Communications system	475	24	99	222	706	1,452	533	850	1,350	217
Total business-type activities expenses	<u>475</u>	<u>987,091</u>	<u>815,525</u>	<u>1,026,415</u>	<u>670,692</u>	<u>877,802</u>	<u>1,212,493</u>	<u>1,391,869</u>	<u>1,173,066</u>	<u>1,188,382</u>
Program revenues										
Governmental activities:										
Charges for services:										
General government										
Vehicle registrations and drivers' licenses	\$ 163,760	\$ 165,573	\$ 171,575	\$ 172,353	\$ 170,256	\$ 175,291	\$ 178,492	\$ 177,649	\$ 198,120	\$ 211,644
Other	4,302	5,711	7,008	8,610	5,458	7,654	11,423	10,016	20,437	6,769
Operating grants and contributions	130,121	154,522	184,084	160,475	194,037	212,523	285,940	294,368	218,536	243,236
Capital grants and contributions	252,623	246,473	314,463	341,685	195,942	302,685	386,427	200,099	222,787	275,729
Total governmental activities program revenues	<u>550,806</u>	<u>572,279</u>	<u>677,130</u>	<u>683,123</u>	<u>565,693</u>	<u>698,153</u>	<u>862,282</u>	<u>682,132</u>	<u>659,880</u>	<u>737,378</u>
Business-type activities:										
Charges for services:										
Transportation Revolving Fund	0	617	1,279	1,782	2,459	3,105	3,200	2,820	2,334	1,677
Communications system	0	30	793	45	706	512	526	634	2,065	387
Total business-type activities program revenues	<u>0</u>	<u>647</u>	<u>2,072</u>	<u>1,827</u>	<u>3,165</u>	<u>3,617</u>	<u>3,726</u>	<u>3,454</u>	<u>4,399</u>	<u>2,064</u>
Total primary government program revenues	<u>550,806</u>	<u>572,926</u>	<u>679,202</u>	<u>684,950</u>	<u>568,858</u>	<u>701,770</u>	<u>866,008</u>	<u>685,586</u>	<u>664,279</u>	<u>739,442</u>
Net (expense)/revenue										
Governmental activities	\$ (223,376)	\$ (413,667)	\$ (136,418)	\$ (340,611)	\$ (101,615)	\$ (175,088)	\$ (346,782)	\$ (706,249)	\$ (509,278)	\$ (448,121)
Business-type activities	(475)	(498)	95	(854)	(219)	(944)	297	(34)	491	(819)
Total primary government net expense	<u>(223,851)</u>	<u>\$ (414,165)</u>	<u>\$ (136,323)</u>	<u>\$ (341,465)</u>	<u>\$ (101,834)</u>	<u>\$ (176,032)</u>	<u>\$ (346,485)</u>	<u>\$ (706,283)</u>	<u>\$ (508,787)</u>	<u>\$ (448,940)</u>
General revenues										
Governmental activities:										
Taxes										
Motor fuel taxes	\$ 281,706	\$ 283,210	\$ 281,439	\$ 283,806	\$ 277,807	\$ 281,314	\$ 284,022	\$ 286,150	\$ 274,437	\$ 294,285
Sales and use taxes	94,653	98,631	162,388	282,150	271,769	258,721	299,263	311,452	323,667	500,808
Investment earnings	16,049	19,668	27,857	22,720	18,934	5,293	9,179	(28,207)	28,337	(6,005)
Unrestricted appropriations from other state funds	3,825	214,508	3,313	1,464	1,462	2,597	3,478	3,665	1,636	2,595
Transfers	0	(1,540)	0	(2,000)	127	(5,032)	(25,000)	876	8	0
Total governmental activities general revenues	<u>396,233</u>	<u>614,477</u>	<u>474,997</u>	<u>588,140</u>	<u>570,099</u>	<u>542,893</u>	<u>570,942</u>	<u>573,936</u>	<u>628,085</u>	<u>791,683</u>
Business-type activities:										
Investment earnings	573	1,513	2,081	1,733	1,232	910	813	720	744	743
Transfers	0	1,540	0	2,000	(127)	0	25,000	(876)	(8)	0
Total business-type general revenues	<u>573</u>	<u>3,053</u>	<u>2,081</u>	<u>3,733</u>	<u>1,105</u>	<u>910</u>	<u>25,813</u>	<u>(156)</u>	<u>736</u>	<u>743</u>
Total primary government general revenues	<u>396,806</u>	<u>\$ 617,530</u>	<u>\$ 477,078</u>	<u>\$ 591,873</u>	<u>\$ 571,204</u>	<u>\$ 543,803</u>	<u>\$ 596,755</u>	<u>\$ 573,780</u>	<u>\$ 628,821</u>	<u>\$ 792,426</u>
Change in Net Position										
Governmental activities	\$ 172,857	\$ 200,810	\$ 338,579	\$ 247,529	\$ 468,484	\$ 367,805	\$ 224,160	\$ (132,313)	\$ 118,807	\$ 343,562
Business-type activities	98	2,555	2,176	2,879	886	(34)	26,110	(190)	1,227	(76)
Total primary government	<u>172,955</u>	<u>\$ 203,365</u>	<u>\$ 340,755</u>	<u>\$ 250,408</u>	<u>\$ 469,370</u>	<u>\$ 367,771</u>	<u>\$ 250,270</u>	<u>\$ (132,503)</u>	<u>\$ 120,034</u>	<u>\$ 343,486</u>

Kansas Department of Transportation
 Fund Balances of Governmental Funds
 (modified accrual basis of accounting)
 (amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
State Highway Fund*										
Nonspendable										
Materials & supplies	\$ 17,452	\$ 17,601	\$ 17,480	\$ 18,697	\$ 21,445	\$ 24,728	\$ 23,968	\$ 24,940	\$ 24,363	\$ 23,983
Prepaid Insurance	0	0	0	0	0	0	0	0	0	1,096
Long-term receivable	125,188	92,689	61,793	30,896	30,896	0	0	0	0	0
Assigned to:										
Transportation	799,474	851,857	897,881	686,337	969,918	756,580	0	0	0	0
Unassigned	(168,173)	(243,585)	(356,696)	(94,692)	(562,388)	(524,154)	248,808	102,629	292,903	432,854
	\$ 773,941	\$ 718,562	\$ 620,458	\$ 641,238	\$ 459,871	\$ 257,154	\$ 272,776	\$ 127,569	\$ 317,266	\$ 457,933
All Other Governmental Funds										
Nonspendable										
Long-term receivable	\$ 15,427	\$ 5,476	\$ 7,432	\$ 5,128	\$ 3,931	\$ 3,530	\$ 5,545	\$ 6,275	\$ 4,487	\$ 4,153
Assigned to:										
Debt Service	61,146	67,770	64,268	56,137	98,086	97,362	106,038	113,867	109,231	121,317
Restricted for:										
Other purposes	27,384	17,372	19,314	23,694	25,980	11,237	20,357	19,306	19,348	29,014
Unassigned	(755,115)	(755,115)	(755,115)	(755,115)	(885,715)	(648,995)	(379,464)	(504,312)	(321,812)	(383,215)
Total	\$ (651,158)	\$ (664,497)	\$ (664,101)	\$ (670,156)	\$ (757,718)	\$ (536,866)	\$ (247,524)	\$ (364,864)	\$ (188,746)	\$ (228,731)

Years prior to 2011 have been restated to comply with GASB Statement 54

* - The Agency's General Fund

Kansas Department of Transportation
 Changes in Fund Balances of Governmental Funds
 (modified accrual basis of accounting)
 (amounts in thousands)

	For the fiscal year ended June 30									
	2005	2006	2007	2008	2009	2010**	2011	2012	2013	2014
Revenues:										
Motor fuel taxes	\$ 281,142	\$ 282,778	\$ 284,718	\$ 283,974	\$ 277,358	\$ 280,376	\$ 283,981	\$ 286,151	\$ 274,337	\$ 293,707
Sales and use taxes	94,208	99,938	162,525	283,597	268,259	259,899	295,989	312,934	320,756	501,291
Vehicle registration & permits	163,760	165,573	171,575	172,353	170,256	175,291	178,492	177,649	198,120	211,644
Intergovernmental	384,069	404,382	496,905	500,638	393,084	508,465	676,067	492,617	445,659	523,241
Investment earnings	16,622	19,667	27,857	22,720	18,933	4,698	2,664	756	866	584
Other	6,118	13,774	14,946	9,973	6,779	9,615	6,840	13,140	22,997	7,950
Appropriations from other state funds	3,825	214,508	3,313	1,661	1,462	2,598	3,478	3,665	1,636	2,595
Total revenues	949,744	1,200,620	1,161,839	1,274,916	1,136,131	1,240,942	1,447,511	1,286,912	1,264,371	1,541,012
Expenditures:										
Maintenance	156,120	157,161	144,108	147,185	142,653	132,535	133,381	130,123	132,830	125,934
Preservation	171,800	172,946	158,582	161,967	156,980	145,846	235,091	365,988	397,608	378,348
Modernization	276,856	278,702	255,554	261,010	252,974	235,031	130,798	115,293	67,102	27,850
Expansion and Enhancement	215,976	217,416	199,358	203,614	197,345	183,348	238,329	258,498	247,549	272,014
Communication system	0	8,200	11,983	13,811	8,786	13,398	9,135	10,948	6,443	7,140
Local support	133,615	134,059	195,097	171,045	172,142	194,199	192,813	113,958	106,826	139,735
Rail, air & public transportation	11,330	9,547	11,094	11,107	11,387	14,198	19,682	43,051	14,826	19,452
Management	60,749	49,063	57,992	63,680	67,932	69,473	63,103	63,982	69,671	55,653
Distributions to other state funds	94,705	92,364	96,520	102,907	150,722	286,447	261,759	313,402	115,366	270,382
Debt service										
Principal	38,460	46,755	53,020	50,330	32,720	78,530	82,295	65,145	67,090	80,790
Interest & fees	67,528	76,126	76,118	73,347	74,833	69,185	75,401	70,918	68,436	62,652
Total expenditures	1,227,139	1,242,339	1,259,426	1,260,003	1,268,474	1,422,190	1,441,787	1,551,306	1,293,747	1,439,950
Excess of revenues over (under) expenditures	(277,395)	(41,719)	(97,587)	14,913	(132,343)	(181,248)	5,724	(264,394)	(29,376)	101,062
Other financing sources (uses):										
Transfers - In	505,103	133,437	134,898	126,615	191,253	200,624	285,332	443,108	474,238	309,046
Transfers - Out	(505,103)	(134,977)	(134,898)	(128,615)	(191,126)	(205,656)	(310,332)	(442,232)	(474,230)	(309,046)
Revenue bonds issued	200,000	0	0	0	0	0	325,000	0	296,250	0
Refunding bonds issued	0	0	0	150,870	0	201,132	0	0	200,000	0
Payment to refunded bonds escrow agent	0	0	0	(150,275)	0	0	0	0	(186,227)	0
Premium on conversion of bonds	0	0	0	0	11,410	0	0	0	85,738	0
Total other financing sources (uses)	200,000	(1,540)	0	(1,405)	11,537	196,100	300,000	876	395,769	0
(77,395)	(43,259)	(97,587)	13,508	(120,806)	14,852	305,724	(263,518)	366,393	101,062	
Other changes in fund balances:										
Change in reserve for materials and supplies inventory	1,686	148	(121)	1,217	2,748	3,283	(760)	971	(578)	(380)
Cumulative effect of change in accounting principal	0	0	0	0	0	0	0	0	0	0
Prior period adjustment	0	0	0	(121)	1,217	(148,122)	3,283	(760)	971	(578)
Net change in fund balances	\$ (75,709)	\$ (43,111)	\$ (97,708)	\$ 14,725	\$ (268,928)	\$ 18,135	\$ 304,964	\$ (262,547)	\$ 365,815	\$ 100,682
Debt service as a percentage of noncapital expenditures*	13.5%	12.3%	15.5%	11.7%	16.0%	17.9%	12.6%	9.6%	11.3%	11.4%

*- In fiscal year 2008, the methodology of this calculation was changed and prior years were restated

**-In fiscal year 2010, certain expenditure categories were changed and prior year's expenditures were allocated to approximate these changes.

**Kansas Department of Transportation
Motor Fuel Taxes - Revenue Base and Rates**

		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Revenue Base Information (gallons in thousands)											
Gasoline**	Gallons sold	1,157,851	1,282,324	1,173,869	1,229,523	1,147,549	1,338,222	1,241,059	1,238,176	1,171,577	1,209,576
Motor carrier	Trip permits	10,083	12,658	18,676	20,264	19,025	22,688	24,450	25,183	21,944	21,718
Diesel	Gallons sold	404,184	449,136	482,852	470,361	446,370	432,469	462,188	503,218	440,541	540,691
Liquid petroleum	Gallons sold	1,148	1,111	572	905	972	784	671	700	1,465	1,215

Some previously reported amounts above are routinely updated for late filings and other needed corrections.

Revenue Rate Information											
Gasoline	Cents per gallon	24	24	24	24	24	24	24	24	24	24
E-85	Cents per gallon			(A) 17	17	17	17	17	17	17	17
Motor carrier	Per permit	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00
Diesel	Cents per gallon	26	26	26	26	26	26	26	26	26	26
Liquid petroleum	Cents per gallon	23	23	23	23	23	23	23	23	23	23

(A) - Separate E85 rates began January 1, 2007

** - includes gasohol

Source: Revenue base information provided by Kansas Department of Revenue
Revenue rate information derived from Kansas Statutes

Kansas Department of Transportation
Motor Fuel Taxes - Receipts and Distribution
(amounts in thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Gasoline	\$ 314,583	\$ 309,832	\$ 314,720	\$ 309,978	\$ 305,807	\$ 310,039	\$ 313,554	\$ 309,018	\$ 296,872	\$ 308,771
E-85	0	0	31	221	253	201	312	297	162	119
Motor carrier stations	131	165	243	263	247	295	318	327	285	313
Diesel (dealers)	102,983	110,066	111,297	115,642	111,613	109,397	115,504	117,922	111,689	124,600
Interstate motor fuel	15,129	13,787	13,382	11,419	8,380	11,998	10,829	11,343	10,400	11,401
Liquid petroleum	260	255	226	214	208	182	157	163	201	277
Total motor fuel tax receipts	433,086	434,105	439,899	437,737	426,508	432,112	440,674	439,070	419,609	445,481
Refunds	6,826	5,939	5,851	6,430	5,237	7,541	4,443	4,021	4,257	3,640
Ethyl Alcohol Incentive Fund	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Net receipts to KDOT	422,760	424,666	430,548	427,807	417,771	421,071	432,731	431,549	411,852	438,341
Distributed to agency funds:										
Special City and County Highway Fund	139,674	140,315	142,293	141,372	137,996	139,106	143,027	142,630	136,006	144,914
County Equalization & Adjustment Fund	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Net to State Highway Fund*	\$ 280,586	\$ 281,851	\$ 285,755	\$ 283,935	\$ 277,275	\$ 279,465	\$ 287,204	\$ 286,419	\$ 273,346	\$ 290,927

* - The agency's general fund

Source: Kansas Department of Revenue

Note: This data is presented to fulfill continuing disclosure requirements.

Kansas Department of Transportation
Motor Fuel Taxes - Principal Remitters

<u>Remitter</u>	2014			2005		
	Tax Remitted (thousands)	<u>Rank</u>	Percentage of Total Taxes Remitted	Tax Remitted (thousands)	<u>Rank</u>	Percentage of Total Taxes Remitted
Firm X	\$ 36,356	1	8.60%			
Firm B	32,800	2	7.76%	22,028	2	5.27%
Firm H	30,670	3	7.25%	14,117	8	3.38%
Firm D	28,855	4	6.82%	18,810	4	4.50%
Firm W	17,214	5	4.07%			
Firm A	16,914	6	4.00%	39,801	1	9.53%
Firm V	15,673	7	3.71%			
Firm R	12,693	8	3.00%			
Firm E	11,181	9	2.64%	16,785	5	4.02%
Firm U	9,618	10	2.27%			
Firm C				19,212	3	4.60%
Firm F				14,769	6	3.54%
Firm G				14,142	7	3.39%
Firm I				10,449	9	2.50%
Firm J				9,629	10	2.31%
Total	<u>\$ 211,974</u>		<u>50.12%</u>	<u>\$ 179,742</u>		<u>43.04%</u>

Source: Information provided by Kansas Department of Revenue

**Kansas Department of Transportation
Vehicle Registration Fee Schedule
For the Fiscal Year Ended June 30, 2014**

<u>Vehicle Category</u>	<u>Lowest</u>		<u>Highest</u>	
	<u>Fee</u>	<u>Weight Class</u>	<u>Fee</u>	<u>Weight Class</u>
Passenger vehicles	\$ 30	0-4,500 lbs.	\$ 40	4,500+ lbs.
Regular trucks, operated more than 6,000 miles per year	40	0-12,000 lbs.	2,070	80-85,500 lbs.
Regular trucks, operated 6,000 miles or less per year	162	12-16,000 lbs.	1,145	80-85,500 lbs.
Local trucks	162	12-16,000 lbs.	1,145	80-85,500 lbs.
Farm trucks	57	12-16,000 lbs.	745	66,000+ lbs.
Custom harvesting farm trucks	82	12-16,000 lbs.	1,145	80-85,500 lbs.
Trailers, mobile homes	35	0-8,000 lbs.	55	12,000+ lbs.
<u>Number of Passengers</u>				
Buses	\$ 35	8-30	\$ 80	40+
<u>Flat Fee</u>				
Motorized Bicycles	\$ 11			
Motorcycles	16			
Personalized Plates	40			
Antiques	40			
Special Interest Vehicles	26			
Modernization Surcharge per Vehicle	4			

Source: Information derived from Kansas Statutes

Note: This data is presented to fulfill continuing disclosure requirements.

Kansas Department of Transportation
 Vehicle Registrations, Drivers' Licenses and Vehicle Permits
 For the Fiscal Year Ended June 30
 (amounts in thousands)

Fiscal Year	Vehicle Registration Fees*	Drivers' License*	Special Vehicle Permits	Total
2005	154,107	9,043	610	163,760
2006	155,833	9,056	684	165,573
2007	163,047	9,153	778	172,978
2008	162,100	7,982	867	170,949
2009	162,655	6,761	840	170,256
2010	166,178	7,490	1,623	175,291
2011	167,386	8,999	2,107	178,492
2012	166,316	8,844	2,489	177,649
2013	186,962	8,755	2,403	198,120
2014	201,051	7,959	2,634	211,644

Distribution: Vehicle Registration Fees and Special Vehicle Permits are retained 100% by the State Highway Fund. Drivers' Licenses are statutorily allocated between the Kansas Department of Transportation, the Kansas Highway Patrol and the Kansas Department of Education.

* - Net of refunds

Source: Kansas Department of Revenue

Note: This data is presented to fulfill continuing disclosure requirements.

**Kansas Department of Transportation
Retailers' Sales Tax and Compensating Use Tax Rates
For the Fiscal Year Ended June 30**

Fiscal Year	Total State Tax Rate	Daily Direct Deposit to SHF*		Statutory Transfer Rate	Other Reductions
		Ratio 5/106	Percent 4.717%		
2005	5.30%			--	As part of the Legislature's efforts to solve statewide budgetary shortfalls, the transfer was eliminated.
2006	5.30%	5/106	4.717%	--	The statutory transfer was eliminated and replaced with an increase in the daily direct deposit rate beginning in FY 2007.
2007	5.30%	19/265	7.170%	--	--
2008	5.30%	13/106	12.264%	--	--
2009	5.30%	13/106	12.264%	--	--
2010	5.30%	13/106	12.264%	--	--
2011	6.30%	--	11.427%	--	--
2012	6.30%	--	11.260%	--	--
2013	6.30%	--	11.233%	--	--
2014	6.15%	--	17.073%	--	--

Historically, the total state tax rate noted above has been shared with the Department in two distinct ways. The equivalent of .25 cents (5/98 of 4.90% or 5/106 of 5.3%) was deposited to the State Highway Fund on a daily basis. Prior to FY 2003, an additional transfer was made from the State General Fund to the State Highway Fund (SHF) on a quarterly basis. This transfer was calculated as a percentage of the sales tax receipts deposited in the State General Fund at the indicated statutory transfer rate. Legislative action reduced or modified this transfer as indicated above until it was permanently eliminated for FY 2006. To replace this statutory transfer, the direct deposit rate was increased effective in FY 2007.

Effective in FY 2011, the legislature changed from using ratios to using a percentage of the Total Sales Tax Rate to calculate the Daily Direct Deposit to the SHF. Historic ratios above have been converted to percentages for comparative purposes.

* - State Highway Fund (the Agency's general fund)

Note: The Retailers' Sales Tax and Compensating Use Tax rates are equal.
Note: This data is presented to fulfill continuing disclosure requirements.

Source: Kansas Statutes

Kansas Department of Transportation
Retailers' Sales Tax and Compensating Use Tax Deposits
For the Fiscal Year Ended June 30
(amounts in thousands)

Fiscal Year	<u>Deposits to State General Fund</u>		<u>Deposits to State Highway Fund (agency's general fund)</u>
	Sales Tax	Compensating Use Tax	Direct Deposit Sales & Compensating Use Tax
2005	1,647,663	244,755	93,353
2006	1,736,048	269,250	98,914
2007	1,766,768	284,981	158,393
2008	1,711,398	246,277	273,293
2009	1,689,516	235,026	268,740
2010	1,652,037	205,540	259,445
2011	1,965,388	287,730	292,641
2012	2,136,353	325,339	312,358
2013	2,184,573	340,044	319,382
2014	2,102,239	344,017	485,314

Source: Kansas Department of Revenue

Note: This data is presented to fulfill continuing disclosure requirements.

Kansas Department of Transportation
 Ratios of Outstanding Debt and Debt Margin Information
 For the Fiscal Year Ended June 30
 (amounts expressed in thousands, except per capita amount)

Fiscal Year	Ratios of Outstanding Debt			Debt Margin Information			
	Total Principal Outstanding	Percentage of Personal Income*	Per Capita*	Statutory Limitation	Applicable Debt Issued	Legal Debt Margin	Ratio of Debt Issued
Governmental activities							
2005	\$ 1,859,557	2.06%	\$ 678	\$ 2,162,000	\$ 2,162,000	none	100%
2006	1,816,817	1.89%	657	2,162,000	2,162,000	none	100%
2007	1,767,199	1.73%	637	2,162,000	2,162,000	none	100%
2008	1,720,268	1.58%	614	2,162,000	2,162,000	none	100%
2009	1,681,176	1.57%	596	2,162,000	2,162,000	none	100%
2010	1,582,620	1.40%	557	2,162,000	2,162,000	none	100%
2011	1,801,549	1.55%	627	see note below*			
2012	1,689,457	1.40%	585				
2013	1,819,278	1.43%	629				
2014	1,723,221	N/A	N/A				

Calculation of Legal Debt Margin for Fiscal Year 2014		
Current State Highway Fund revenues net of		
Distributions to other state funds	\$	1,263,649
Maximum allowable annual Debt Service 18%		227,457
Maximum annual debt service on existing debt		177,345
Additional annual debt service allowed		50,112
Estimated additional debt available to be issued		626,402

Prior to FY 2011, the statutory limitation was on a specified amount of new money bonds. Commencing in FY 2011, the focus of the statutory limitation changed. The Department is currently authorized to issue additional bonds so long as the debt service in the current or any future fiscal year does not exceed eighteen percent of the State Highway Fund revenues.

Business-type activities

2005	\$ 0	0	\$ 0
2006	33,638	0.04%	12
2007	58,626	0.06%	21
2008	55,013	0.05%	20
2009	94,977	0.09%	34
2010	88,607	0.08%	31
2011	81,235	0.07%	28
2012	73,619	0.06%	26
2013	59,423	0.05%	21
2014	53,020	N/A	N/A

Calculation of Legal Debt Margin for Fiscal Year 2014		
There are no dollar limitations on the debt that can be issued by the Transportation Revolving Fund or the Communication System Revolving Fund.		

Amounts include unamortized premium (discount) and unamortized deferred refunding difference.

N/A - Not available

* - See following demographic and economic schedules for personal income and population data (not yet available for 2014).

Kansas Department of Transportation
Highway Revenue Bond Coverage
For the Fiscal Year Ended June 30
(amounts in thousands)

Fiscal Year	Revenues Available for Debt Service	Bond Service Charges			Coverage
		Principal	Interest	Total	
2005	563,512	38,460	67,633	106,093	5.31
2006	786,732	46,755	76,295	123,050	6.39
2007	655,626	53,020	76,393	129,413	5.07
2008	770,068	50,330	73,679	124,009	6.21
2009	739,198	52,990	75,314	128,304	5.76
2010	728,725	99,930	74,476	174,406	4.18
2011	766,774	104,885	80,692	185,577	4.13
2012	789,453	109,970	63,931	173,901	4.54
2013	815,774	107,385	83,649	191,034	4.27
2014	1,502,254	103,310	47,917	151,227	9.93

Note: Revenues available for debt service are defined by resolution as all monies (including motor fuel taxes, state sales tax and compensating use taxes and drivers' licenses and vehicle registration fees), transferred to or credited to the State Highway Fund except for monies, the use of which is restricted by law from paying debt service on the bonds.

The 1992 resolution provided that any reimbursements received from the federal government or from local governments be excluded from revenue available for debt service.

In anticipation of the sale of the Series 1999 bonds, the 1992 resolution was amended to eliminate the exclusion of reimbursements from the federal government from revenues available for debt service. This amendment became effective after all the outstanding bonds issued prior to the issuance of the Series 1999 bonds have been retired or defeased.

Kansas Department of Transportation
Demographic and Economic Statistics
For the Fiscal Year Ended June 30

Fiscal Year	Estimated Population as of July 1 ⁽¹⁾	Personal Income (amounts in thousands)	Per capita Personal Income ⁽²⁾	Unemployment Rate ⁽³⁾
2005	2,744,687	90,431,947	32,948	5.3%
2006	2,764,075	96,032,258	34,743	4.7%
2007	2,775,997	102,067,858	36,768	4.8%
2008	2,802,134	108,778,842	38,820	4.4%
2009	2,818,747	106,875,611	37,916	7.1%
2010	2,841,121	112,897,625	39,737	6.5%
2011	2,871,238	116,230,585	40,481	6.7%
2012	2,885,905	120,731,836	41,835	6.2%
2013	2,893,957	127,091,016	43,916	5.8%
2014	N/A	N/A	N/A	5.1%

N/A - Not Available

Data sources

⁽¹⁾ U.S. Bureau of the Census

⁽²⁾ U.S. Department of Commerce (calendar year data)

⁽³⁾ State of Kansas Department of Labor, Kansas Labor Market Information Services

Kansas Department of Transportation
Principal Employers
Current Year and Ten Years Ago

<u>Employer</u>	2014			2005		
	<u>Employees</u>	<u>Rank</u>	Percentage of Total <u>Employment</u>	<u>Employees</u>	<u>Rank</u>	Percentage of Total <u>Employment</u>
State Government (actual & excludes Regents)	22,357	1	1.50%	25,058	1	1.71%
KU and KUMC	7,974	2	0.47%	7,085	2	0.48%
Cessna Aircraft Corporation	6,200	3	0.42%	-	-	-
Royal Caribbean Cruises Ltd.	4,900	4	0.33%	-	-	-
B & V - Baker Guam JV	4,500	5	0.30%	-	-	-
Railcrew Xpress	4,500	6	0.30%	-	-	-
Shawnee Mission Unified School District	4,087	7	0.28%	-	-	-
Via Christi Hospitals Wichita, Inc.	4,000	8	0.27%	4,000	5	0.27%
Wichita State University	3,380	9	0.23%	-	-	-
Kansas State University	3,000	10	0.20%	-	-	-
Raytheon Aircraft Company	-	-	-	9,000	3	0.62%
Spirit Aerosystems Inc.	-	-	-	8,000	4	0.55%
Stormont-Vail Healthcare, Inc.	-	-	-	3,748	6	0.26%
University Kansas Hospital Authority	-	-	-	2,750	7	0.19%
Koch Industries, Inc.	-	-	-	2,000	8	0.14%
Coleman Company Inc.	-	-	-	2,000	9	0.14%
Conspec Marketing & Mfg. Co.	-	-	-	1,900	10	0.13%
Total	<u><u>64,898</u></u>		<u><u>4.30%</u></u>	<u><u>65,541</u></u>		<u><u>4.49%</u></u>

Source: Dun & Bradstreet Corporation, Million Dollar Databases, Dun & Bradstreet, and Kansas Department of Labor at <http://www.dol.ks.gov>. The base numbers used to calculate the percentages are the average numbers of the total civilian Labor Force from FY2014 and FY2005 respectively.

Kansas Department of Transportation
Full-time Equivalent Employees
For the Fiscal Year Ended June 30

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Maintenance and preservation	2,615.0	2,606.0	2,593.0	2,566.5	2,489.5	2,484.5	2,483.5	2,367.0	2,315.0	2,320.0
Local support	57.0	57.0	57.0	58.0	55.0	62.0	63.0	55.0	49.0	54.0
General government	579.5	574.5	570.5	577.0	569.0	567.0	567.0	494.5	465.5	497.3
Total authorized FTE's	<u>3,251.5</u>	<u>3,237.5</u>	<u>3,220.5</u>	<u>3,201.5</u>	<u>3,113.5</u>	<u>3,113.5</u>	<u>3,113.5</u>	<u>2,916.5</u>	<u>2,829.5</u>	<u>2,871.3</u>

Kansas Department of Transportation
Operating Indicators
For Calendar Year

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Maintenance and preservation										
Daily vehicle miles traveled										
Total state	81,839,015	83,137,912	83,189,686	81,808,539	80,814,108	81,916,438	82,250,374	83,530,221	82,760,987	N/A
State Highway System	26,796,714	26,595,464	26,560,255	26,846,213	26,513,549	26,747,853	26,874,672	27,146,989	26,843,637	N/A
General government										
Accidents (state wide)	68,739 *	65,507	70,664	65,912	61,173 **	60,659	60,057	58,005	58,255	N/A
Fatalities (state wide)	428	468	416	384	386	431	386	405	350	N/A
Rail, air and public transportation										
Activity at Kansas airports with commercial service										
Total enplanements	773,950	781,385	846,958	851,349	798,388	845,412	863,674	854,866	860,472	N/A
Landings & takeoffs	484,448	473,523	446,332	447,044	419,913	395,439	412,348	467,609	441,286	N/A
Public transit programs (fiscal year)										
Counties with public transit service available	96	96	96	96	93	94	93	96	93	94
Ridership - rural operators	2,637,182	2,609,505	2,605,945	2,784,249	2,891,349	2,912,436	2,796,751	2,888,508	2,916,435	2,968,108

* - Accident reporting threshold changed from \$500 to \$1,000 effective January 1, 2005

** - Accident reporting forms underwent a major revision in layout and content during calendar year 2009.

N/A - Not Available

**Kansas Department of Transportation
Capital Asset Statistics
For Calendar Year**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Maintenance and preservation										
Center lane miles										
Total state	135,462	140,379	140,270	140,609	140,752	140,653	140,513	140,613	140,687	N/A
State Highway System	9,525	9,519	9,519	9,496	9,497	9,503	9,503	9,480	9,463	N/A
Bridges										
Total state	25,827	25,863	25,916	25,938	25,487	25,279	25,257	25,162	25,062	N/A
State Highway System	4,976	4,987	4,989	5,034	5,036	5,063	5,092	5,128	5,137	N/A
Rail, air and public transportation										
Aircraft based at Kansas airports with commercial service	693	679	661	658	658	660	639	618	614	N/A
Public transit programs (fiscal year)										
Vehicles operated at year end	666	710	718	770	800	777	782	776	762	753

N/A - Not Available



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

Secretary of Transportation
Kansas Department of Transportation
Topeka, Kansas

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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kansas Department of Transportation (the Department), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Secretary of Transportation
Kansas Department of Transportation

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Broomfield, Colorado
October 31, 2014