NEW ISSUE - BOOK-ENTRY ONLY **RATINGS: See "RATINGS" herein**

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), (1) the interest on the Series 2014B Bonds is excludable from gross income for federal income tax purposes, except as described in this Official Statement, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (2) the Series 2014B Bonds and all income or interest therefrom are exempt from all Kansas taxes and (3) the Series 2014B Bonds have not been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. See "TAX MATTERS RELATING TO THE SERIES 2014B BONDS" in this Official Statement.

$212,875,000
State of Kansas
Department of Transportation
Highway Revenue Refunding Index Bonds
Series 2014B

Dated: Date of Delivery **Due: As shown on inside cover**

The Highway Revenue Refunding Index Bonds, Series 2014B, to be dated the date of delivery thereof, consisting of the five subseries shown on the inside cover (collectively, the "Series 2014B Bonds"), of the State of Kansas (the "State") are being issued by the Secretary of Transportation of the State (the "Secretary") for the purpose of refunding certain prior series of Highway Revenue Bonds previously issued to refund certain other prior series of Highway Revenue Bonds issued for the purpose of providing funds to pay a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. In addition, proceeds of the Series 2014B Bonds will be used to pay the costs associated with the issuance thereof. The Series 2014B Bonds are being issued and will be secured on a parity with the Highway Revenue Bonds of several series previously issued and Outstanding as described herein and any Additional Bonds that may be issued in the future.

Interest on the Series 2014B Bonds is payable monthly on the first Business Day of each calendar month (an "Interest Payment Date") commencing October 1, 2014. The Series 2014B Bonds are being issued as registered bonds in book entry form in authorized denominations of $5,000 and any integral multiple thereof and, when issued, will be initially registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as a securities depository for the Series 2014B Bonds (the "Securities Depository"). Purchases of the Series 2014B Bonds may be made only in book-entry form in authorized denominations by credit to participating broker dealers and other institutions on the books of DTC as described herein. Purchasers will not receive certificates representing their interest in the Series 2014B Bonds purchased. Principal of and interest on the Series 2014B Bonds are payable by The Bank of New York Mellon Trust Company, N.A., St. Louis, Missouri, as Paying Agent and Bond Registrar, to the Securities Depository, which will remit such payments in accordance with its normal procedures, as described herein. The Series 2014B Bonds are not subject to redemption prior to maturity.

THE SERIES 2014B BONDS AND THE INTEREST THEREON ARE SPECIAL OBLIGATIONS OF THE STATE AND ARE PAYABLE AND COLLECTIBLE SOLELY FROM THE REVENUES IN THE STATE HIGHWAY FUND AND TRANSFERRED TO THE HIGHWAY BOND DEBT SERVICE FUND. THE OWNERS OF THE SERIES 2014B BONDS MAY NOT LOOK TO ANY GENERAL OR OTHER FUND OF THE STATE FOR PAYMENT AND THE SERIES 2014B BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS OR A DEBT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION, NOR CAN THEY BE CONSIDERED OR HELD TO BE GENERAL OBLIGATIONS OF THE STATE.

The Series 2014B Bonds are offered when, as and if issued and are subject to the final approving opinion of Gilmore & Bell, P.C., Bond Counsel. Certain legal matters will be passed upon for the Secretary and the Department of Transportation by its Special Counsel, Jonathan P. Small, Chartered, Topeka, Kansas, and by Kutak Rock LLP, Special Disclosure Counsel, and by Sidley Austin LLP, Counsel to the Underwriter. It is expected that the Series 2014B Bonds will be available for delivery to DTC in New York, New York, on or about August 28, 2014.

BARCLAYS

The date of this Official Statement is August 13, 2014

$212,875,000
State of Kansas
Department of Transportation
Highway Revenue Refunding Index Bonds
Series 2014B

$37,000,000 Series 2014B-1 maturing September 1, 2015
Adjustable Interest Rate: 67% of the One-Month LIBOR Rate, plus the applicable Spread Factor†
Price: 100% (CUSIP: 485424-PU3)

$38,145,000 Series 2014B-2 maturing September 1, 2016
Adjustable Interest Rate: 67% of the One-Month LIBOR Rate, plus the applicable Spread Factor†
Price: 100% (CUSIP: 485424-PV1)

$39,520,000 Series 2014B-3 maturing September 1, 2017
Adjustable Interest Rate: 67% of the One-Month LIBOR Rate, plus the applicable Spread Factor†
Price: 100% (CUSIP: 485424-PW9)

$49,945,000 Series 2014B-4 maturing September 1, 2018
Adjustable Interest Rate: 67% of the One-Month LIBOR Rate, plus the applicable Spread Factor†
Price: 100% (CUSIP: 485424-PX7)

$48,265,000 Series 2014B-5 maturing September 1, 2019
Adjustable Interest Rate: 67% of the One-Month LIBOR Rate, plus the applicable Spread Factor†
Price: 100% (CUSIP: 485424-PY5)

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†The per annum spread (expressed in basis points) to the One-Month LIBOR Rate established on the date of pricing for each Series.

STATE OF KANSAS

Sam Brownback, Governor

KANSAS DEPARTMENT OF TRANSPORTATION

Michael S. King
Secretary of Transportation

Jerome T. Younger, PE
Deputy Secretary
and State Transportation Engineer

Wade Wiebe
Director of Partner Relations

Barbara W. Rankin
Chief Counsel

Jim Kowach
Director of Engineering and Design

Catherine Patrick
Director of Operations

Kent Olson
Director of Fiscal and Asset Management

Jesse Romo
Director of Aviation

Chris Herrick
Director of Planning and Development

Special Counsel
Jonathan P. Small, Chartered

Bond Counsel
Gilmore & Bell, P.C.

Independent Auditors
RubinBrown LLP

Financial Advisor
Public Financial Management, Inc.

No dealer, broker, salesperson or other person has been authorized by the State of Kansas (the "State"), the Department of Transportation (the "Department"), the Secretary of Transportation (the "Secretary") or the Underwriter to give any information or to make any representation in connection with the offering of the Series 2014B Bonds, other than the information and representations contained in this Official Statement and, if given or made, such information or representation must not be relied upon as having been authorized by the State, the Department, the Secretary or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Series 2014B Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information, estimates and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State, the Department or the State Highway Fund since the date hereof. The information set forth herein concerning the State, the Department and the State Highway Fund has been obtained from the Department and is believed to be reliable.

The Underwriter has provided the following sentence and paragraph for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information and this Official Statement is not to be construed as the promise or guarantee of the Underwriter. This Official Statement does not constitute a contract between the State, the Department, the Secretary or the Underwriter and any one or more of the purchasers or registered owners of the Series 2014B Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2014B BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

This Official Statement contains statements that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

THE SERIES 2014B BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE SERIES 2014B BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE GUARANTEED OR PASSED UPON THE SAFETY OF THE SERIES 2014B BONDS AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. THE COVER PAGE IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. APPENDIX E—DEFINITIONS OF CERTAIN TERMS CONTAINS DEFINITIONS USED IN THIS OFFICIAL STATEMENT.

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OFFICIAL STATEMENT

$212,875,000
State of Kansas
Department of Transportation
Highway Revenue Refunding Index Bonds
Series 2014B

INTRODUCTION

This Official Statement, including the cover page and the Appendices, sets forth certain information concerning the $212,875,000 Highway Revenue Refunding Index Bonds, Series 2014B consisting of the five subseries shown on the inside cover, to be dated the date of delivery thereof (the "Series 2014B Bonds"), of the State of Kansas (the "State"). The Series 2014B Bonds are being issued by the Secretary of Transportation (the "Secretary") pursuant to the provisions of Section 68-2314 *et seq.* of the Kansas Statutes Annotated, as amended (the "Act"), and the 1992 Resolution adopted by the Secretary on March 31, 1992 (the "1992 Resolution"), as heretofore supplemented and as supplemented by the Thirtieth Supplemental Resolution authorizing the Series 2014B Bonds (the "Thirtieth Supplemental Resolution"), to be adopted by the Secretary prior to the delivery of the Series 2014B Bonds. The Series 2014B Bonds are being issued for the purpose of currently refunding the $113,090,000 outstanding principal amount of Highway Revenue Bonds, Series 2002B and $99,785,000 outstanding principal amount of Highway Revenue Bonds, Series 2002C, previously issued for the purpose of refunding certain other bonds issued for the purpose of paying a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. In addition, proceeds of the Series 2014B Bonds will be used to pay the costs associated with the issuance thereof. See "APPLICATION OF PROCEEDS OF THE SERIES 2014B BONDS" herein.

The Series 2014B Bonds will be issued and secured on a parity with the Outstanding highway revenue bonds previously issued under the 1992 Resolution and described under "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Outstanding Bonds" herein.

The 1992 Resolution provides for the issuance of additional bonds on a parity with the Series 2014B Bonds and the Outstanding Bonds ("Additional Bonds") and for the issuance of subordinate bonds ("Subordinate Bonds"). The Series 2014B Bonds, the Outstanding Bonds and any Additional Bonds issued under the terms of the 1992 Resolution are herein collectively referred to as "Parity Bonds" and all Parity Bonds and any Subordinate Bonds issued under the terms of the 1992 Resolution are herein collectively referred to as the "Bonds."

Transportation Works for Kansas Program

The Transportation Works for Kansas Program ("T-WORKS") was developed by the Kansas Department of Transportation (the "Department") as authorized by the Kansas Legislature through the amendments to the Act provided by Senate Substitute for Senate Substitute for House Bill No. 2650, 2010 Kansas Legislature (the "2010 Act Amendments"), effective June 3, 2010, signed by the Governor on May 25, 2010, and effective upon publication in the Kansas Register. The purpose of T-WORKS is to provide for (1) construction, improvement, reconstruction and maintenance of the state highway system, (2) 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, (3) assistance for the preservation and revitalization of rail service in the State, (4) assistance for the planning, constructing, reconstructing or rehabilitating the facilities of public use general aviation airports, (5) public transit programs to aid elderly persons, persons

with disabilities and the general public, (6) assistance for transportation-sensitive economic opportunities on a local or regional basis, (7) analysis of the feasibility of constructing new toll or turnpike projects or designating existing highways or portions thereof as toll or turnpike projects, and (8) expending or committing at least $8 million for projects in each county of the State.

The expenditures for T-WORKS are estimated to be $15.7 billion, including construction expenditures estimated to be $6.4 billion. From Fiscal Year 2011 through Fiscal Year 2014, the Department has let contracts in excess of $2.3 billion for T-WORKS constructions projects.

The 2010 Act Amendments authorized 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, hereinafter defined, projected for the then-current or any future Fiscal Year. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Additional Bonds."

The 2010 Act Amendments also provided for certain adjustments to various components of Revenues as described under "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Revenues" herein that are expected to result in increases in the total amount of Revenues as such adjustments are phased in over time.

Prior Programs

The Comprehensive Transportation Program, a predecessor state highway program, was developed by the Department as authorized by the 1999 Kansas Legislature. The expenditures for the ten-year Comprehensive Transportation Program were $13.3 billion. The expenditures for construction were $7.45 billion. All major modification and system enhancement projects were let by the close of Fiscal Year 2009.

The Comprehensive Highway Program, a predecessor state highway program, was developed by the Department as authorized by the 1989 Kansas Legislature. The expenditures for the eight-year Comprehensive Highway Program were $5.2 billion. The expenditures for construction were over $3.1 billion. All major modification projects were let by the close of Fiscal Year 1997.

Statutory Authorization; Outstanding and Additional Bonds

An original aggregate principal amount of $890,000,000 (new money) of highway revenue bonds was authorized to be issued to fund a portion of the Comprehensive Highway Program and an additional original aggregate principal amount of $1,272,000,000 (new money) of highway revenue bonds was authorized to be issued to fund a portion of the Comprehensive Transportation Program. An original aggregate principal amount of $890,000,000 (new money) of highway revenue bonds was issued by the Secretary to fund a portion of the Comprehensive Highway Program and an original aggregate principal amount of $1,272,000,000 (new money) of highway revenue bonds was issued by the Secretary to fund a portion of the Comprehensive Transportation Program. The Act also provided for the issuance of refunding bonds which were not counted toward the limit on the aggregate principal amount of bonds authorized to be issued by the Secretary prior to the enactment of the 2010 Act Amendments.

The 2010 Act Amendments permit the Secretary to issue highway revenue bonds without a stated statutory dollar limitation, subject, however, to the condition that the Secretary certify 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.

The several series of Highway Revenue Bonds, including new money and refunding bonds, issued and remaining Outstanding are described under "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Outstanding Bonds" herein.

The 1992 Resolution contains conditions with respect to the issuance of Additional Bonds thereunder. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Additional Bonds."

The 1992 Resolution requires that, as a condition to the issuance of Additional Bonds, an independent accountant certify that the amount of Revenues (less any local reimbursement moneys received) transferred or deposited into the State Highway Fund in any 12 consecutive months out of the most recent 18 months prior to the issuance of the Additional Bonds, plus the amount of any other Revenues received by the State Treasurer during that period (less any local reimbursement moneys received), was not less than 300% of the maximum annual aggregate Adjusted Debt Service Requirements on all Parity Bonds to be Outstanding after the Additional Bonds are issued. The 1992 Resolution requires an adjustment to the Revenues actually transferred or deposited into the State Highway Fund if State legislation has been enacted that has changed the rate or distribution of any taxes or fees comprising the Revenues or that has changed any of the transactions subject to the fees, excises or license taxes comprising the Revenues at any time subsequent to the beginning of such 12-month period, to reflect the Revenues which would have been transferred or deposited in such 12-month period had the changes been effective for the entire period. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Additional Bonds."

Source of Payment for the Series 2014B Bonds

The Series 2014B Bonds and the interest thereon are special obligations of the State payable and collectible solely from the Revenues in the State Highway Fund and transferred to the Highway Bond Debt Service Fund. The Owners of the Series 2014B Bonds may not look to the general or any other fund of the State for payment and the Series 2014B Bonds will not constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, nor can they be considered or held to be general obligations of the State. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS."

The State Highway Fund is maintained within the State Treasury and serves as the general operating fund of the Department. The Act provides that all Bonds shall be obligations only of the State Highway Fund. The 1992 Resolution provides that all Bonds and the interest and premium thereon shall be secured by a first lien and claim on the Revenues. Such lien secures both Parity Bonds and Subordinate Bonds; however, under the 1992 Resolution, Revenues deposited into the Highway Bond Debt Service Fund are used first to make deposits to pay interest on and principal of and premium, if any, on Parity Bonds before deposits are made to make payments on Subordinate Bonds. See "THE STATE HIGHWAY FUND—Sources of Funds in State Highway Fund."

Miscellaneous

This Official Statement contains descriptions of, among other matters, the Series 2014B Bonds, the 1992 Resolution, as supplemented by the Thirtieth Supplemental Resolution, the Department, the Revenues and the State Highway Fund. Such descriptions and information do not purport to be comprehensive or definitive. Summaries of certain provisions of the 1992 Resolution are set forth in Appendix D hereto. Definitions of certain terms used in this Official Statement are set forth in Appendix E hereto. All references herein to the 1992 Resolution and the Thirtieth Supplemental Resolution are qualified in their entirety by reference to the text of the 1992 Resolution and the Thirtieth

Supplemental Resolution and references herein to the Series 2014B Bonds are qualified in their entirety by reference to the forms thereof included in the 1992 Resolution and the Thirtieth Supplemental Resolution. Executed copies of such documents are available for inspection at the office of the Secretary.

THE SERIES 2014B BONDS

General

The Series 2014B Bonds are being issued by the Secretary pursuant to the Act, the 1992 Resolution and the Thirtieth Supplemental Resolution. The Series 2014B Bonds are dated and bear interest from their date of delivery. Interest on the Series 2014B Bonds is payable monthly on the first Business Day of each calendar month (an "Interest Payment Date") commencing October 1, 2014. Interest on the Series 2014B Bonds will be computed on the basis of a 360-day year for the actual number of days elapsed. The Series 2014B Bonds mature in the amounts and on the dates shown on the inside cover of this Official Statement and will bear interest at adjustable interest rates as described below.

Interest on the Series 2014B Bonds shall be payable in lawful money of the United States of America on the Interest Payment Dates to the Owners thereof whose names appear on the books maintained by the Bond Registrar at the close of business on the Record Dates. The Series 2014B Bonds shall be payable as to principal in lawful money of the United States of America to the Owners thereof at the office of The Bank of New York Mellon Trust Company, N.A., St. Louis, Missouri (the "Paying Agent").

The Series 2014B Bonds are being issued only in fully registered form in denominations of $5,000 and integral multiples thereof. The Series 2014B Bonds will be initially offered only in book-entry form, registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as Securities Depository of the Series 2014B Bonds. See "BOOK-ENTRY SYSTEM." For so long as Cede & Co. remains the registered owner of the Series 2014B Bonds, payments of principal and interest on the Series 2014B Bonds will be made by the Paying Agent by check or electronic transfer directly to DTC or Cede & Co. as the nominee of DTC and will be redistributed by DTC and the Participants as described below under "BOOK-ENTRY SYSTEM."

Interest on the Series 2014B Bonds

Adjustable Interest Rates. The Series 2014B Bonds shall bear interest at adjustable rates of interest per annum, determined by the Calculation Agent on each Rate Determination Date, from and including each Interest Payment Date to but excluding the next succeeding Interest Payment Date, equal to the sum of (i) 67% of the One-Month LIBOR Rate, plus (ii) the applicable Spread Factor; provided that no Series 2014B Bond shall bear interest for any period at an interest rate higher than the Maximum Rate, and provided further that prior to the first Rate Determination Date, the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014B-3 Bonds, the Series 2014B-4 Bonds and the Series 2014B-5 Bonds shall bear interest at the respective rates per annum determined by the Underwriter.

The determination of the interest rates for the Series 2014B Bonds by the Calculation Agent shall be conclusive and binding on the Owners of the Series 2014B Bonds, the Secretary and the Paying Agent, absent manifest error. If the Calculation Agent shall fail or refuse to determine the interest rate for any Series 2014B Bonds on any Rate Determination Date, the interest rate for such Series 2014B Bonds shall be determined and communicated by a successor Calculation Agent appointed by the Secretary. If such successor Calculation Agent shall fail or refuse to determine the interest rate for any Series 2014B Bonds within two Business Days after any Rate Determination Date, the interest rate most recently determined for such Series 2014B Bonds shall remain in effect until the next Rate Determination Date.

Certain Definitions. In addition to the definitions of certain terms set forth in Appendix F hereto, certain terms used in this caption are defined to have the meanings set forth below:

"*Business Day*" means any day other than a Saturday, Sunday, legal holiday in the State of Kansas or a day on which the Paying Agent and Bond Registrar is legally authorized to close.

"*Calculation Agent*" means The Bank of New York Mellon Trust Company, N.A., or any successor to it in such capacity, as agent of the Secretary for purposes of determining the interest rates applicable to the Series 2014B Bonds.

"*Interest Payment Date*" means the first Business Day of each calendar month, commencing October 1, 2014.

"*LIBOR-Based Accrual Period*" means the period from and including any Interest Payment Date to but excluding the next such Interest Payment Date.

"*London Banking Day*" means any day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency) in the city of London, United Kingdom.

"*Maximum Rate*" means the lesser of 10% per annum or the maximum rate of interest permitted by applicable law.

"*One-Month LIBOR Rate*" means, for each LIBOR-Based Accrual Period, the rate for deposits in U.S. Dollars with a one-month maturity that appears on Reuters Screen LIBOR01 (or such other page as may replace that page on that service), or similar page on any other nationally reputable data source displaying the one-month LIBOR rate for U.S. Dollar deposits calculated by ICE Benchmark Administration Limited ("ICE") or other such entity assuming the responsibility of ICE in calculating LIBOR in the event that ICE no longer does so, as of 11:00 a.m. (London time) on the Rate Determination Date, except that, if such rate does not appear on such pages on the Rate Determination Date, the "*One-Month LIBOR Rate*" means a rate determined on the basis of the rates at which deposits in U.S. Dollars for a one-month maturity commencing on the related Interest Payment Date and in a principal amount of at least U.S. $1,000,000 are offered at approximately 11:00 a.m. (London time) on the Rate Determination Date, to prime banks in the London interbank market by four major banks in the London interbank market (herein referred to as the "*Reference Banks*") selected by the Calculation Agent. The Calculation Agent is to request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the One-Month LIBOR Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the One-Month LIBOR Rate will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Calculation Agent, at approximately 11:00 a.m. (New York City time) on the related Interest Payment Date for loans in U.S. Dollars to leading European banks in a principal amount of at least U.S. $1,000,000 having a one-month maturity commencing on such Interest Payment Date. If none of the banks in New York City selected by the Calculation Agent are then quoting rates for such loans, then the "*One-Month LIBOR Rate*" for the ensuing LIBOR-Based Accrual Period will mean the One-Month LIBOR Rate in effect in the immediately preceding LIBOR-Based Accrual Period.

"*Rate Determination Date*" means the date that is two London Banking Days preceding each Interest Payment Date, commencing September 29, 2014.

"*Record Date*" means the Business Day next preceding each Interest Payment Date.

"*Spread Factor*" means the per annum spread (expressed in basis points) to the One-Month LIBOR Rate established on the date of pricing for each of the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014B-3 Bonds, the Series 2014B-4 Bonds and the Series 2014B-5 Bonds.

The Calculation Agent. On each Rate Determination Date, the interest rate to be borne on each Series 2014B Bond shall be determined by the Calculation Agent, as follows: (i) determine the One-Month LIBOR Rate, (ii) multiply the same by 67%, and (iii) add the applicable Spread Factor to the product of (i) and (ii). The Calculation Agent shall communicate each such interest rate to the Secretary, to the Paying Agent and to any Owner requesting such interest rate not later than 6:00 p.m., New York City time, on each Rate Determination Date. Not later than the end of business on each Interest Payment Date, the Calculation Agent shall notify via e-mail (or such other method designated by the Secretary and Bloomberg L.P.) the Secretary and Bloomberg L.P. of: (i) the respective CUSIP numbers for the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014B-3 Bonds, the Series 2014B-4 Bonds and the Series 2014B-5 Bonds; (ii) the date of such Interest Payment Date; (iii) the amount of interest paid on and maturity of the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014B-3 Bonds, the Series 2014B-4 Bonds and the Series 2014B-5 Bonds; and (iv) the respective interest rates used in the calculation of the amount of interest paid on the Series 2014B-1 Bonds, the Series 2014B-2 Bonds, the Series 2014B-3 Bonds, the Series 2014B-4 Bonds and the Series 2014B-5 Bonds on such Interest Payment Date.

The Calculation Agent may at any time resign and be discharged of the duties and obligations hereby created by giving 30 days' written notice to the Secretary and the Paying Agent. The resignation shall take effect upon the day specified in the notice unless previously a successor shall have been appointed hereunder, in which event the resignation shall take effect immediately upon the appointment of the successor calculation agent. Notwithstanding the foregoing, no resignation of the Calculation Agent or any successor calculation agent shall take effect unless and until a successor calculation agent is appointed by the Secretary.

The Calculation Agent may be removed at any time by the Secretary by 30 days' written notice filed with the Calculation Agent and the Paying Agent, provided that the Calculation Agent may be removed at any time by the Secretary without prior notice if the Calculation Agent fails or refuses to determine the interest rate for any Series 2014B Bonds on any Rate Determination Date. Any successor calculation agent shall be appointed by the Secretary, must be authorized by law to perform all the duties imposed upon it hereby and shall either be (i) a commercial bank with trust powers or trust company duly organized under the laws of the United States of America or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $25,000,000, or (ii) a member of the Financial Industry Regulatory Authority, having a capitalization of at least $25,000,000.

Payment of Series 2014B Bonds

The Bank of New York Mellon Trust Company, N.A., will serve as Paying Agent and Bond Registrar with respect to the Series 2014B Bonds. References herein to the "Paying Agent" or "Bond Registrar" are to such institution unless a different paying agent or bond registrar has been appointed, in which case, references to the Paying Agent or Bond Registrar shall be to the successor.

Not Subject to Redemption

The Series 2014B Bonds are not subject to redemption prior to maturity.

Registration, Transfer and Exchange of Series 2014B Bonds

The Secretary covenants that, as long as any of the Series 2014B Bonds remain Outstanding, he will cause to be kept, at the office of the Bond Registrar, books for the registration, transfer and exchange of such Series 2014B Bonds. So long as the Series 2014B Bonds are available through the book-entry only system of DTC, transfers of the Series 2014B Bonds may be made as described under "BOOK-ENTRY SYSTEM."

BOOK-ENTRY SYSTEM

The information in this section concerning The Depository Trust Company ("DTC") and DTC's book-entry-only system has been obtained from DTC, and the Department and the Underwriter take no responsibility for the accuracy thereof.

DTC will act as securities depository for the Series 2014B Bonds. The Series 2014B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2014B Bond certificate will be issued for each maturity of the Series 2014B Bonds in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants," together with the Direct Participants, the "Participants"). DTC has a Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2014B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will

not receive certificates representing their ownership interests in the Series 2014B Bonds, except in the event that use of the book-entry system for the Series 2014B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2014B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all the Series 2014B Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2014B Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Series 2014B Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments on the Series 2014B Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2014B Bonds at any time by giving reasonable notice to the Department or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2014B Bond certificates are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2014B Bond certificates will be printed and delivered.

The Department, Bond Counsel, the Paying Agent and the Underwriter cannot and do not give any assurances that the DTC Participants will distribute to the Beneficial Owners of the Series 2014B Bonds: (i) payments of principal of or interest on the Series 2014B Bonds; (ii) certificates representing an ownership interest or other confirmation of Beneficial Ownership interests in the Series 2014B Bonds; or (iii) redemption or other notices sent to DTC or its nominee, as the Registered Owners of the Series 2014B Bonds; or that they will do so on a timely basis or that DTC or its participants will serve and act in the manner described in this official statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

None of the Department, Bond Counsel, the Paying Agent or the Underwriter will have any responsibility or obligation to such DTC Participants (Direct or Indirect) or the persons for whom they act as nominees with respect to: (i) the Series 2014B Bonds; (ii) the accuracy of any records maintained by DTC or any DTC Participant; (iii) the payment by any DTC Participant of any amount due to any Beneficial Owner in respect of the principal amount of or interest on the Series 2014B Bonds; (iv) the delivery by any DTC Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the 1992 Resolution to be given to Registered Owners; (v) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2014B Bonds; or (vi) any consent given or other action taken by DTC as Registered Owner.

In reading this Official Statement, it should be understood that while the Series 2014B Bonds are in the Book Entry system, references in other sections of this Official Statement to Registered Owner should be read to include the Beneficial Owners of the Series 2014B Bonds, but: (i) all rights of ownership must be exercised through DTC and the Book Entry system; and (ii) notices that are to be given to Registered Owners by the Department or the Paying Agent will be given only to DTC.

APPLICATION OF PROCEEDS OF THE SERIES 2014B BONDS

The proceeds from the sale of the Series 2014B Bonds will be used to (i) currently refund the outstanding principal amounts of the Series 2002B Bonds and Series 2002C Bonds as described below and (ii) pay costs of issuance of the Series 2014B Bonds. The Series 2002B Bonds and Series 2002C Bonds will be redeemed on September 2, 2014, at a redemption price of 100% of their principal amount plus interest accrued to the redemption date.

Series 2002B Bonds

Adjustable Tender Highway Revenue Refunding Bonds, Series 2002B-1
Maturing September 1, 2019 (CUSIP: 485424-HZ1)

Adjustable Tender Highway Revenue Refunding Bonds, Series 2002B-2
Maturing September 1, 2019 (CUSIP: 485424-JA4)

Adjustable Tender Highway Revenue Refunding Bonds, Series 2002B-3
Maturing September 1, 2019 (CUSIP: 485424-JB2)

Series 2002C Bonds

Adjustable Tender Highway Revenue Refunding Bonds, Series 2002C-1
Maturing September 1, 2019 (CUSIP: 485424-JC0)

Adjustable Tender Highway Revenue Refunding Bonds, Series 2002C-2
Maturing September 1, 2019 (CUSIP: 485424-JD8)

Adjustable Tender Highway Revenue Refunding Bonds, Series 2002C-3
Maturing September 1, 2019 (CUSIP: 485424-JE6)

The following table sets forth the estimated applications of the proceeds of the Series 2014B Bonds and other available funds:

Sources of Funds:	
Principal Amount of the Series 2014B Bonds	$212,875,000.00
Other Available Funds	695,101.28
Total Sources of Funds	$213,570,101.28
Uses of Funds:	
Refunding of Series 2002B and Series 2002C Bonds[(1)]	$212,875,000.00
Costs of Issuance and Underwriter's Discount[(2)]	695,101.28
Total Uses of Funds	$213,570,101.28

[(1)] Reflects refunding of $113,090,000 of the Series 2002B Bonds and $99,785,000 of the Series 2002C Bonds remaining Outstanding after the deposit of sinking fund installments due September 1, 2014, with respect to such Bonds.

[(2)] Includes all costs of issuance of the Series 2014B Bonds, including underwriter's discount ($263,626.28), fees for legal counsel and other expenses, the payment of which is contingent upon the issuance of the Series 2014B Bonds.

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS

Legal Authority and Current Statutory Bond Authorization

The Series 2014B Bonds will be special obligations of the State and are being issued by the Secretary pursuant to the Act, the 1992 Resolution and the Thirtieth Supplemental Resolution. Under the terms and provisions of the Act, the Secretary is authorized to issue bonds for the payment of costs of construction, reconstruction, maintenance or improvement of highways in the State and expenses incidental thereto, to pay costs of issuance, to provide credit enhancement and to pay administrative and other expenses incurred in carrying out the powers granted by the Act.

The Series 2014B Bonds will be issued and secured on a parity with the Outstanding highway revenue bonds previously issued under the 1992 Resolution and described under "Outstanding Bonds" below. The 2010 Act Amendments permit the Secretary to issue highway revenue bonds without a stated statutory dollar limitation, subject, however, to the condition that the Secretary certify 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. The 1992 Resolution contains conditions with respect to the issuance of Additional Bonds thereunder. See the subcaption "Additional Bonds" hereunder.

Outstanding Bonds

The following table summarizes the highway revenue bonds that have been issued under the 1992 Resolution, as supplemented by the First through the Twenty-Ninth Supplemental Resolutions:

Series	Dated Date	Bond Name	Final Scheduled Maturity	Original Principal Amount	Principal Amount Outstanding August 1, 2014
1992	March 15, 1992	Highway Revenue Bonds	N/A	$250,000,000	$ 0
1992A	Sept. 15, 1992	Highway Revenue Bonds	N/A	125,000,000	0
1993	May 1, 1993	Highway Revenue Bonds	N/A	250,000,000	0
1993A	May 15, 1993	Highway Revenue Refunding Bonds	N/A	147,405,000	0
1994	Jan. 1, 1994	Highway Revenue Bonds	N/A	125,000,000	0
1994A	Sept. 15, 1994	Highway Revenue Bonds	N/A	50,000,000	0
1994B	Oct. 20, 1994	Adjustable Tender Hwy. Rev. Bonds	N/A	90,000,000	0
1998	March 1, 1998	Highway Revenue Refunding Bonds	N/A	189,195,000	0
1999	Sept. 1, 1999	Highway Revenue Bonds	N/A	325,000,000	0
2000A	Nov. 1, 2000	Highway Revenue Bonds	N/A	150,000,000	0
2000B	Dec. 5, 2000	Adjustable Tender Hwy. Rev. Bonds	N/A	100,000,000	0
2000C	Dec. 5, 2000	Adjustable Tender Hwy. Rev. Bonds	N/A	100,000,000	0
2002A	Oct. 23, 2002	Highway Revenue Refunding Bonds	N/A	199,600,000	0
2002B	Oct. 23, 2002	Adj. Tender Hwy. Rev. Ref. Bonds[1,2]	9/1/2019	170,005,000	125,485,000
2002C	Oct. 23, 2002	Adj. Tender Hwy. Rev. Ref. Bonds[1,2]	9/1/2019	150,000,000	110,730,000
2002D	Dec. 17, 2002	Adj. Tender Hwy. Rev. Ref. Bonds	N/A	88,110,000	0
2003A	Dec. 4, 2003	Highway Revenue Refunding Bonds	N/A	164,275,000	0
2003B	Dec. 4, 2003	Highway Revenue Refunding Bonds	N/A	83,915,000	0
2003C	Dec. 4, 2003	Auction Rate Hwy. Rev. Ref. Bonds	N/A	150,275,000	0
2004A	June 23, 2004	Highway Revenue Bonds	3/1/2019	250,000,000	76,235,000
2004B	Nov. 23, 2004	Highway Revenue Bonds [3]	9/1/2024	200,000,000	200,000,000
2004C	Nov. 23, 2004	Adj. Tender Hwy. Rev. Bonds[2]	9/1/2024	147,000,000	147,000,000
2008A	May 13, 2008	Adj. Tender Hwy. Rev. Bonds	N/A	150,870,000	0
2009A	Nov. 30, 2009	Highway Revenue Refunding Bonds	9/1/2020	176,680,000	176,680,000
2010A	Sept. 1, 2010	Taxable Hwy. Rev. Bonds[4]	9/1/2035	325,000,000	325,000,000
2012A	Aug. 30, 2012	Highway Rev. Ref. Index Bonds[2]	9/1/2015	151,365,000	128,290,000
2012B	Oct. 17, 2012	Highway Revenue Refunding Bonds	9/1/2022	144,885,000	144,885,000
2012C	Dec. 19, 2012	Highway Revenue Bonds	9/1/2032	200,000,000	200,000,000
2014A	July 31, 2014	Highway Revenue Bonds	9/1/2030	250,000,000	250,000,000

[1] The proceeds of the Series 2014B Bonds will be used to currently refund the $113,090,000 in aggregate principal amount of the Series 2002B Bonds and the $99,785,000 in aggregate principal amount of the Series 2002C Bonds that will remain Outstanding after the deposit of sinking fund installments due September 1, 2014, with respect to such Bonds.

[2] The Department has entered into floating-to-fixed interest rate swaps with respect to these adjustable rate issues. See "—Interest Rate Exchange Agreements" below and "REVENUES AND DEBT SERVICE COVERAGE—Projected Annual Debt Service" herein.

[3] The Series 2004B Bonds were converted from the Auction Mode to the Fixed Rate Mode on September 4, 2008.

[4] The Series 2010A Bonds were issued as taxable "Build America Bonds" to be eligible to receive a cash subsidy from the United States Treasury.

As of the date hereof, the aggregate principal amount of Bonds that are Outstanding (collectively, the "Outstanding Bonds") is $1,884,305,000.

Expectations for Issuance of Additional Bonds

The Secretary expects to issue Additional Bonds under the 1992 Resolution during the next 15 months in the approximate principal amount of $200,000,000, possibly in the first quarter of Fiscal Year 2016, for payment of a portion of the costs of construction, improvement, reconstruction and maintenance of the state highway system under T-WORKS.

Interest Rate Exchange Agreements

The Department has entered into the transactions described below and may enter into additional interest rate exchange agreements or other synthetic financial instruments in the future for the purpose of managing the interest cost of its debt. Interest rate exchanges and other synthetic financial instruments involve risks that could result in an economic loss to the Department. The Department's obligations, under the transactions described below, to make net payments as a result of fluctuation in hedged interest rates or fluctuation in the value of any index of payment, are payable from the Revenues. Regularly scheduled payments pursuant to such transactions are secured by a gross pledge of and a lien and charge upon the Revenues on a parity with the lien thereon in favor of the Bonds. The Department's obligations to make payments other than regularly scheduled payments due under each of the transactions described below are secured by a gross pledge of and a lien and charge upon the Revenues on a basis subordinate to the lien thereon with respect to regularly scheduled payments, the lien thereon in favor of regularly scheduled payments due under similar future transactions and the liens described in the Resolution with respect to the Interest Account, the Principal Account and the Debt Service Reserve Account. For a discussion of certain additional details and risks associated with said interest rate exchange agreements, see Note 9 Derivative Instruments in Appendix B hereto.

In connection with the issuance of the Series 2002B and 2002C Bonds and in order to achieve a synthetic fixed rate refunding of certain prior Bonds refunded thereby, the Secretary, pursuant to a competitive bid process, executed interest rate exchange agreements having a combined original notional amount of $320,005,000 with Salomon Brothers Holding Company Inc. (an affiliate of Citigroup Global Markets, Inc.) and Goldman Sachs Capital Markets, L.P. (an affiliate of Goldman, Sachs & Co.). The interest rate exchange agreements are floating-to-fixed interest rate exchange agreements paying 67% of LIBOR (London Interbank Offered Rate) to the Department and with the Department paying a fixed rate of 3.164%. The Bank of New York Mellon Trust Company, N.A., assumed responsibility from Salomon Brothers Holding Company Inc. under the same terms and conditions effective February 29, 2012. Upon the issuance of the Series 2014B Bonds, such interest rate exchange agreement will be allocated to the Series 2014B Bonds.

In connection with the issuance of the Series 2003C Bonds and in order to achieve a synthetic fixed rate refunding of certain prior Bonds refunded thereby, the Secretary, pursuant to a competitive bid process, executed an interest rate exchange agreement having an original notional amount of $150,275,000 with Merrill Lynch Capital Services, Inc. (an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated). The interest rate exchange agreement is a floating-to-fixed interest rate exchange agreement that originally paid the lesser of the bond rate or 71% of LIBOR to the Department while the Department paid a fixed rate of 3.359%. Upon the issuance of the Series 2008A Bonds on May 13, 2008, such interest rate exchange agreement was transferred to apply to the Series 2008A Bonds and upon issuance of the Series 2012A Bonds on August 30, 2012, such interest rate exchange agreement was transferred to apply to the Series 2012A Bonds. Commencing September 1, 2010, the rate paid to the

Department is equal to 71% of LIBOR (irrespective of the bond rate) and the Department continues to pay a fixed rate of 3.359%.

In connection with the Series 2004B Bonds, the Secretary, pursuant to a competitive bid process, executed an interest rate exchange agreement having an original notional amount of $75,000,000 with Bear Stearns Financial Products Inc., which agreement was assigned to and assumed by JPMorgan Chase Bank, N.A., pursuant to an Assignment Agreement effective March 18, 2009. The interest rate exchange agreement was a floating-to-floating interest rate exchange agreement paying 61.56% of 10-year USD-CMS to the Department and with the Department paying a floating rate of 67% of LIBOR. On March 11, 2014, the Department and JPMorgan Chase Bank, N.A., agreed to terminate the interest rate exchange agreement and the Department received a termination payment of $5,300,000 on March 13, 2014.

In connection with the issuance of the Series 2004C Bonds and in order to achieve a synthetic fixed rate, the Secretary, pursuant to a competitive bid process, executed an interest rate exchange agreement having an original notional amount of $147,000,000 with Goldman Sachs Capital Markets, LP (an affiliate of Goldman, Sachs & Co.). The interest rate exchange agreement is a floating-to-fixed interest rate exchange agreement paying 63.5% of LIBOR plus 29 basis points to the Department and with the Department paying a fixed rate of 3.571%. In June 2007, the Department executed a floating-to-fixed interest rate exchange agreement in the notional amount of $75,000,000 paying 62.329% of 10-year USD-CMS and a floating-to-fixed interest rate exchange agreement in the notional amount of $72,000,000 paying 63.5% of LIBOR plus 29 basis points to the Department and with the Department paying a fixed rate of 3.571%.

Special Obligations

The Series 2014B Bonds and the interest thereon are special obligations of the State and are payable and collectible solely from the Revenues in the State Highway Fund and transferred to the Highway Bond Debt Service Fund (the "Debt Service Fund"). The owners of the Series 2014B Bonds may not look to any general or other fund of the State for payment, and the Series 2014B Bonds will not constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, nor can they be considered or held to be general obligations of the State.

Revenues

Payments of principal of, premium, if any, and interest on all Bonds are payable solely from Revenues deposited in or transferred to the State Highway Fund and transferred to the Debt Service Fund.

The Act authorizes and empowers the Secretary to transfer from the State Highway Fund to the Debt Service Fund such amounts as shall be required for paying principal of, premium, if any, and interest on all Bonds and refunding bonds issued under the Act and for creating reserves for such purposes.

The 1992 Resolution provides that all Bonds and the interest and premium thereon shall be secured by a first lien and claim on the Revenues. Such lien secures both Parity Bonds and Subordinate Bonds; however, under the 1992 Resolution, Revenues deposited into the Debt Service Fund are used first to make deposits to pay interest on, principal of and premium, if any, on Parity Bonds before deposits are made to make payments on Subordinate Bonds.

Information concerning the State Highway Fund and the current sources of funding for the State Highway Fund are set forth under "THE STATE HIGHWAY FUND" and in Appendix C. Such sources

of funding for the State Highway Fund and the level of such funding may be changed from time to time at the discretion of the Kansas Legislature.

The Revenues are defined in the 1992 Resolution, as supplemented through the Sixth Amendatory Supplemental Resolution adopted by the Secretary on August 17, 2010, to include the following:

Motor Fuels Taxes. The portion of the State's motor fuel tax, special fuels tax and trip permits transferred or credited to the State Highway Fund in the manner and in the percentages provided by State statute. Under the current statute, Motor Fuels Tax rates were increased by two cents on July 1, 1999, by one cent on July 1, 2001, by two cents on July 1, 2002, and another one cent increase occurred on July 1, 2003. As provided by State statute, the State Treasurer, effective July 1, 2003, credits 66.37% of the total amounts received from the Motor Fuels Taxes after provisions for refunds and after making a deposit to the Kansas Qualified Agricultural Ethyl Alcohol Producers Incentive Fund to the State Highway Fund. See "Motor Fuels Taxes" under the caption "THE STATE HIGHWAY FUND" herein and in Appendix C hereto.

Sales Tax and Compensating Use Taxes. The current State sales tax and compensating use tax rates, effective July 1, 2013, are 6.15% (decreased from the 6.30% tax rates previously in effect), a portion of which is credited directly to the State Highway Fund in accordance with State law. Prior to July 1, 2006, 5/106ths of the 5.30%, the equivalent of a .25% tax rate, was credited directly to the State Highway Fund. The 2004 Legislature changed the statute to 19/265ths of the 5.30% effective July 1, 2006, and 13/106ths of the 5.30% effective July 1, 2007, the equivalent of .38% for Fiscal Year 2007 and .65% for Fiscal Year 2008 and thereafter. The 2010 Legislature amended the statute to credit 11.427% of the revenue collected at the rate of 6.30% to the State Highway Fund effective July 1, 2010, 11.26% of the revenue collected to the State Highway Fund effective July 1, 2011, and 11.233% of the revenue collected to the State Highway Fund effective July 1, 2012, and beginning July 1, 2013, and thereafter, 18.421% of the revenue collected at the rate of 5.70% to the State Highway Fund. The 2013 Legislature amended the statute to credit 17.073% of the revenue collected at the rate of 6.15% to the State Highway Fund effective July 1, 2013, and thereafter.

The 2004 Legislature, after two years of withholding previously authorized amounts of quarterly sales tax transfers from the State General Fund, eliminated such sales tax transfer provisions from the statute. Accordingly, sales tax transfers are no longer included in Revenues in the State Highway Fund.

See "Sales Taxes and Compensating Use Taxes" under the caption "THE STATE HIGHWAY FUND" herein and in Appendix C hereto.

Drivers' License and Vehicle Registration Fees. The State's vehicle registration and certificates of title fees transferred or credited to the State Highway Fund in accordance with State statute. Currently, under K.S.A. 8-146, the Division of Vehicles of the Department of Revenue is required, at least monthly, to deposit all drivers' license fees and vehicle registration fees ("Drivers' License and Vehicle Registration Fees") remitted to it with the State Treasurer who is directed to place such amounts as required by statute to the credit of the State Highway Fund. See "Drivers' License and Vehicle Registration Fees" under the caption "THE STATE HIGHWAY FUND" herein and in Appendix C hereto.

Government Interest Subsidy Payments. Payments received by the Secretary from the federal or state government that are made to reduce or offset debt service payments on any indebtedness, including without limitation any BAB Interest Subsidy Payments, which means payments to be received by the Secretary from the U.S. Department of the Treasury under Code Sections 54AA(g) and 6431 in

connection with payments of interest on a Series of Bonds. The Sixth Amendatory Supplemental Resolution adopted by the Secretary in anticipation of the issuance of the Series 2010A Bonds amended the 1992 Resolution to add Government Interest Subsidy Payments as a portion of Revenues pledged under the terms of the Resolution.

Other Moneys. All other moneys regardless of their origin, transferred to or credited to the State Highway Fund, except for moneys, the use of which is restricted by law from paying debt service on the Bonds.

See Appendix C to this Official Statement for a more complete discussion of the various components of the Revenues and current sources of funds in the State Highway Fund.

Legislative Changes Affecting Revenues

There is no requirement that funds from the Motor Fuels Taxes, Sales Taxes and Compensating Use Taxes or Drivers' License and Vehicle Registration Fees, described above under "Revenues" or that funds from any other sources currently being deposited into or credited to the State Highway Fund will continue to be required to be deposited or credited thereto or that the amounts or percentages from such sources will not be changed by the Kansas Legislature from time to time. The Kansas Legislature has in the past and may in the future amend the laws relating to the Motor Fuels Taxes, Sales Taxes and Compensating Use Taxes, vehicle registration and drivers' license fees and the State Highway Fund and may amend other laws which otherwise affect the Revenues. However, so long as the Bonds are Outstanding any such amendments would be subject to the covenants of the State in the 1992 Resolution to maintain the State Highway Fund and to credit or transfer to the State Highway Fund Revenues as described in the following paragraph.

The State covenants in the 1992 Resolution that, in each Fiscal Year, it will credit or transfer, to the State Highway Fund, Revenues in an amount at least equal to 300% of the debt service due and payable in such Fiscal Year on all Parity Bonds then Outstanding.

Exclusion From Revenues for Certain Purposes

The 1992 Resolution provided that there be excluded from Revenues any reimbursements received from the federal government and from local government entities for purposes of (i) calculating the 300% coverage of debt service due and payable in each Fiscal Year on all Parity Bonds Outstanding as described under the subcaption "Covenant to Maintain and Fund State Highway Fund," and (ii) calculating the 300% coverage of maximum annual aggregate Adjusted Debt Service Requirements due and payable in each Fiscal Year on all Parity Bonds Outstanding and Additional Bonds proposed to be issued as described under the subcaption "Additional Bonds."

The Second Amendatory Supplemental Resolution adopted by the Secretary on August 6, 1999, in anticipation of the sale of the Series 1999 Bonds amended the 1992 Resolution to eliminate the exclusion of reimbursements received from the federal government (but made no change regarding the exclusion of reimbursements received from local government entities) in Revenues for the purposes described in the preceding paragraph. This amendment became effective with the retirement of the Series 1998 Bonds on September 1, 2013.

See the table on page 25 hereof, including the columns "Federal" and "Locals" under "Intergovernmental Reimbursements" for historical and projected annual amounts of federal and local governmental reimbursements. Also see footnote 2 under the Projected Debt Service Coverage table on page 34 hereof.

Funds and Accounts

The Act and the 1992 Resolution establish a series of funds and accounts which are held in the custody of the State Treasurer. The funds and accounts are described in the following paragraphs.

State Highway Fund. The State Highway Fund is a fund within the State treasury referred to in numerous places in the Kansas statutes. As discussed in more detail under "THE STATE HIGHWAY FUND," the State Highway Fund is the general operating fund of the Department. The Act authorizes and empowers the Secretary to transfer from the State Highway Fund to the Debt Service Fund such amounts as shall be required to pay debt service on bonds, including refunding bonds, issued under the Act and to provide reserves for such purposes, to pay the costs related to construction, reconstruction, maintenance and improvement of highways in the State and expenses incidental thereto, to pay costs of issuance, to provide credit enhancement and to pay administrative and other expenses incurred in carrying out the powers granted by the Act.

The 1992 Resolution provides a pledge of the Revenues in the State Highway Fund to secure payment of the principal of, premium, if any, and interest on the Bonds. The 1992 Resolution also states that the Revenues shall be held in the State Highway Fund in an express trust by the State Treasurer in the State treasury to be used and expended solely, strictly and expressly as required by the Act and the 1992 Resolution and any Supplemental Resolutions. The 1992 Resolution provides that the Revenues transferred from the State Highway Fund for deposit into the Debt Service Fund will be used first to make deposits to pay interest on, principal of and premium, if any, on the Parity Bonds before deposits are made to make payments on Subordinate Bonds.

The 1992 Resolution states that the Secretary shall direct the State Treasurer to transfer the first moneys available in the State Highway Fund and deposit to the Debt Service Fund amounts sufficient to make appropriate deposits to the credit of all accounts, subaccounts and funds in the Debt Service Fund as may be specified in the 1992 Resolution and Supplemental Resolutions. With respect to the Series 2014B Bonds, the Thirtieth Supplemental Resolution requires monthly transfers to the Debt Service Fund of the interest due on the next Interest Payment Date and one-twelfth of the principal due on the next payment date. Monthly transfers with respect to the Debt Service Requirements of the Outstanding Bonds also are required by the 1992 Resolution as previously supplemented by the First through Twenty-Ninth Supplemental Resolutions (the "Existing Supplemental Resolutions").

Debt Service Fund. The Act establishes, in the State treasury, the Debt Service Fund and the 1992 Resolution creates within such Debt Service Fund (i) a special account designated as the "Highway Bond Sinking Fund Account" which is referred to herein as the "Sinking Fund" and creates within the Sinking Fund an Interest Account, Principal Account and Debt Service Reserve Account and (ii) a Bond Related Costs Account. The 1992 Resolution also provides that within the funds and accounts established in the 1992 Resolution, there shall be created such additional separate accounts, subaccounts and funds as shall be required by Supplemental Resolution, and the Thirtieth Supplemental Resolution creates: within the Interest Account, the Series 2014B Bond Interest Account; within the Principal Account, the Series 2014B Bond Principal Account; and, within the Debt Service Reserve Account, the Series 2014B Bond Debt Service Reserve Account.

The 1992 Resolution provides that money transferred from the State Highway Fund and deposited into the Debt Service Fund is to be applied in the following order of priority: (a) into the Interest Account in the Sinking Fund for Parity Bonds; (b) into the Principal Account in the Sinking Fund for Parity Bonds; (c) into the Debt Service Reserve Account for Parity Bonds, if any amount is required; (d) into the Bond Related Costs Account for Parity Bonds; and (e) into the funds and accounts, if any, created for Subordinate Bonds.

After the foregoing deposits have been made, the remaining Revenues, if any, may, under the 1992 Resolution, be used and expended by the Secretary for any other lawful use of the State Highway Fund. If the Secretary determines that a Qualified Swap Agreement is being entered into for the purpose of providing substitute interest payments for a series of Bonds, amounts required to be deposited into the Interest Account pursuant to clause (a) above shall include amounts sufficient to make regularly scheduled payments due under such Qualified Swap Agreement.

The 1992 Resolution states that if there is a deficiency in the required deposit to any of the funds or accounts described in (a) through (e) above, and unless the Secretary uses lawfully available Revenues on deposit in the State Highway Fund or other lawfully available moneys to cure such deficiency, all additional Revenues deposited into the State Highway Fund shall be used to make up such deficiencies in such funds and accounts, but only in the priority of deposit set forth above, prior to making any deposits to any lower priority fund, account or subaccount.

Series 2014B Reserve Account. The 1992 Resolution does not require that a debt service reserve fund or account be created for Bonds issued under the 1992 Resolution, but provides that, with respect to any series of Bonds, a debt service reserve fund or account may be created by Supplemental Resolution. The 1992 Resolution creates, in the Sinking Fund, a Debt Service Reserve Account. The Thirtieth Supplemental Resolution creates therein the Series 2014B Bond Debt Service Reserve Account (the "Series 2014B Reserve Account").

Deposits into the Series 2014B Reserve Account will never be required unless the amount of Revenues (including reimbursements received from the federal government but excluding reimbursements received from local government entities) transferred or deposited into the State Highway Fund for any Fiscal Year is less than 300% of maximum annual aggregate Adjusted Debt Service Requirements on Parity Bonds Outstanding in that Fiscal Year. If in any Fiscal Year the 300% requirement is not met, then, commencing in the first calendar month following the date the Department receives its audited financial statements for the year in which the requirement was not met, and continuing each month until the Reserve Requirement (as described below) is on deposit in the Series 2014B Reserve Account (or, if earlier, the time when the requirement to fund the Series 2014B Reserve Account is discontinued), the State Treasurer is directed to deposit into the Series 2014B Reserve Account an amount equal to one forty-eighth (1/48th) of the Series 2014B Reserve Requirement. Notwithstanding the foregoing, if, after having failed for one or more Fiscal Years to achieve the 300% requirement, the 300% requirement is achieved for two consecutive Fiscal Years (as shown by the audited financial statements of the Department for such years), then all amounts in the Series 2014B Reserve Account will be released from such account and transferred to the State Highway Fund and no further deposits will be required unless a subsequent failure to meet the 300% requirement occurs.

If, at any time, amounts are withdrawn from the Series 2014B Reserve Account to pay debt service on the Series 2014B Bonds, deposits, in approximately equal monthly amounts, are to be made in amounts sufficient to restore, in not more than 24 months, the amount withdrawn. In addition, if, at any time, the Series 2014B Reserve Account is required to be funded, the State Treasurer is required to value such accounts at least monthly and, if the valuation results in the amount in such account being less than the Series 2014B Reserve Requirement (or the portion thereof required to be in such account at such time), the deficiency is to be restored by deposits, in approximately equal monthly amounts, to be made from the State Highway Fund over a period of not more than 24 months.

The Reserve Requirement, with respect to the Series 2014B Bonds, means the least of (a) the maximum amount of principal of and interest due in any Fiscal Year on all such Series 2014B Bonds Outstanding on the day following the day of calculation, (b) 125% of the average annual debt service on the Series 2014B Bonds then Outstanding, or (c) an amount not in excess of 10% of the sale proceeds of

the Series 2014B Bonds, calculated in each case by giving effect to each redemption of Outstanding Series 2014B Bonds.

The Existing Supplemental Resolutions each provided for the creation of debt service reserve accounts for the Outstanding Bonds, with substantively identical funding and restoration requirements as those established by the Thirtieth Supplemental Resolution for the Series 2014B Bonds.

Highway Bond Proceeds Fund. The Act states that proceeds from the sale of bonds issued thereunder are deemed to be trust funds and shall be deposited in the custody of the State Treasurer in the Highway Bond Proceeds Fund which is established by the Act. Proceeds of the Series 2014B Bonds will be deposited into the Highway Bond Proceeds Fund. Moneys in the Highway Bond Proceeds Fund are to be withdrawn only upon vouchers or transfers signed by the Secretary. The 1992 Resolution provides that upon the occurrence of an Event of Default under the 1992 Resolution, any moneys in the Highway Bond Proceeds Fund shall be transferred by the Secretary to the Debt Service Fund and applied as described above with respect to such Fund.

Investment of Funds and Accounts. The 1992 Resolution states that, except as otherwise restricted in the 1992 Resolution, any moneys held as a part of any of the Sinking Fund, funds, accounts or subaccounts authorized in the 1992 Resolution or in a Supplemental Resolution shall be invested or reinvested by the Pooled Money Investment Board (the "PMIB") in Investment Securities, at the oral or written request of the Secretary. Subject to the provisions set forth below, the PMIB shall follow the directions of the Secretary with respect to the type, amount and maturity of those investments and whether those investments should be sold, surrendered or exchanged or another disposition should be made of them; provided that, in any case, the maturities or availability of the investments shall coincide with the respective dates as of which payments are required to be made from the respective funds, accounts and subaccounts.

The 1992 Resolution permits investments of moneys in the Highway Bond Proceeds Fund and the Sinking Fund in various investment securities. See the definition "Investment Securities" in Appendix E hereto for a complete description thereof.

Investments are to be held by or under the control of the State Treasurer and, under the terms of the 1992 Resolution, shall be deemed at all times to constitute a part of the fund, account or subaccount from which they shall have been made. Except for the investment earnings received from moneys held in the Highway Bond Proceeds Fund which shall be transferred to the Sinking Fund and allocated to the Interest Account and then to the Principal Account, as needed, any investment earnings will be credited, and any loss resulting therefrom will be charged, to the respective fund, account and subaccount from which the investments shall have been made.

The Paying Agent must notify the PMIB and it must sell and convert to cash a sufficient portion of investments whenever the cash balance in any of the funds, accounts or subaccounts is insufficient to pay the current requirements from that fund, account or subaccount. The PMIB has been irrevocably instructed to sell or redeem investments credited to the respective funds, accounts and subaccounts to produce moneys which are sufficient at the times required for the purposes of paying principal of, premium, if any, and interest on Bonds, without the necessity for and without restriction by reason of any further order of the Secretary.

The PMIB, established pursuant to K.S.A. 75-4221a, is charged with the management of different State pooled moneys. In addition, the PMIB is named as the investing arm of the State for various special portfolios, such as the State Highway Fund, which are authorized by specific statutes. The PMIB consists of the State Treasurer and four gubernatorial appointees who serve staggered terms. One of the five is

appointed as chairperson by the governor. The PMIB is, in turn, authorized to appoint officers, analysts and other employees to fulfill its directives. As of April 30, 2014, the PMIB was actively involved in the management of State investments totaling approximately $3.7 billion.

Additional Bonds

The 1992 Resolution provides for the issuance of Bonds thereunder. Such Bonds may be Parity Bonds or Subordinate Bonds. In this Official Statement, all Bonds referred to as "Additional Bonds" are Parity Bonds. The tests for the issuance of Additional Bonds set forth below do not need to be met prior to the issuance of Subordinate Bonds. The 2010 Act Amendments permit the Secretary to issue highway revenue bonds without a stated statutory dollar limitation, subject, however, to the condition that the Secretary certify 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. See "Legal Authority and Current Statutory Bond Authorization" hereinabove.

The 1992 Resolution provides that, prior to the issuance of Additional Bonds, the Department must obtain a report of an Independent Certified Public Accountant stating that the sum of:

> (a) the amount of the Revenues transferred to or deposited into the State Highway Fund in any 12 consecutive months out of the most recent 18 months preceding the issuance of such Additional Bonds (provided, that, in the event that State legislation has been enacted that has changed the rate or distribution of any of the taxes or fees, comprising Revenues or that has changed any of the transactions subject to the fees, excises or license taxes comprising the Revenues at any time subsequent to the beginning of such 12-month period, then the amount of Revenues for such 12-month period shall be adjusted to the level which the Secretary determines would have been deposited into the State Highway Fund in such 12-month period if such changed rate or distribution or such change in such transactions had been in effect for the entire 12-month period), plus
>
> (b) the amount of any other moneys received by the State Treasurer during the period described in (a) and which constitute Revenues

was not less than 300% of the maximum annual aggregate Adjusted Debt Service Requirements on Outstanding Parity Bonds in the then current or any future Fiscal Year, including the maximum annual Adjusted Debt Service Requirements on the Additional Bonds then proposed to be issued but excluding the Adjusted Debt Service Requirements on any Parity Bonds to be refunded that will not be Outstanding immediately after the issuance of such Additional Bonds. See the subcaption "Exclusion From Revenues for Certain Purposes" herein for a discussion of certain reimbursements excluded from Revenues in calculating the 300% requirement for this purpose.

The Secretary does expect to issue Additional Bonds under the 1992 Resolution during the next 15 months in the approximate principal amount of $200,000,000, possibly in the first quarter of Fiscal Year 2016, for payment of a portion of the costs of construction, improvement, reconstruction and maintenance of the state highway system under T-WORKS.

Refunding Bonds

Refunding Bonds may be issued as Additional Bonds, i.e., Parity Bonds, upon satisfaction of the test set forth immediately above. Refunding Bonds may be issued on a junior and subordinate basis, i.e.,

Subordinate Bonds, for refunding purposes without meeting the test set forth immediately above upon the delivery of a certificate of the Secretary setting forth either:

(a) (i) by Fiscal Year, with respect to the Bonds to be refunded, the aggregate Adjusted Debt Service Requirements due immediately prior to the date of issuance of such refunding Bonds for the then current and each future Fiscal Year during which such series of Bonds would be Outstanding if not refunded;

(ii) the aggregate Adjusted Debt Service Requirements for each Fiscal Year set forth in (i) above on all Bonds of such series which will remain Outstanding immediately after the date of issuance of the proposed refunding Bonds and on the Bonds to be issued to refund Bonds of such series; and

(iii) that the aggregate Adjusted Debt Service Requirements on Bonds set forth for each Fiscal Year pursuant to (ii) above is not more than 100% of that set forth for such Fiscal Year pursuant to (i) above; or

(b) the refunding is for the purpose of curing an Event of Default.

Covenant to Maintain and Fund State Highway Fund

In the 1992 Resolution, the State covenants and agrees for the benefit, security and protection of all owners of the Bonds:

(a) to maintain the State Highway Fund so long as any of the Bonds remain Outstanding; and

(b) that Revenues in each Fiscal Year shall be not less than 300% of the amount sufficient to pay debt service on all Parity Bonds Outstanding during such Fiscal Year. If, in any Fiscal Year, the 300% requirement (including in Revenues reimbursements received from the federal government but excluding reimbursements received from local government entities) is not achieved, the Thirtieth Supplemental Resolution requires that moneys from the State Highway Fund be used, over a period of 48 months (or until the 300% deposit requirement is achieved for two consecutive years if sooner), to fund the Series 2014B Reserve Account. The Existing Supplemental Resolutions each provided for the creation of debt service reserve accounts for the Outstanding Bonds with substantively identical funding and restoration requirements as those established by the Thirtieth Supplemental Resolution for the Series 2014B Bonds. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Funds and Accounts-Series 2014B Reserve Account."

THE STATE HIGHWAY FUND

General

The State Highway Fund is a fund within the Kansas State treasury and serves as the Department's general operating fund. It is used to account for all financial transactions applicable to the general operations of the Department, including road and bridge repairs, maintenance and construction, planning and development, engineering and administration.

Basis of Projections

The Department makes and, from time to time updates, projections or estimates concerning the revenues expected to be available to the State Highway Fund and the expenditures of the Department. The Department reviews and considers information from various sources in preparing projections. Two sources on which the Department relies are (a) the State's Consensus Estimating Group and (b) the Highway Revenue Estimating Group.

The Consensus Estimating Group includes staff from the State's Division of the Budget, the Department of Revenue, Legislative Research, as well as several consulting economists. The members of the group prepare independent estimates of receipts to the State General Fund, then meet to arrive at a consensus. Although the primary emphasis of the group is on State General Fund receipts, the group also prepares estimates for the growth rate of personal income, inflation, interest rates and oil and gas prices and production, all of which have an effect on the State's revenues. The Department reviews the Consensus Estimating Group's estimates to determine whether such estimates continue to support the Department's current projections.

The Highway Revenue Estimating Group is composed of representatives from the State's Department of Revenue, Legislative Research, the Division of the Budget and the Department of Transportation and typically meets shortly after the Consensus Estimating Group meets. The primary function of the Highway Revenue Estimating Group is to prepare forecasts for the amounts of motor vehicle registration fees and Motor Fuels Taxes that will be collected. The larger Consensus Estimating Group does not prepare estimates for these revenues which do not flow to the State General Fund. In addition, since the larger Consensus Estimating Group only estimates the growth of revenues from Sales and Compensating Use Taxes for two years, the Highway Revenue Estimating Group agrees on a long-term growth rate of revenues from Sales and Compensating Use Taxes.

The Consensus Estimating Group's estimates are as of April 17, 2014. The Highway Revenue Estimating Group's estimates as of November 12, 2013, are incorporated into the Department's projections for Motor Fuels Taxes and Vehicle Registration Fees.

With respect to the Department's estimates for the primary sources of revenues to be transferred or credited to the State Highway Fund, brief discussions of the basis of such estimates are included in Appendix C to this Official Statement.

The accompanying prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Department's management, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the Department. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

Certain Transfers from State Highway Fund to State General Fund

FY 2002 Loan to State General Fund. The 2002 Legislature borrowed $94.6 million from the State Highway Fund for the State General Fund and directed that the funds were to be repaid to the State Highway Fund by June 30, 2003. The 2003 Legislature deferred the repayment of the $94.6 million loan into four equal annual installments beginning prior to June 30, 2007. In addition, the 2003 Legislature directed that the State Highway Fund transfer to the State General Fund $30.6 million for activities of the State Highway Patrol and the 2003 Legislature directed that this transfer also be repaid in four equal annual installments beginning prior to June 30, 2007. The first repayment installment was made in June 2007 and the second in June 2008. The 2009 Legislature delayed the June 2009 repayment to June 2011 and the 2010 Legislature eliminated the language authorizing the June 2011 repayment. At this time, there is no authorization for the final two repayments. The Department's projections included in this Official Statement do not include receiving the final two repayments.

FY 2010, 2011, 2012, 2013 and 2014 Transfers. The State budgets for Fiscal Years 2010, 2011, 2012 and 2013 provided for transfers from the State Highway Fund (including allotments to the State General Fund and to certain other departments of the State) in the amounts of $253,607,868, $257,884,668, $307,586,863 and $110,096,719, respectively. These transfers were made after the transfers to the Debt Service Fund. The State budget for Fiscal Year 2014 provided for transfers from the State Highway Fund to certain other departments of the State in the amount of $263,677,970.

State General Fund Receipt Estimates and Results for FY 2014. The July 18, 2014, monthly report of the Kansas Legislative Research Department for State General Fund receipts ("SGF Receipts") for the 12-month period July 2013 through June 2014 of Fiscal Year 2014 states that total SGF Receipts were $333.3 million or 5.6% below the revised estimates made by the Consensus Estimating Group on April 17, 2014 (report available online at http://www.kslegresearch.org/SGF/2014_SGF_June_Receipts.pdf). The component of total SGF Receipts from total taxes (income taxes, excise taxes and other taxes) for Fiscal Year 2014 was $333.8 million or 5.6% less than the revised estimates. Total SGF Receipts for Fiscal Year 2014 were $333.3 million or 10.8% less than for Fiscal Year 2013.

FY 2015 Budget. The State budget for Fiscal Year 2015 provides for transfers from the State Highway Fund to certain other departments of the State in the approximate amount of $262,909,244, including a transfer of approximately $20 million to the Department of Administration for payment of a portion of the Fiscal Year 2015 payment of statehouse debt service.

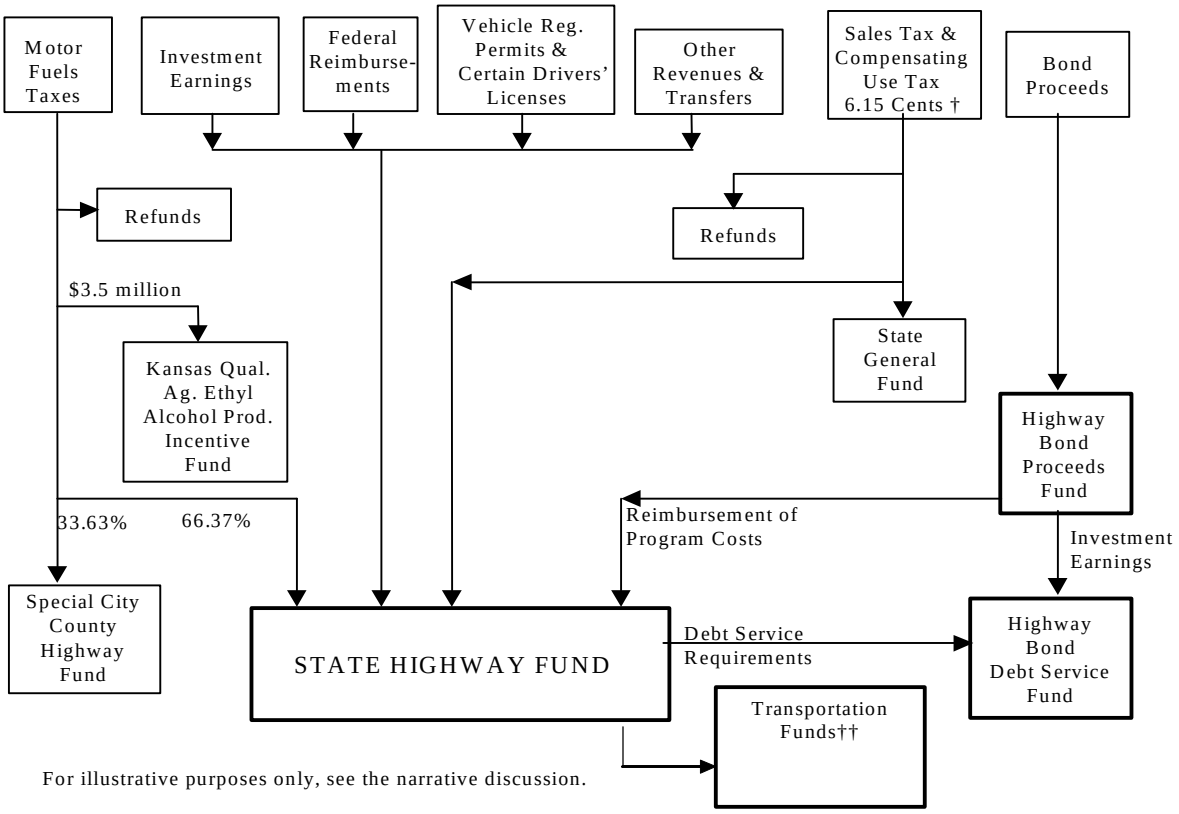
State General Fund Receipt Estimates and Results for FY 2015. The August 5, 2014, monthly report of the Kansas Legislative Research Department for State General Fund receipts ("SGF Receipts") for the one-month period July 2014 of Fiscal Year 2015 states that total SGF Receipts were $0.6 million or 0.2% above the revised estimates made by the Consensus Estimating Group on April 17, 2014 (report available online at http://www.kslegresearch.org/SGF/2015_SGF_July_Receipts.pdf). The component of total SGF Receipts from total taxes (income taxes, excise taxes and other taxes) for the one-month period July 2014 of Fiscal Year 2015 was $4.1 million or 1.0% above the revised estimates. Total SGF Receipts from total taxes for July 2014 were $13.5 million or 3.2% less than for July 2013.

Estimates for Future Fiscal Years. The information contained in the table on page 25 hereof and elsewhere herein relating to the funds estimated to be credited to or transferred to the State Highway Fund for each of the Fiscal Years 2014 through 2019 is subject to change and may be impacted by various factors. A description of the basis of the Department's estimates is set forth under "Basis of Projections" and additional information with respect to the estimates for certain categories is contained in Appendix C.

Sources of Funds in State Highway Fund

The following chart illustrates the current flow of revenues and bond proceeds into the State Highway Fund, the Highway Bond Proceeds Fund and the Debt Service Fund.

Flow of Revenues and Bond Proceeds



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† Starting July 1, 2013 and thereafter, 17.073% of the revenue collected at the rate of 6.15% is credited to the State Highway Fund.

The 2004 Legislature, after two years of withholding previously authorized amounts of quarterly sales tax transfers from the General Fund to the State Highway Fund, eliminated such sales tax transfer provisions from the statute. See the discussion under "State Sales Tax and Compensating Use Taxes" herein.

†† See "KANSAS DEPARTMENT OF TRANSPORTATION-Responsibilities of Department-Transportation Revolving Fund, Communication System Revolving Fund and the Kansas Intermodal Transportation Revolving Fund" herein.

The moneys currently credited to or transferred to the State Highway Fund are derived primarily from the following sources: (a) the Motor Fuels Taxes, (b) vehicle registration, drivers' license fees and vehicle permits, (c) a portion of the Sales Tax and Compensating Use Tax receipts, (d) investment income on the State Highway Fund, (e) intergovernmental transfers consisting primarily of federal grant funds in reimbursement of expenditures made by the Department and reimbursements from local governments, (f) transfers-in to the State Highway Fund from other Department funds and (g) miscellaneous other sources. The following table sets forth, by category, the major sources of funds credited to or transferred to the State Highway Fund and the amount of such funds in each of the Fiscal Years 2002 through 2013 and the amount of such funds estimated by the Department for each of the Fiscal Years 2014 through 2019. Each of the sources is described in the paragraphs following the table. More detail with respect to the primary current sources is set forth in Appendix C to this Official Statement. A description of the basis of the Department's estimates is set forth under "Basis of Projections" and additional information with respect to the estimates for certain categories is contained in Appendix C.

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State of Kansas, Department of Transportation

State Highway Fund
Sources of Funds, Excluding Bond Proceeds
For the Fiscal Year Ended June 30
(Amounts in Thousands)

Fiscal Year	Motor Fuel Taxes	Direct Credit Sales Tax	Sales Tax Transfer	Other Transfers	Registration, Licenses And Permits	Intergovernmental Reimbursements		Investment Earnings††	Other	Subtotal	Operating Transfers-in From Other Departmental Funds‡	Total
						Federal†	Locals†					
2002	232,411	91,478	94,288	3,616	140,632	353,798	18,862	69,291	5,032	1,009,408	0	1,009,408
2003	263,721	88,949	0	3,348	152,738	381,486	23,775	34,287	6,621	954,925	0	954,925
2004	279,091	90,664	0	3,333	156,916	309,550	17,718	3,206	12,427	872,905	0	872,905
2005	281,142	94,208	0	3,825	163,760	354,261	29,807	15,093	5,483	947,579	0	947,579
2006	282,778	99,938	0	214,508 ±	165,573	373,461	25,543	17,783	6,151	1,185,735	0	1,185,735
2007	284,718	162,525	0	3,313	171,575	456,820	37,310	25,076	8,419	1,149,756	0	1,149,756
2008	283,974	283,597	0	1,464	172,353	462,574	32,506	20,564	8,116	1,265,148	0	1,265,148
2009	277,358	268,259	0	1,462	170,256	332,386	53,419	17,043	4,820	1,125,003	0	1,125,003
2010	280,376	259,899	0	1,588	175,291	453,589	44,433	3,649	7,923	1,226,748	0	1,226,748
2011	283,981	295,989	0	2,478	178,492	608,461	62,281	1,082	4,754	1,437,518	1,000	1,438,518
2012	286,151	312,934	0	3,665	177,649	461,837	24,801	219	8,835	1,276,091	0	1,276,091
2013	274,337	320,756	0	1,636	198,120	411,091	30,008	303	20,622	1,256,873	0	1,256,873
2014	285,329	485,166	0	1,394	219,158	401,729	37,856	308	19,921	1,450,861	0	1,450,861
2015	286,191	521,047	0	1,394	226,158	328,683	33,894	510	14,889	1,412,766	0	1,412,766
2016	287,054	540,580	0	1,394	229,158	337,854	28,127	2,618	4,368	1,431,153	0	1,431,153
2017	287,917	560,846	0	1,394	232,158	373,981	33,838	3,568	4,368	1,498,070	0	1,498,070
2018	288,780	581,871	0	1,394	235,158	358,657	30,406	1,976	4,368	1,502,610	0	1,502,610
2019	289,643	603,685	0	1,394	238,158	350,885	20,020	1,735	4,368	1,509,888	0	1,509,888

Note: Fiscal Years (FY) 2002 through 2013 are derived from audited information. FY 2014 through 2019 are estimates based on current statutory transfer provisions.

†Federal intergovernmental reimbursements do not include expected receipts of Government Interest Subsidy Payments with respect to the interest payable on the Series 2010A Bonds. Local intergovernmental reimbursements include $320 million of system enhancement project matching funds, collectively in FY 2003 and later years.

††Investment earnings decline as balances are expended and/or investment rates of return diminish.

±See discussion on page 22 regarding partial repayment of $94.6 million loan and $30.6 million transfer to State General Fund for the State Highway Patrol. $210 million of proceeds of revenue bonds issued by KDFA were deposited in the State Highway Fund; such bonds are an obligation of the State General Fund and are not payable from Revenues under the 1992 Resolution.

‡Intradepartmental transfers, excluding bond proceeds.

Totals may not agree due to rounding.

Motor Fuels Taxes

The Kansas Constitution, at Article 11, Section 10, specifically provides that the State shall have the power to levy special taxes on motor fuels for road and highway purposes. The Kansas Legislature has enacted statutes imposing a tax per gallon (1) on all motor fuels (gasoline and gasohol) used, sold or delivered in the State, (2) on the use of special fuels (primarily diesel fuel) in any motor vehicle and (3) all liquefied petroleum gas fuel placed in fuel supply tanks or tanks of any motor vehicle. In addition, the current law provides for the issuance of trip permits to interstate motor fuel users who are exempt from interstate motor fuel user reporting requirements because of infrequent travel across Kansas. The tax imposed on motor fuels, special fuels and liquefied petroleum gas fuel and the trip permit fees are, in this Official Statement, collectively referred to as the "Motor Fuels Taxes."

From July 1, 1992, to June 30, 1999, the tax per gallon on fuels was 18¢ on gasoline, 20¢ on diesel, 17¢ on liquefied petroleum and 18¢ on gasohol. With the passage of the Comprehensive Transportation Program, the Motor Fuels Tax rates increased by two cents on July 1, 1999, by one cent on July 1, 2001, and by one cent on July 1, 2003. The 2002 Legislature enacted an additional two cents increase effective July 1, 2002. The statute provided that on July 1, 2020, the rates revert to those in effect on June 30, 1999; however, the 2010 Legislature amended the statute to eliminate reversion of the Motor Fuel Tax rate in 2020 to the rates in effect on June 30, 1999. The trip permit fee is $13.00 and increases $0.50 for each $0.01 increase in tax per gallon on diesel fuel. The 2006 Legislature created an E-85 fuel tax rate of 17¢ per gallon effective July 1, 2006. To date, sales of E-85 have been minimal. Projections for E-85 tax collections have been included in Gasoline/Gasohol estimates set forth in Appendix C.

The State Treasurer is directed by statute to credit Motor Fuels Taxes (after refunds and a deposit to the Kansas Qualified Agricultural Ethyl Alcohol Producer Incentive Fund) 66.37% to the State Highway Fund and 33.63% to the Special City and County Highway Fund.

For Fiscal Year 2009 revenues derived from Motor Fuels Taxes were $277,358,000 which constituted approximately 25% of the total revenues of $1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues derived from Motor Fuels Taxes were $280,376,000 which constituted approximately 23% of the total revenues of $1,226,748,000 credited to the State Highway Fund. For Fiscal Year 2011 revenues derived from Motor Fuels Taxes were $283,981,000 which constituted approximately 20% of the total revenues of $1,438,518,000 credited to the State Highway Fund. For Fiscal Year 2012 revenues derived from Motor Fuels Taxes were $286,151,000 which constituted approximately 22% of the total revenues of $1,276,091,000 credited to the State Highway Fund. For Fiscal Year 2013 revenues derived from Motor Fuels Taxes were $274,337,000 which constituted approximately 22% of the total revenues of $1,256,873,000 credited to the State Highway Fund. More detailed information concerning the Motor Fuels Taxes is included in Appendix C to this Official Statement.

Vehicle Registration, Drivers' Licenses and Vehicle Permits

The Kansas Constitution, at Article 11, Section 10, specifically and additionally provides that the State shall have the power to levy special taxes on motor vehicles for road and highway purposes. The Kansas statutes currently require that vehicles be registered, based on vehicle type and weight or use, by the State before they may legally be operated on the Kansas highways and require that drivers be licensed. Kansas law also requires permits for oversize or overweight vehicles. The 2002 Legislature increased the registration fee for automobiles and pickups by $10 and the registration fee for trucks from $2 to $10 based on the vehicle weight classification. The total increase in registration fees was approximately 8.5%. The 2010 Legislature increased the registration fee for trucks with a gross weight of more than

16,000 pounds with a fee increase of $50 effective January 1, 2013, and a second $50 fee increase effective January 1, 2014. Since January 1, 2013, a $4 surcharge on registrations collected and remitted to the Department of Revenue for the purpose of integration and modernization of the Vehicle Information Processing System has been credited to the State Highway Fund.

For Fiscal Year 2009 revenues derived from Vehicle Registrations and Permits were $170,256,000 which constituted approximately 15% of the total revenues of $1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues derived from Vehicle Registrations and Permits were $175,291,000 which constituted approximately 14% of the total revenues of $1,226,748,000 credited to the State Highway Fund. For Fiscal Year 2011 revenues derived from Vehicle Registrations and Permits were $178,492,000 which constituted approximately 12% of the total revenues of $1,438,518,000 credited to the State Highway Fund. For Fiscal Year 2012 revenues derived from Vehicle Registrations and Permits were $177,649,000 which constituted approximately 14% of the total revenues of $1,276,091,000 credited to the State Highway Fund. For Fiscal Year 2013 revenues derived from Vehicle Registrations and Permits were $198,120,000 which constituted approximately 16% of the total revenues of $1,256,873,000 credited to the State Highway Fund. More detailed information concerning the vehicle registration, drivers' license and vehicle permit fees is included in Appendix C.

Sales Taxes and Compensating Use Taxes

Kansas law currently provides that a portion of the Sales Tax and Compensating Use Tax be credited or transferred to the State Highway Fund.

Kansas law imposes a retail sales tax (the "Sales Tax") for the privilege of engaging in the business of selling tangible personal property at retail in the State or rendering or furnishing certain services which are taxed under the provisions of the sales tax act. Kansas law also imposes a tax (the "Compensating Use Tax") for the privilege of using, storing or consuming tangible personal property in the State if the property would have been subject to the Sales Tax if the transaction had been wholly within the State.

The current State Sales Tax and Compensating Use Tax rates, effective July 1, 2013, are 6.15% (decreased from the 6.30% tax rates previously in effect), a portion of which is credited directly to the State Highway Fund in accordance with State law.

Prior to July 1, 2006, 5/106ths of the 5.30%, the equivalent of a .25% tax rate, was credited directly to the State Highway Fund. The 2004 Legislature changed the statute to 19/265ths of the 5.30% effective July 1, 2006, and 13/106ths of the 5.30% effective July 1, 2007, the equivalent of .38% for Fiscal Year 2007 and .65% for Fiscal Year 2008 and thereafter. The 2010 Legislature amended the statute to credit 11.427% of the revenue collected at the rate of 6.30% to the State Highway Fund effective July 1, 2010, 11.26% of the revenue collected to the State Highway Fund effective July 1, 2011, and 11.233% of the revenue collected to the State Highway Fund effective July 1, 2012, and beginning July 1, 2013, and thereafter, 18.421% of the revenue collected at the rate of 5.70% to the State Highway Fund. The 2013 Legislature amended the statute to credit 17.073% of the revenue collected at the rate of 6.15% to the State Highway Fund effective July 1, 2013, and thereafter. Such portion of the Sales Tax and State Compensating Use Tax (after refunds) is designated to be credited directly to the State Highway Fund.

The 2004 Legislature, after two years of withholding previously authorized additional amounts of quarterly sales tax transfers from the State General Fund, eliminated such sales tax transfer provisions from the statute.

For Fiscal Year 2009 revenues derived from Sales Taxes and Compensating Use Taxes directly credited to the State Highway Fund were $268,259,000 which constituted approximately 24% of the total revenues of $1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues derived from Sales Taxes and Compensating Use Taxes directly credited to the State Highway Fund were $259,899,000 which constituted approximately 21% of the total revenues of $1,226,748,000 credited to the State Highway Fund. For Fiscal Year 2011 revenues derived from Sales Taxes and Compensating Use Taxes directly credited to the State Highway Fund were $295,989,000 which constituted approximately 21% of the total revenues of $1,438,518,000 credited to the State Highway Fund. For Fiscal Year 2012 revenues derived from Sales Taxes and Compensating Use Taxes directly credited to the State Highway Fund were $312,934,000 which constituted approximately 25% of the total revenues of $1,276,091,000 credited to the State Highway Fund. For Fiscal Year 2013 revenues derived from Sales Taxes and Compensating Use Taxes directly credited to the State Highway Fund were $320,756,000 which constituted approximately 26% of the total revenues of $1,256,873,000 credited to the State Highway Fund.

Additional information concerning the Sales Tax and Compensating Use Tax is included in Appendix C to this Official Statement.

Investment Income

The Department has been granted authority by statute to deposit the earnings on investments in the State Highway Fund into the State Highway Fund. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Investment of Funds and Accounts" herein for a discussion of investment policy. For Fiscal Year 2009 revenues derived from Investment Earnings were $17,043,000 which constituted approximately 2% of the total revenues of $1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues derived from Investment Earnings were $3,649,000 which constituted less than 1% of the total revenues of $1,226,748,000 credited to the State Highway Fund. For Fiscal Year 2011 revenues derived from Investment Earnings were $1,082,000 which constituted less than 1% of the total revenues of $1,438,518,000 credited to the State Highway Fund. For Fiscal Year 2012 revenues derived from Investment Earnings were $219,000 which constituted less than 1% of the total revenues of $1,276,091,000 credited to the State Highway Fund. For Fiscal Year 2013 revenues derived from Investment Earnings were $303,000 which constituted less than 1% of the total revenues of $1,256,873,000 credited to the State Highway Fund.

Intergovernmental Reimbursements

A significant source of funds to the Department is provided by the Federal Highway Trust Fund and from other federal grant funds in the form of reimbursement for qualified expenditures as well as some matching funds from local units of government for shared projects. The amount of funds available is primarily a function of federal law, the annual appropriations of Congress and the Department's qualifying construction expenditures. Once the federal moneys are received in reimbursement for Department expenditures, the moneys become available to be expended for any valid Department purpose. For Fiscal Year 2009 revenues derived from Intergovernmental Reimbursements were $385,805,000 which constituted approximately 34% of the total revenues of $1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues derived from Intergovernmental Reimbursements were $498,022,000 which constituted approximately 41% of the total revenues of $1,226,748,000 credited to the State Highway Fund. For Fiscal Year 2011 revenues derived from Intergovernmental Reimbursements were $670,742,000 which constituted approximately 47% of the total revenues of $1,438,518,000 credited to the State Highway Fund. For Fiscal Year 2012 revenues derived from Intergovernmental Reimbursements were $486,638,000 which constituted approximately 38% of the total revenues of $1,276,091,000 credited to the State Highway Fund. For Fiscal Year 2013 revenues

derived from Intergovernmental Reimbursements were $441,099,000 which constituted approximately 35% of the total revenues of $1,256,873,000 credited to the State Highway Fund.

Other Revenues

Although the Department's primary revenue sources are Motor Fuels Taxes, vehicle registration and drivers' license fees, Sales Tax and Compensating Use Tax receipts, intergovernmental reimbursements, interest on the State Highway Fund and operating transfers-in, the Department also receives revenue from other sources which include: publications, sales of usable surplus equipment, land and/or buildings, insurance reimbursements and other miscellaneous revenue.

Expenditures

The expenditures from the State Highway Fund have, generally, been divided into six categories: maintenance, construction, local support, management, transfers-out and debt service. With the passage of the Comprehensive Transportation Program the category "Other Modes" was added. The following is a brief discussion of each of the seven categories.

Maintenance. Routine maintenance consists of maintenance activities which are performed primarily by Department staff using the Department's own equipment and materials. The Department currently projects that routine maintenance will remain at the current level during T-WORKS. The expenditures for routine maintenance normally occur in the year for which the expenditures were budgeted. The Department assumes that expenditures related to routine maintenance, primarily performed by Department staff, will grow at approximately 2.50% to 3.50% per year. For Fiscal Year 2009 expenditures for Maintenance were $137,056,000 which constituted approximately 12% of the total expenditures of $1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures for Maintenance were $139,046,000 which constituted approximately 11% of the total expenditures of $1,250,636,000 charged to the State Highway Fund. For Fiscal Year 2011 expenditures for Maintenance were $138,928,000 which constituted approximately 11% of the total expenditures of $1,259,968,000 charged to the State Highway Fund. For Fiscal Year 2012 expenditures for Maintenance were $137,558,000 which constituted approximately 10% of the total expenditures of $1,365,277,000 charged to the State Highway Fund. For Fiscal Year 2013 expenditures for Maintenance were $136,886,000 which constituted approximately 12% of the total expenditures of $1,140,401,000 charged to the State Highway Fund.

Construction. Construction expenditures include the contract costs for highway and bridge construction projects, expenditures for salaries and operating expenses for preliminary and construction engineering, consulting contracts for engineering services, right-of-way acquisition, utility adjustments and building improvements. In preparing projections, the level of expenditure for each component and the related cash flow are projected independently. The Bureau of Program and Project Management is responsible for developing the construction program. Future highway and bridge construction projects are identified as part of the construction program. The anticipated year of letting and the expected contract cost in nominal dollars are estimated for each project during the program development. The Department currently assumes an inflation rate for construction contracts of 3.50% to 4.50% per year. Once a construction contract is let, it can take up to 36 months for the contract to be completed and the final payment made. The Department assumes that expenditures for salary and operating costs related to preliminary and construction engineering will grow at approximately 2.50% to 3.50% per year and are assumed to be paid in the year budgeted. For Fiscal Year 2009 expenditures for Construction were $616,193,000 which constituted approximately 54% of the total expenditures of $1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures for Construction were $564,225,000 which constituted approximately 46% of the total expenditures of $1,250,636,000 charged to the State

Highway Fund. For Fiscal Year 2011 expenditures for Construction were $604,218,000 which constituted approximately 48% of the total expenditures of $1,259,968,000 charged to the State Highway Fund. For Fiscal Year 2012 expenditures for Construction were $739,779,000 which constituted approximately 54% of the total expenditures of $1,365,277,000 charged to the State Highway Fund. For Fiscal Year 2013 expenditures for Construction were $712,259,000 which constituted approximately 62% of the total expenditures of $1,140,401,000 charged to the State Highway Fund.

Local Support. Local support consists of operations that are intended to provide support for local grant programs and categorical grants. The Department expects that the operations portion of local support expenditures will grow at an average inflation rate of 2.50% to 3.50% per year. The categorical grants consist primarily of pass-through from the federal government and state aid. For Fiscal Year 2009 expenditures for Local Support were $171,034,000 which constituted approximately 15% of the total expenditures of $1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures for Local Support were $192,741,000 which constituted approximately 16% of the total expenditures of $1,250,636,000 charged to the State Highway Fund. For Fiscal Year 2011 expenditures for Local Support were $192,511,000 which constituted approximately 15% of the total expenditures of $1,259,968,000 charged to the State Highway Fund. For Fiscal Year 2012 expenditures for Local Support were $113,236,000 which constituted approximately 8% of the total expenditures of $1,365,277,000 charged to the State Highway Fund. For Fiscal Year 2013 expenditures for Local Support were $106,656,000 which constituted approximately 9% of the total expenditures of $1,140,401,000 charged to the State Highway Fund.

Management. The Department expenditures of salary and operating costs for management are assumed by the Department to be paid in the year budgeted and are developed from the budget. The cost of these activities is assumed by the Department to grow at approximately 2.50% to 3.50% per year. For Fiscal Year 2009 expenditures for Management were $66,444,000 which constituted approximately 6% of the total expenditures of $1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures for Management were $68,263,000 which constituted approximately 6% of the total expenditures of $1,250,636,000 charged to the State Highway Fund. For Fiscal Year 2011 expenditures for Management were $62,552,000 which constituted approximately 5% of the total expenditures of $1,259,968,000 charged to the State Highway Fund. For Fiscal Year 2012 expenditures for Management were $63,302,000 which constituted approximately 5% of the total expenditures of $1,365,277,000 charged to the State Highway Fund. For Fiscal Year 2013 expenditures for Management were $69,234,000 which constituted approximately 6% of the total expenditures of $1,140,401,000 charged to the State Highway Fund.

Transfers-Out. The transfers-out are disbursements from the State Highway Fund for the operation of other state agencies. The amounts of the transfers are established by appropriations each year and are expended in the year budgeted. The Department expects transfers-out to grow with inflation at 2.50% to 3.50% per year. For Fiscal Year 2009 expenditures for Transfers-Out were $150,662,000 which constituted approximately 13% of the total expenditures of $1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures for Transfers-Out were $286,361,000 which constituted approximately 23% of the total expenditures of $1,250,636,000 charged to the State Highway Fund. For Fiscal Year 2011 expenditures for Transfers-Out were $261,759,000 which constituted approximately 21% of the total expenditures of $1,259,968,000 charged to the State Highway Fund. For Fiscal Year 2012 expenditures for Transfers-Out were $311,402,000 which constituted approximately 23% of the total expenditures of $1,365,277,000 charged to the State Highway Fund. For Fiscal Year 2013 expenditures for Transfers-Out were $115,366,000 which constituted approximately 10% of the total expenditures of $1,140,401,000 charged to the State Highway Fund.

Debt Service. Debt Service disbursements from the State Highway Fund are operating transfers to debt service funds to service or redeem debt.

Other Modes. Other modes consists of operating transfers from the State Highway Fund to other Departmental funds for enhanced state support of general aviation, short-line railroads and public transit.

Statement of Revenues and Expenditures

Set forth in the following table is the Statement of Revenues, Expenditures and Changes in Fund Balances of the State Highway Fund for each of the last five Fiscal Years (2009-2013) for which audited financial statements of the Department are available. The term "revenues," as used in the following table, is an accounting term and is not intended to refer to "Revenues" as defined in the 1992 Resolution. See Appendix B hereto for Fiscal Year 2013 Basic Financial Statements.

State Highway Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Years Ended June 30
(Amounts in Thousands)

	2013	2012	2011	2010	2009
REVENUES:					
Motor Fuels Taxes	$ 274,337	$ 286,151	$ 283,981	$ 280,376	$ 277,358
Vehicle Registrations and Permits	198,120	177,649	178,492	175,291	170,256
Intergovernmental Reimbursements					
Federal	411,091	461,837	608,461	453,589	332,386
Locals	30,008	24,801	62,281	44,433	53,419
Sales Taxes and Compensating Use Taxes[1]	320,756	312,934	295,989	259,899	268,259
Investment Earnings	303	219	1,082	3,649	17,043
Other	20,622	8,835	4,754	7,923	4,820
Appropriations From Other State Funds	1,636	3,665	2,478	1,588	1,462
Total Revenues	1,256,873	1,276,091	1,437,518	1,226,748	1,125,003
EXPENDITURES:					
Current Operating					
Maintenance[2]	136,886	137,558	138,928	139,046	137,056
Construction[2]	712,259	739,779	604,218	564,225	616,193
Local Support	106,656	113,236	192,511	192,741	171,034
Management	69,234	63,302	62,552	68,263	66,444
Transfers to Other State Funds	115,366	311,402	261,759	286,361	150,662
Total Expenditures	1,140,401	1,365,277	1,259,968	1,250,636	1,141,389
Excess (Deficiency) of Revenues Over Expenditures	116,472	(89,186)	177,550	(23,888)	(16,386)
OTHER FINANCING SOURCES (USES):					
Operating Transfers-in	251,948	170,495	61,720	6	1,127
Operating Transfers-out	(178,145)	(227,487)	(222,888)	(182,118)	(168,856)
Total Other Financing Sources (Uses)	73,803	(56,992)	(161,168)	(182,112)	(167,729)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	190,275	(146,178)	16,382	(206,000)	(184,115)
FUND BALANCE, BEGINNING OF YEAR	127,569	272,776	257,154	459,871	641,238
Changes in Inventory Reserve	(578)	971	(760)	3,283	2,748
FUND BALANCE, END OF YEAR	$ 317,266	$ 127,569	$ 272,776	$ 257,154	$ 459,871

Source: Derived from the Department's audited financial statements.
[1] Direct Credit to the State Highway Fund.
[2] Amounts in prior years are reclassified to conform to current year presentation.

REVENUES AND DEBT SERVICE COVERAGE

State Highway Fund Revenues

The Series 2014B Bonds are payable from Revenues in the State Highway Fund transferred to the Debt Service Fund. The Revenues may vary as to source and the amount of Revenues attributable to various sources as the Kansas Legislature may determine from time to time. The current sources of Revenues deposited into the State Highway Fund as well as historical information and future estimates concerning receipt of Revenues are described under "THE STATE HIGHWAY FUND."

Estimated Revenues

The Department has prepared estimates of amounts to be credited to or transferred to the State Highway Fund in each of the Fiscal Years ending June 30, 2014 through 2019. Such estimates are set forth in the table appearing earlier in this Official Statement entitled "State of Kansas, Department of Transportation State Highway Fund Sources of Funds, Excluding Bond Proceeds." A description of the basis for such estimates is set forth above under "THE STATE HIGHWAY FUND—Basis of Projections." THE ACTUAL REVENUES THAT WILL BE DEPOSITED IN THE STATE HIGHWAY FUND MAY VARY FROM THE ESTIMATES BECAUSE OF FLUCTUATING ECONOMIC CONDITIONS, CHANGES IN LAW AND OTHER VARIABLES AFFECTING REVENUE SOURCES AND GROWTH. SUCH VARIATIONS COULD BE MATERIAL.

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Annual Debt Service

The annual debt service payments for the Series 2014B Bonds and the annual debt service payments (calculated as described in footnote † below) on the Outstanding Bonds (described in the table on page 11 hereof) are set forth in the following table.

Annual Debt Service
(Columns may not add due to rounding)

Fiscal Year Ending June 30	Series 2014B Principal	Series 2014B Interest[1]	Debt Service on Outstanding Bonds[2]	Total Debt Service
2015		$ 4,257,039	$ 189,217,779	$ 193,474,818
2016	$ 37,000,000	7,646,713	138,636,695	183,283,408
2017	38,145,000	6,168,610	139,141,899	183,455,509
2018	39,520,000	4,640,940	136,320,405	180,481,345
2019	49,945,000	2,881,163	130,791,112	183,617,275
2020	48,265,000	949,373	125,533,361	174,747,734
2021	--	--	166,349,333	166,349,333
2022	--	--	175,191,228	175,191,228
2023	--	--	174,170,404	174,170,404
2024	--	--	130,439,963	130,439,963
2025	--	--	140,190,035	140,190,035
2026	--	--	75,351,750	75,351,750
2027	--	--	75,296,500	75,296,500
2028	--	--	75,239,000	75,239,000
2029	--	--	75,183,500	75,183,500
2030	--	--	75,119,125	75,119,125
2031	--	--	75,049,875	75,049,875
2032	--	--	85,306,199	85,306,199
2033	--	--	83,906,968	83,906,968
2034	--	--	72,681,102	72,681,102
2035	--	--	71,616,074	71,616,074
2036	--	--	70,524,241	70,524,241
Total	$212,875,000	$26,543,837	$2,481,256,548	$2,720,675,386

[1] Estimated interest is calculated at a net effective interest rate (reflecting the effect of a floating-to-fixed interest rate swap) of approximately 3.934% per annum. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Interest Rate Exchange Agreements" herein.

[2] Does not include debt service requirements on the Series 2002B Bonds and Series 2002C Bonds being currently refunded with proceeds of the Series 2014B Bonds as described under "APPLICATION OF PROCEEDS OF THE SERIES 2014B BONDS" herein. Currently Outstanding (i) Series 2004C adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a floating-to-fixed interest rate swap, and liquidity and remarketing fees and basis risk) of approximately 4.481% per annum, and (ii) Series 2012A adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a floating-to-fixed interest rate swap and basis risk) of approximately 4.109% per annum. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Interest Rate Exchange Agreements" herein. Debt service on taxable Series 2010A "Build America Bonds" does not include reductions for expected receipts of Government Interest Subsidy Payments.

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Projected Debt Service Coverage

On the basis of the annual debt service payments on the Outstanding Bonds and the annual debt service payments for the Series 2014B Bonds, as set forth under "Annual Debt Service" above, payable from the State Highway Fund during Fiscal Years 2015 through 2019 and the Department's estimates of Revenues deposited in or transferred to the State Highway Fund (see "THE STATE HIGHWAY FUND" herein and Appendix C hereto), the following has been prepared and shows the Department's projected debt service coverage:

PROJECTED DEBT SERVICE COVERAGE

Fiscal Year	Estimated Revenues		Annual Debt Service[3]	Projected Debt Service Coverage[3]	
	With Federal Reimbursements[1]			With Federal Reimbursements[1]	
	Excluded	Included[2]		Excluded	Included[2]
2015	$1,055,041,000	$1,375,724,000	$ 193,474,818	5.45x	7.11x
2016	1,070,024,000	1,399,878,000	183,283,408	5.84	7.64
2017	1,095,103,000	1,461,084,000	183,455,509	5.97	7.96
2018	1,118,399,000	1,469,056,000	180,481,345	6.20	8.14
2019	1,143,835,000	1,486,720,000	183,617,275	6.23	8.10

(1) See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Exclusion From Revenues for Certain Purposes" herein. See also the table on page 25 herein including the column "Intergovernmental Reimbursements-Federal."

(2) In calculating the Federal Reimbursements shown as "Included" and available for annual debt service payments, the Department has not included federal reimbursements for funds expended off the State Highway System, resulting in approximately $8.0 million annually being subtracted from the amounts shown in the column "Intergovernmental Reimbursements-Federal" in the table on page 25 herein.

(3) Annual debt service payments do not include any projected annual debt service payments for future issues of Parity Bonds.

See "THE STATE HIGHWAY FUND—Basis of Projections" herein.

KANSAS DEPARTMENT OF TRANSPORTATION

Purpose of Department

In 1975, the Kansas Legislature established the Department and transferred to the Department all the powers, duties, obligations and functions of the preceding State Highway Commission. The purpose of the Department is to coordinate the planning, development, and operation of the various modes and systems of transportation within the State. The Department is administered under the direction and supervision of the Secretary, who is appointed by the Governor with the consent of the Senate and serves at the pleasure of the Governor. The Secretary is empowered to appoint individuals to various positions, to approve appointments to any position and to delegate responsibilities to others within the Department.

Responsibilities of Department

The Department provides funding for all modes of transportation within the State. It administers the State Highway System and works with local entities to provide improvements on other Federal-aid routes and local roads.

The Department provides funding for three distinct categories of roads: State highways, other federal-aid eligible routes and, to a limited extent, local roads. Total public road mileage in Kansas is slightly more than 140,000 miles. Kansas is near the middle range of all states in miles under state jurisdiction, but has the third largest system of public roads in the nation. Kansas ranks fourth among all states in the total number of bridges with 25,062 public road bridges in the state.

State Highway System. The first group of roads comprises the State Highway System, including the Interstate system and other "U.S." and "K" numbered routes. The Department is responsible for administering the 9,463 miles of (rural only) State Highway System. By law, the State Highway System cannot exceed 10,000 miles. There are over 5,000 bridges on the State Highway System. In 2013, there were over 26.8 million daily vehicle miles traveled on the State Highway System. This represents approximately 33% of all of the daily vehicle miles driven in Kansas, even though the State Highway System comprises less than 7% of the State's public road miles. The Department also has certain responsibilities for city connecting links of the State Highway System and can expend State funds for maintenance and improvements on those routes. In 2013, there were over 15.6 million daily vehicle miles traveled on the city connecting links, including urban interstates, of the State Highway System. This represents approximately 19% of all of the daily vehicle miles driven in Kansas.

Other Federal-Aid Eligible Routes. The second group of roads includes other federal-aid eligible routes (urban and rural) which are not on the State Highway System. The Department does not have direct responsibility for these roads, but works with local entities by providing federal aid for improvement on these routes.

Local Roads. The third group of roads includes all city streets and county roads which are not eligible for federal-aid. These roads are primarily the responsibility of local units of government; however, the Department works with those local entities to secure federal funds for all off-system bridges on those roads.

Transportation Revolving Fund. As part of the Comprehensive Transportation Program, the Secretary was authorized by the 1999 Kansas Legislature to establish a Transportation Revolving Fund to provide loans and other assistance to local units of government for local road projects and to facilitate the pooling of local road project debt by the Kansas Development Finance Authority ("KDFA"). The Secretary established the Transportation Revolving Fund in Fiscal Year 2004 by transferring $25,000,000 from the State Highway Fund to the Transportation Revolving Fund. A second transfer of $25,000,000 was made from the State Highway Fund to the Transportation Revolving Fund in Fiscal Year 2011. Rules and Regulations for the Transportation Revolving Fund were approved and published in the Kansas Register in October 2003. Pursuant to such authorization, KDFA has issued $32,690,000 of Transportation Revolving Fund Revenue Bonds, Series 2005-TR, $24,755,000 of Transportation Revolving Fund Revenue Bonds, Series 2006-TR, and $30,950,000 of Transportation Revolving Fund Revenue Bonds, Series 2009-TR. Such bonds as have been and may be issued by KDFA pursuant to such legislative authorization, and the interest thereon, are and will be payable from a separate trust estate established therefor and such bonds do not and will not constitute Bonds secured by or payable from the Revenues pledged under the Resolution. Any obligations of the Secretary incurred in connection with the Transportation Revolving Fund, including obligations of the Secretary with respect to any revenue bonds issued by KDFA relating to the Transportation Revolving Fund, will be separate from the Secretary's obligations with respect to the Bonds described herein. Although the Secretary may transfer additional amounts from the State Highway Fund to the Transportation Revolving Fund, it is not anticipated that the Secretary will do so. The Revenues pledged to the payment of the Bonds and deposited in the State Highway Fund are subject to a first lien in favor of the Bonds. Any transfer of funds from the State Highway Fund to the Transportation Revolving Fund is subject to the compliance by the Secretary with the debt service coverage requirements of the 1992 Resolution with respect to all Bonds Outstanding. See

"SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Covenant to Maintain and Fund State Highway Fund" herein.

Radio Tower Statewide Communication Infrastructure. The 2004 Kansas Legislature authorized the Department to lease access to the Department's 800 MHz radio communication towers and to purchase and lease communications equipment to public safety, governmental and nongovernmental entities. KDFA was authorized to issue special revenue bonds as necessary to finance the acquisition of such communication equipment and the Kansas Communication System Revolving Fund was established for this purpose on July 1, 2004. It is impossible to determine the amount of or the need for these bonds at this time, but the potential issuance thereof is an optional funding source. Debt service for any such bonds would be paid primarily from lease revenues received by the Kansas Communication System Revolving Fund and not from the Revenues in the State Highway Fund. During October 2008, KDFA issued $14,200,000 Communication System Revenue Bonds, Series 2008G, to further the purposes of the Communication System Revolving Fund. The Secretary does not expect to transfer any amounts from the State Highway Fund to the Kansas Communication System Revolving Fund during the next 12 months. The Revenues pledged to the payment of the Bonds and deposited in the State Highway Fund are subject to a first lien in favor of the Bonds. Any transfer of funds from the State Highway Fund to the Kansas Communication System Revolving Fund is subject to the compliance by the Secretary with the debt service coverage requirements of the 1992 Resolution with respect to all Bonds Outstanding. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS—Covenant to Maintain and Fund State Highway Fund" herein.

Kansas Intermodal Transportation Revolving Fund. During 2009 the State authorized the creation of the Kansas Intermodal Transportation Revolving Fund ("KITRF") to provide assistance to governmental units of intermodal transportation projects. Funding for the KITRF may be provided from multiple sources including appropriations by the Legislature and transfers from the State Highway Fund. Currently, there are no plans to provide funding to the KITRF from either of those two sources.

The Department also has responsibility for aviation, railroads and public transit, as described below.

Aviation. The Department provides support service to the aviation industry and promotes aviation. Support services include coordination of activities with the federal government, the publication of the Kansas airport directory and development of aviation charts. The aviation program is enhanced through the Transportation Works for Kansas Program. Originally, $3 million of state funds were transferred annually to the Public Use General Aviation Airport Development Fund for planning, constructing, reconstructing or rehabilitating the facilities of public use general aviation airports, and such amount was increased to $5 million annually beginning July 1, 2013.

Railroads. The Department has an active role assuring rail service in Kansas. The question of railroad line abandonments is of primary concern. The Department is the lead agency for the Rail Working Group and has undertaken an extensive analysis of lines affected by potential rail abandonment. The rail program is enhanced through the Transportation Works for Kansas Program. Annual transfers of $3 million of State funds to the Rail Service Improvement Fund (a revolving loan fund) were made over an eight-year period that ended in Fiscal Year 2009 to make loans or grants to short-line railroads. In addition, the Secretary transferred $35 million from the State Highway Fund to the Rail Service Improvement Fund during Fiscal Year 2011 and Fiscal Year 2012. Annually, beginning July 1, 2013, and thereafter, $5 million of state funds are transferred to the Rail Service Improvement Fund.

Public Transit. The Department administers both the federal and state funding of transit projects for elderly persons, persons with disabilities and the general public. The Comprehensive Transportation

Program increased the transfer of state funds to the Coordinated Public Transportation Assistance Fund from $1 million to $6 million annually for these programs. The public transit program will be further enhanced through the Transportation Works for Kansas Program. Annually, beginning July 1, 2013, and thereafter, $11 million of state funds are transferred to the Coordinated Public Transportation Assistance Fund.

Organization of Department

The Secretary serves as the Chief Executive Officer of the Department. The Secretary is appointed by the Governor and confirmed by the Senate. The Deputy Secretary for Engineering, who also serves as State Transportation Engineer, is the Department's chief engineering officer. The Department is organized into six divisions: the Divisions of Fiscal and Asset Management; Partner Relations; Operations; Engineering and Design; Planning and Development; and Aviation.

Division of Fiscal and Asset Management. The Division of Fiscal and Asset Management is responsible for the fiscal, budget, internal auditing, bonds and investment for the Department. Bureau of Fiscal Services includes accounting and certain procurement activities. The Office of Finance and Budget provides for the Department's bonds and investment activity and budget policy. The Inspector General is responsible for internal auditing.

Division of Partner Relations. The Division of Partner Relations will oversee communications and other dealings with both internal and external partners. The Division is also responsible for the human resource, information systems and support service operations for the Department. Human resource management includes personnel administration, training and equal employment opportunities. Information system management includes system and technology planning, software development and maintenance, operation of certain hardware and various communication support activities. Support services include multimedia design, photographic services, printing and facilities management. This Division also keeps the public informed and aware of the Department's policies, projects, programs and procedures through interaction with the news media, concerned citizens and various transportation-related groups. It oversees the operations of the toll-free Kansas 511 travel information system which provides fully automated, near real-time, route specific weather, road condition and construction detour information, as well as the toll-free *KDOT Connection* customer information hotline. The Division is responsible for implementing and guiding the Department's Public Involvement Program. This Program fosters two-way communication, facilitates citizen participation and helps the Department and its customers work together to provide a safe and efficient transportation system.

Division of Operations. This Division is the largest of all organizational units in the Department with approximately 80% of the Department's positions. This Division's employees are stationed in all but four of the State's 105 counties. The Division is responsible for all of the construction inspection of projects on the State Highway System and for administrative oversight of city and county road projects that are federally funded. Actual construction is done by private contractors. The Division is also responsible for the maintenance of the State Highway System. While some maintenance activities are contracted, most maintenance is performed by Department personnel. In addition, the Division is responsible for materials testing and research to ensure that the materials used in construction and maintenance projects meet the applicable standards. These responsibilities include both developing the specifications and performing compliance testing. Finally, this Division is responsible for traffic engineering activities to determine the appropriate traffic signing and speed limits for projects under the Department's jurisdiction.

Division of Engineering and Design. This Division is responsible for the preconstruction phase of state highway improvement projects and assists local governments with preconstruction work for projects

that rely on federal or state money. The Division is responsible for determining specific project locations on the State Highway System and conducting any environmental studies or similar activities that may be necessary. In addition, the Division is responsible for preparing the design of the project. This may be done by Department staff or by consultants under Department staff supervision. The Division is also responsible for acquiring the right of way and coordinating utility movements prior to construction. Finally, this Division is responsible for the Department's bridge inspection program, which includes underwater inspection and structural evaluations, and for administering contracts with consultants.

Division of Planning and Development. This Division is responsible for monitoring and analyzing federal transportation legislation and for providing coordination with the American Association of State Highway and Transportation Officials (AASHTO). In addition, this Division provides research and data collection services concerning highway use and transportation needs. The Division also produces the official state map, local maps, and numerous other maps. The Division provides assistance to local public transit systems with an emphasis on providing services for elderly persons, persons with disabilities and the general public. The Division coordinates policy on rail transportation and the rail and freight service programs. This Division also is responsible for preparing and presenting the multi-year Kansas Highway Improvement Program and providing an indication of what projects will be undertaken at various funding levels. This Division monitors and maintains the priority formulas for project selection. This Division administers all of the non-construction safety programs for the Department including programs that deal with behavior modification to reduce drunken driving and increase use of seat belts and child passenger restraints.

Division of Aviation. The primary responsibility of the Division of Aviation is the administration of the Kansas Airport Improvement Program (KAIP). The KAIP is the aviation component of the 1999 Kansas Comprehensive Transportation Program, which allocated funding for improvements to the Kansas public-use airports. In addition, the Division is tasked with administration of the Federal Airport Inspection Program, conducting statewide airport system planning, publishing the Kansas Airport Directory and the Kansas Aeronautical Chart, providing technical support to airports, and coordinating assistance from the Federal Aviation Administration (FAA).

Additional Unit

An additional organizational unit within the Department is the Office of Chief Counsel, the Department's legal section.

Multi-Year Construction Plan

Historically, the Department has developed a five-year plan for its construction activities. This plan identified the highway improvements to be let to construction contract by the Department during that period of time. The plan contained information about the location, scope of work, year of construction lettings and estimated construction costs for each project.

As required by legislative directive, the Department's priority systems and Pavement Management System are used in the selection of projects. Specific formulas are used to prioritize projects within the Major Modification, Interstate and Non-Interstate, and Priority Bridge categories. A special procedure was developed for System Enhancement projects during the 1990-1997 Comprehensive Highway Program. With the passage of the Comprehensive Transportation Program, major road and bridge construction projects were identified for the ten-year program. A map and project list of the Major Modification, Interstate and Non-Interstate, and Priority Bridge projects to be completed over the life of the Comprehensive Transportation Program were published at the time of enacting legislation. All of these projects were selected based on the Department's priority formulas. Projects other than Major

Modification, Interstate and Non-Interstate, and Priority Bridge (e.g., Substantial Maintenance, Major Modification set-aside projects, Modal, and Local Support) are not available for inclusion in a long-range plan due to one to three-year planning horizons. However, these projects were selected based on established priority systems. System Enhancement projects were selected using the same approach successfully used for the 1990-1997 Comprehensive Highway Program. Specific project information about all projects planned and completed through the Comprehensive Transportation Program is published in the Department's Annual Report to the Governor and Legislature.

Preservations projects which involve taking care of roads and bridges that currently exist are expected to be selected based exclusively upon engineering data. Modernization projects which improve the existing roadway are expected to be selected based upon engineering data and the local consultation process. Expansion projects which add more lanes or interchanges are expected to be selected based upon a combination of engineering data, the local consultation process, and the economic impact of the project. Highway and bridge projects will be spread across the State. The 2010 Act Amendments require that a minimum of $8 million be spent in each county over the next ten years.

Agency Review

The 1992 Kansas Legislature passed the Kansas Governmental Operations Accountability Law. The current statute provides for a periodic audit and review of the operations of the Kansas Department of Transportation. After review, the Kansas Legislature may act to modify or terminate selected operations of agencies in order to improve the efficiency of state government.

FEDERAL TRANSPORTATION LEGISLATION

The Department receives Federal aid in reimbursement of Department expenditures for Federal aid projects. See the table appearing on page 25 hereof and Appendix C hereto for detail of revenues and operating transfers-in to the State Highway Fund. The programs under which such funds are provided are subject to federal authorization and appropriation legislation.

Authorizing/Reauthorizing Legislation

The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which authorized federal surface transportation funds for states and local governments for Federal Fiscal Years (FFY) 2005-2009, expired September 30, 2009. Congress passed numerous short-term extensions of SAFETEA-LU, the latest of which expired on June 30, 2012.

The Moving Ahead for Progress in the 21st Century Act (MAP-21), approved by Congress on June 29, 2012, and signed by the President on July 6, 2012, authorizes federal surface transportation funds for states and local governments for Federal Fiscal Years (FFY) 2012-2014. The funding levels under MAP-21 provide Kansas similar levels of funding to what has been received under the previous SAFETEA-LU legislation. The MAP-21 legislation authorizing funding for state and local projects will expire September 30, 2014. MAP-21 extends the imposition of highway-user taxes, generally at the rates that were in place when the legislation was enacted, through September 30, 2016. In addition, MAP-21 extends the provision for deposit of almost all of the highway-user taxes into the Highway Trust Fund ("HTF") through September 30, 2016.

On July 31, 2014 Congress passed and on August 8, 2014, the President signed the Highway and Transportation Funding Act of 2014 (the "2014 Act"), which extends funding of the Highway Trust Fund until May 31, 2015. The 2014 Act primarily funds any funding shortfall with a combination of a $9.8

billion transfer from the General Fund of the U.S. Treasury and a $1 billion transfer from the Leaking Underground Storage Tank Trust Fund.

It is expected that various short- and long-term surface transportation reauthorization proposals will be submitted to Congress for consideration prior to the May 31, 2015, expiration of the extension of funding provided by the 2014 Act. **Although interim authorization measures have been enacted by Congress in the past, no assurance can be given that such measures would or could be enacted in the future to maintain the flow of federal highway funding upon termination of either a short-term or multi-year authorization period.**

Highway Trust Fund Shortfall

The Federal Highway Administration ("FHWA") administers payments to states under the Federal-Aid Highway Program through the HTF. Funded by the collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a dedicated fund with dedicated revenues held in trust for reimbursement of the states' cost of transportation projects, including highway projects. The HTF presently contains the Highway Account and a Mass Transit Account. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel tax revenues, with the remaining share of such revenues deposited in the Mass Transit Account. Using revenues in the Highway Account of the HTF, the FHWA reimburses states for expenditures related to approved transportation projects. The FHWA distributes these revenues to states based on apportionment and allocation rules prescribed by federal law. 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 HTF following the expiration of the 2014 Act.

Current law requires that the cash balance of the Highway Account of the HTF, plus projected revenues for the next two years, must suffice to repay all unpaid authorizations before any additional apportionments of revenues can be made from the HTF.

Rescissions of Unobligated Funds

In prior surface transportation programs 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 appropriations they receive due to a required obligation limitation.

To date in FFY 2014 the State has not been required to rescind any unobligated balances. However, in the future, there will not be the balances of unobligated funds that Kansas and other states have relied on as a cushion to meet the requirements of the rescissions.

Conclusion

The problems on the Federal level with the timeliness of authorization and appropriations processes can result in risk and uncertainty for the Department. Federal funding is clearly important to the State as is reimbursement of the Department's expenditures, and reliability in receiving funds is imperative for future planning purposes.

LITIGATION

There is no litigation or administrative action pending in any court or, to the best knowledge of the Secretary, threatened, which would restrain or enjoin the issuance of the Series 2014B Bonds or in

any way contest or affect the validity of the Series 2014B Bonds, or which concerns the proceedings of the Secretary taken in connection with the issuance of the Series 2014B Bonds, the adoption of the Thirtieth Supplemental Resolution or the collection, pledge or application of the Revenues, or which contests the powers of the State, including the Secretary and the Department, with respect to the foregoing.

The Chief Counsel to the Department has reviewed the status of pending lawsuits affecting the State, the Secretary and the Department in connection with their operations and has reported that there are several proceedings in which the State is either a plaintiff or defendant and which are generally incidental to the operations of the Department. The ultimate disposition of such pending legal proceedings cannot be predicted or determined at present. With regard to such pending litigation, it is the opinion of the Chief Counsel to the Department that such pending litigation will not be finally determined so as to result, individually or in the aggregate, in a final judgment against the State, the Secretary or the Department which would materially and adversely affect the continued operations or financial position of the Department or the State Highway Fund.

INDEPENDENT AUDITORS

The Basic Financial Statements of the Department as of and for the year ended June 30, 2013, included in this Official Statement as Appendix B, have been audited by RubinBrown LLP, independent auditors, as set forth in their report in Appendix B. The auditors have not expressed and will not express any opinion as to any information contained in this Official Statement other than that contained in Appendix B. The inclusion of the financial statements and report in Appendix B does not imply that there has been no change in the financial position of the Department since the date thereof.

LEGAL INVESTMENT

The Series 2014B Bonds are securities in which all public officers and public bodies of the State and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, savings and loan associations, executors, administrators, trustees and other fiduciaries subject to Kansas law may properly and legally invest funds, including capital in their control or belonging to them. The Series 2014B Bonds are securities which may properly and legally be deposited with and received by any State of Kansas or Kansas municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may be hereafter authorized by law.

REMEDIES OF BONDOWNERS

The 1992 Resolution defines Events of Default, which include failure to pay principal and any redemption premium as they become due (either at maturity, by proceedings for redemption or otherwise) or any installment of interest when due on Bonds issued under the 1992 Resolution whether Parity Bonds or Subordinate Bonds, failure to make a required sinking fund deposit, if required by any Supplemental Resolution or failure (for 30 days after written notice by Owners of 10% in aggregate principal amount of the Parity Bonds then Outstanding) to perform any covenant, condition, agreement or provision contained in the Bonds or the 1992 Resolution.

In the event of any Event of Default, the 1992 Resolution provides that Owners of not less than a majority in aggregate principal amount of the Parity Bonds then Outstanding may, subject to the provisions relating to the appointment of a trustee described below, proceed either at law or in equity to protect and enforce the rights of the Bondowners under the laws of Kansas or the terms of the 1992 Resolution.

The 1992 Resolution makes no provision for acceleration of the principal of or interest on the Bonds.

The 1992 Resolution also provides a covenant that, if an Event of Default has occurred and is continuing, the Secretary will promptly appoint a bank or trust company to act as trustee for the purpose of exercising remedies provided under the 1992 Resolution for the benefit of the owners of the Bonds. If an Event of Default has occurred and a trustee has been appointed and has accepted the appointment, then no owner of a Bond shall have any right to institute any suit, action or proceeding in equity or at law to exercise any remedy or otherwise take action to enforce the terms of the 1992 Resolution unless the owners of at least 25% of the principal amount of Parity Bonds then Outstanding have requested the trustee to act, and have afforded the trustee adequate security or indemnity against the trustee's costs, expenses and liabilities and the trustee shall not have complied with such request within a reasonable time. If a trustee is appointed and accepts the appointment, the funds and accounts described herein will, nevertheless, under the terms of the Act as it currently exists, continue to be held by the State Treasurer. For the complete provisions relating to the appointment of a trustee and the trustee's powers, see the Summary of the 1992 Resolution included in Appendix D to this Official Statement.

The remedies available to the Bondowners in the Event of Default are limited and, upon an Event of Default, are in many respects dependent upon judicial actions which are often subject to discretion and delay.

TAX MATTERS RELATING TO THE SERIES 2014B BONDS

The following is a summary of the material federal and State of Kansas income tax consequences of holding and disposing of the Series 2014B Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of owners subject to special treatment under the federal income tax laws (for example, dealers in securities or other persons who do not hold the Series 2014B Bonds as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the State of Kansas, does not discuss the consequences to an owner under any state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Series 2014B Bonds in the secondary market. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the Series 2014B Bonds.

Opinion of Bond Counsel

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under the law existing as of the issue date of the Series 2014B Bonds:

Federal Tax Exemption. The interest on the Series 2014B Bonds is excludable from gross income for federal income tax purposes.

Alternative Minimum Tax. Interest on the Series 2014B Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Bank Qualification. The Series 2014B Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code.

State Tax Exemption. The Series 2014B Bonds and all income or interest therefrom are exempt from all Kansas taxes.

Bond counsel's opinions are provided as of the date of the original issue of the Series 2014B Bonds, subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2014B Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2014B Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2014B Bonds. Bond Counsel is expressing no opinion regarding other federal, state or local tax consequences arising with respect to the Series 2014B Bonds but has reviewed the discussion under the heading "TAX MATTERS RELATING TO THE SERIES 2014B BONDS."

Other Tax Consequences

Original Issue Discount. For federal income tax purposes, original issue discount ("OID") is the excess of the stated redemption price at maturity of a bond over its issue price. The issue price of a Series 2014B Bond is the first price at which a substantial amount of the Series 2014B Bonds of that maturity have been sold (ignoring sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). Under Section 1288 of the Code, OID on tax exempt bonds accrues on a compound basis. The amount of OID that accrues to an owner of a Series 2014B Bond during any accrual period generally equals (1) the issue price of that Series 2014B Bond, plus the amount of OID accrued in all prior accrual periods, multiplied by (2) the yield to maturity on that Series 2014B Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (3) any interest payable on that Series 2014B Bond during that accrual period. The amount of OID accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner's tax basis in that Series 2014B Bond. Prospective investors should consult their own tax advisors concerning the calculation and accrual of OID.

Original Issue Premium. If a Series 2014B Bond is issued at a price that exceeds the stated redemption price at maturity of the Series 2014B Bond, the excess of the purchase price over the stated redemption price at maturity constitutes "premium" on that Series 2014B Bond. Under Section 171 of the Code, the purchaser of that Series 2014B Bond must amortize the premium over the term of the Series 2014B Bond using constant yield principles, based on the purchaser's yield to maturity. As premium is amortized, the owner's basis in the Series 2014B Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the owner. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Series 2014B Bond prior to its maturity. Even though the owner's basis is reduced, no federal income tax deduction is allowed. Prospective investors should consult their own tax advisors concerning the calculation and accrual of bond premium.

Sale, Exchange or Retirement of Series 2014B Bonds. Upon the sale, exchange or retirement (including redemption) of a Series 2014B Bond, an owner of the Series 2014B Bond generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the Series 2014B Bond

(other than in respect of accrued and unpaid interest) and such owner's adjusted tax basis in the Bond. To the extent a Series 2014B Bond is held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Series 2014B Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the Series 2014B Bonds, and to the proceeds paid on the sale of the Series 2014B Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner's federal income tax liability.

Collateral Federal Income Tax Consequences. Prospective purchasers of the Series 2014B Bonds should be aware that ownership of the Series 2014B Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series 2014B Bonds. Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2014B Bonds should consult their tax advisors as to the applicability of these tax consequences and other federal income tax consequences of the purchase, ownership and disposition of the Series 2014B Bonds, including the possible application of state, local, foreign and other tax laws.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 2014B Bonds and with regard to the tax-exempt status of the interest on the Series 2014B Bonds are subject to the approving legal opinion of Gilmore & Bell, P.C., Bond Counsel. See "TAX MATTERS RELATING TO THE SERIES 2014B BONDS" herein. The opinion of Bond Counsel to be delivered by Gilmore & Bell, P.C., is expected to be delivered in substantially the form included as Appendix F to this Official Statement. Certain legal matters will be passed upon for the Secretary and the Department by Jonathan P. Small, Chartered, Topeka, Kansas, as Special Counsel to the Department, and by Kutak Rock LLP, Special Disclosure Counsel, and by Sidley Austin LLP, Counsel to the Underwriter.

Bond Counsel has participated in the preparation, and has reviewed those portions, of this Official Statement pertaining to the Series 2014B Bonds, the tax status of interest on the Series 2014B Bonds, the provisions of the 1992 Resolution, the Thirtieth Supplemental Resolution and the matters of law contained under "THE SERIES 2014B BONDS," "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS," "LEGAL INVESTMENT," "TAX MATTERS RELATING TO THE SERIES 2014B BONDS" and "UNDERTAKING TO PROVIDE ONGOING DISCLOSURE" and in "Appendix D—Summary of 1992 Resolution," "Appendix E—Definitions of Certain Terms" and "Appendix F—Proposed Form of Opinion of Bond Counsel." Bond Counsel has not been retained to pass upon, and will not express any opinion upon, any other information contained in this Official Statement.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and Fitch, Inc. ("Fitch") have assigned ratings to the Series 2014B Bonds of "Aa2," "AAA" and "AA+" respectively.

Such ratings reflect only the views of such organizations at the time such ratings are given, and the Department makes no representation as to the appropriateness of such ratings. An explanation of the significance of such ratings may be obtained only from such rating agencies. No such rating constitutes a recommendation to buy, sell, or hold any bonds, including the Series 2014B Bonds, or as to the market price or suitability thereof for a particular investor. The Department furnished such ratings agencies with certain information and materials relating to the Series 2014B Bonds that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing such rating, circumstances so warrant. The Department has not undertaken any responsibility to bring to the attention of the owners of the Series 2014B Bonds any proposed revision or withdrawal of a rating of the Series 2014B Bonds or to oppose any such proposed revision or withdrawal. Any such revision or withdrawal of such a rating could have an adverse effect on the market price and marketability of the Series 2014B Bonds.

UNDERWRITING

The Series 2014B Bonds are to be purchased by Barclays Capital Inc. (the "Underwriter"), pursuant to a Bond Purchase Agreement with the Secretary (the "Bond Purchase Agreement") at a price of $212,611,373.72 (representing the par amount of the Series 2014B Bonds, less Underwriter's discount of $263,626.28). The Bond Purchase Agreement provides that the Underwriter will not be obligated to purchase any Series 2014B Bonds if all Series 2014B Bonds are not available for purchase. The initial public offering prices or yields set forth on the inside cover page hereof may be changed under certain conditions. The Underwriter may offer and sell the Series 2014B Bonds to certain dealers (including dealers depositing Series 2014B Bonds into investment trusts) and others at prices lower or yields higher than the public offering prices or yields stated on the inside cover page hereof. The initial public offering prices or yields may be changed from time to time by the Underwriter.

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Department or the State, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Department or the State.

The Underwriter and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in

respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

FINANCIAL ADVISOR

Public Financial Management, Inc. is serving as financial advisor to the Department with respect to the issuance of the Series 2014B Bonds. The financial advisor has assisted the Department in the preparation of this Official Statement and in other matters relating to the issuance of the Series 2014B Bonds and provided other financial advice regarding the Department's financial plan. Public Financial Management, Inc., is a financial and investment advisory and consulting organization and is not engaged in the underwriting, marketing or trading of municipal securities or other negotiable instruments.

UNDERTAKING TO PROVIDE ONGOING DISCLOSURE

Pursuant to the terms contained in the Thirtieth Supplemental Resolution, the Secretary will execute and deliver a Continuing Disclosure Certificate for the benefit of Bondowners and Beneficial Owners of the Series 2014B Bonds under which the Secretary will agree to provide certain periodic information and notices of material events to the Municipal Securities Rulemaking Board (the "MSRB") pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule"). The form of the Continuing Disclosure Certificate is attached hereto as Appendix G.

In the previous five years, the Secretary has not fully complied with certain previous continuing disclosure undertakings pursuant to the Rule as described below (which information below is presented irrespective of materiality).

The annual report for fiscal year 2009 was timely filed on EMMA on December 21, 2009. However, the original filing was not properly indexed and therefore it was not linked to the CUSIPs for any Bonds. The 2009 annual report was linked to all outstanding Bonds on July 3, 2014.

During the past five years the Secretary has failed to make timely filings of event notices relating to rating changes with respect to certain series of Bonds. In particular, event notices were not timely filed on EMMA in connection with: (i) certain ratings upgrades in April 2010 by Fitch Ratings and Moody's Investors Service as part of the rating agencies' general recalibration of ratings; (ii) certain ratings changes on various series of Bonds resulting from changes in the ratings of the applicable liquidity providers and bond insurers; and (iii) rating agency clerical errors. Specific information about the rating changes described in clauses (i) and (ii) was filed on EMMA on July 8, 2014, and August 12, 2014.

KDOT is the obligated person for continuing disclosure purposes for the Kansas Development Finance Authority Kansas Transportation Revolving Fund Revenue Bonds, Series 2005-TR, Series 2006-TR and Series 2009-TR. The financial statements of KDOT for fiscal year 2011 were filed on February 1, 2012, after the filing deadline of December 31, 2011. A notice of the failure to timely file such financial statements was filed on December 28, 2011. In addition, the operating data for fiscal year 2013 was timely filed on December 17, 2013, but omitted certain operating data relating to investment agreements. This information was filed on EMMA on July 3, 2014.

RECENT DEVELOPMENT

On August 11, 2014, the Securities and Exchange Commission ("SEC") imposed a cease-and-desist order against the State in connection with disclosure about the State's unfunded pension liabilities in offering documents for certain 2009 and 2010 bond issues of the Kansas Development Finance

Authority. The SEC order describes certain remedial actions that have been implemented by the State beginning in 2011. The SEC order, available at http://www.sec.gov/litigation/admin/2014/33-9629.pdf, does not relate to any Bonds issued by the Secretary on behalf of the Department.

MISCELLANEOUS

The Department has furnished the information in this Official Statement relating to the State, the Secretary, the Department and the State Highway Fund.

Copies of the 1992 Resolution and the Thirtieth Supplemental Resolution summarized herein and information with respect to the State, the Secretary and the Department may be obtained from the Office of the Secretary of the Department of Transportation, in Topeka, Kansas, (785) 296-3545. This information can be made available in alternative accessible formats upon request. To obtain an alternative format, contact the Kansas Department of Transportation, Office of Transportation Information, Dwight D Eisenhower State Office Building, 700 S.W. Harrison Street, Topeka, Kansas 66603-3745 or phone (785) 296-3585 (Voice)/(TTY). Prior to the delivery of the Series 2014B Bonds, information with respect to the State and the Department may be obtained from the above and also upon request, from the Financial Advisor by contacting Public Financial Management, Inc., at 801 Grand Avenue, Suite 3300, Des Moines, Iowa 50309, telephone: (515) 724-5724.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

This Official Statement is submitted in connection with the issuance of the Series 2014B Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the State and duly executed and delivered on its behalf by the Secretary.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the Secretary are fully set forth in the 1992 Resolution and the Thirtieth Supplemental Resolution in accordance with the Act. This Official Statement is not to be construed as a contract or agreement between the Secretary or the State and the purchasers or owners of any of the Series 2014B Bonds.

STATE OF KANSAS

By /s/ Michael S. King
Secretary of Transportation

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APPENDIX A

Selected Information on the State of Kansas

The following information concerning Kansas is furnished for background information only. All Highway Revenue Bonds are obligations payable only from the Revenues in the State Highway Fund transferred to the Debt Service Fund.

Much of the historical economic information included within this appendix was provided by the U.S. Department of Commerce. Also, information contained in the State General Fund Receipt Revisions memo dated April 24, 2014, addressed to the Governor and Legislative Budget Committee is used throughout various sections of this appendix. Kansas Tax Facts, 2013 Eighth Edition, December 2013 published by Kansas Legislative Research Department, is the source of tax information. Other sources used are noted in the text, charts and graphs.

Overview

Kansas is the 14th largest state in terms of size with an area in excess of 82,000 square miles. It is rectangular and is 411 miles long from east to west and 208 miles wide. The geographic center of the 48 contiguous states lies within its borders. While much of the state is rural in nature, it has important investments in the construction, finance, manufacturing, transportation, distribution and oil and gas industries.

Kansas became the 34th state in 1861 and Topeka was chosen to be the capital later that year. Kansas has the traditional three branches of government: the Executive Branch, which includes elected state officers; the Legislative Branch, which includes the State Senate and the House of Representatives; and the Judicial Branch, which includes the State Supreme Court, the Court of Appeals, and the district and municipal courts.

Population

Trends. According to data gathered by the 2010 U.S. Census Bureau the state's resident population increased from 2,688,418 in 2000 to 2,853,118 in 2010, an increase of 6.1 percent. Although population growth in Kansas was about two-thirds the nationwide increase of 9.7 percent, it approximated the growth rate experienced by surrounding states, except Colorado, and was greater than 17 other states in the nation. Kansas is part of the Kansas City Region, which also includes Arkansas, Iowa, Minnesota, Missouri, and Oklahoma.

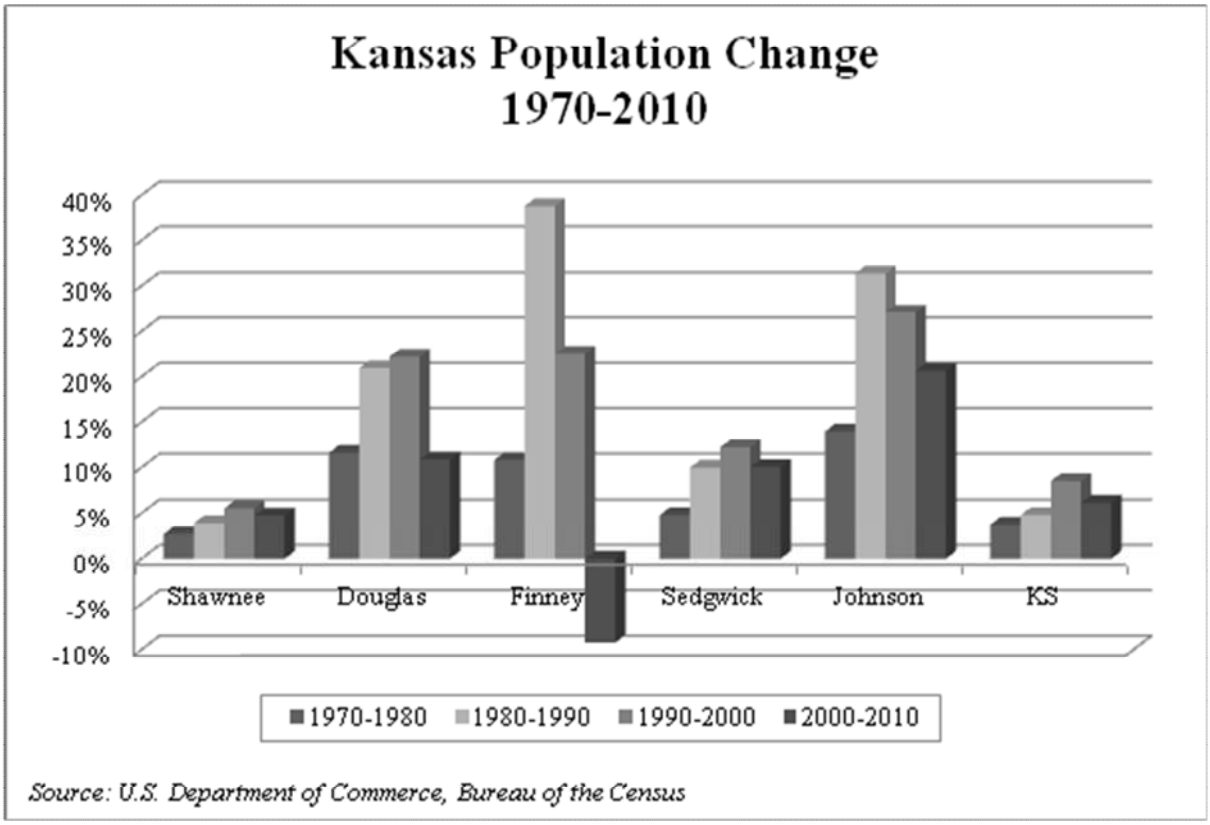
POPULATION
(000)

Year	Kansas Population	% Change	Region Population*	% Change	United States Population	% Change
1950	1,905		15,606		151,326	
1960	2,179	14.4	16,784	7.5	179,323	18.5
1970	2,249	3.2	18,035	7.5	203,302	13.4
1980	2,364	5.1	19,582	8.6	226,546	11.4
1990	2,477	4.8	20,243	3.4	248,710	9.8
2000	2,688	8.5	22,253	9.9	281,422	13.2
2010	2,853	6.1	23,860	7.2	308,746	9.7

Source: U.S. Department of Commerce, Bureau of the Census

Between 2000 and 2010, 77 of the state's 105 counties lost population. Overall, counties in northwest and southeast Kansas experienced population losses, while northeast and southwest counties gained population. During the decade, nine counties had population growth at or above 10 percent. Johnson County, which is located in northeast Kansas, is the most populated county in Kansas with a 2010 population of 544,179, and Greeley County the least populated with 1,247 residents.

The following chart illustrates the percent change of population (1970-2010) in selected counties. During the 1970s Jefferson County (not shown), in the northeast quadrant of the State, had a 27.3 percent increase. During the 1980s Finney County, in southwest Kansas, had the largest increase with population growth of 38.8 percent. During the 1990s Johnson County had the largest increase of all counties, 27.0 percent. Between 2000 and 2010 Geary County (not shown), located in the northeast section of the state, had the largest population growth at 23.0 percent.



Educational Attainment. The most recent education information available for Kansas is published in the U.S. Census Bureau's 2012 Statistical Abstract. This data reflects that for individuals 25 years or older, 89.7 percent were at least high school graduates in 2009, up from 86.0 percent in 2000. This compares to an average of 85.3 percent of the U.S. population as high school graduates in 2009. As it relates to post-secondary education, 29.5 percent of individuals in Kansas hold a bachelor's degree compared to 27.9 percent for the United States in 2009.

The Kansas Economy

Gross State Product. The gross state product provides a measure of all finished goods and services produced within a state. A history of Kansas GSP compared to regional and national performance is provided in the table below. The change in gross state product from one period to the next provides an indication of economic improvement or decline.

Gross State Product
(Millions of Nominal Dollars)

	Kansas		Plains*		United States	
	Level ($)	Percent Change	Level ($)	Percent Change	Level ($)	Percent Change
2002	91,671	2.6	693,437	4.0	10,572,388	3.5
2003	96,585	5.4	731,199	5.4	11,067,829	4.7
2004	99,733	3.3	774,254	5.9	11,774,410	6.4
2005	104,869	5.1	807,740	4.3	12,539,116	6.5
2006	111,658	6.5	839,377	3.9	13,289,235	6.0
2007	120,599	8.0	886,553	5.6	13,936,199	4.9
2008	124,330	3.1	915,967	3.3	14,193,120	1.8
2009	121,589	(2.2)	904,459	(1.3)	13,834,700	(2.5)
2010	126,074	3.7	945,138	4.5	14,416,601	4.2
2011	130,923	3.8	985,750	4.3	14,981,020	3.9
2012	138,953	6.1	1,032,978	4.8	15,566,077	3.9

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis
* Includes Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

Estimates developed through the State's consensus estimating process in April 2014 (Consensus Estimates) reflect nominal GSP increasing by 3.9 percent and 4.5 percent in 2014 and 2015 respectively. These estimates are slightly higher than those developed in November of 2013 which called for GSP growth of 3.8 percent in 2014. Forecasts for the broader nominal U.S. Gross Domestic Product include growth of 4.9 percent in 2014 and 5.2 percent in 2015.

Personal Income. The personal income measure includes individual's total annual gross earnings from wages, business enterprises and various investment earnings. Rising personal income is typically suggestive of increased future consumer demand translating into economic growth. The following table compares personal income in Kansas to regional and national levels. As you will observe, personal income growth in Kansas has been increasingly positive at levels just shy of those experienced in the Plains region and United States coming out of the recession ending in 2009.

Personal Income
(Thousands of Dollars)

	Kansas		Plains*		United States	
	Level ($)	Percent Change	Level ($)	Percent Change	Level ($)	Percent Change
2002	81,120,073	0.8	595,175,255	2.2	9,145,998,000	1.8
2003	83,821,149	3.3	621,970,259	4.5	9,479,611,000	3.6
2004	87,394,284	4.3	655,827,864	5.4	10,043,284,000	5.9
2005	91,745,336	5.0	679,573,987	3.6	10,605,645,000	5.6
2006	99,391,548	8.3	719,571,180	5.9	11,376,460,000	7.3
2007	105,670,818	6.3	765,202,414	6.3	11,990,244,000	5.4
2008	114,003,572	7.9	812,333,687	6.2	12,429,284,000	3.7
2009	109,730,790	(3.7)	790,939,907	(2.6)	12,073,738,000	(2.9)
2010	110,884,681	1.1	811,126,857	2.6	12,423,332,000	2.9
2011	120,782,820	8.9	870,219,662	7.3	13,179,561,000	6.1
2012	124,137,357	2.8	907,004,409	4.2	13,729,063,000	4.2

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis
* Includes Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.
Estimates for 2001 forward reflect the results of the comprehensive revision to the national income and product accounts released in July 2013.

Consensus Estimates reflect that Kansas personal income will increase by 3.8 percent in 2014 and 4.2 percent in 2015. These estimates are slightly higher than those developed in November 2013 which suggested growth of 3.5 percent 2014. The broader U.S. personal income measure is expected to see slightly healthier improvement with growth of 4.8 percent in 2014 and 5.0 percent in 2015.

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Employment. The table below provides a comparison of Kansas total non-farm employment to regional and national levels.

Total Non-farm Employment
(Thousands of Employees)

	Kansas		Plains*		United States	
	Total	**Percent Change**	**Total**	**Percent Change**	**Total**	**Percent Change**
2002	1,336	(0.9)	9,762	(1.0)	130,341	(1.1)
2003	1,313	(1.7)	9,716	(0.5)	129,999	(0.3)
2004	1,325	0.9	9,797	0.8	131,435	1.1
2005	1,333	0.6	9,937	1.4	133,703	1.7
2006	1,354	1.6	10,083	1.5	136,086	1.8
2007	1,380	1.9	10,187	1.0	137,598	1.1
2008	1,391	0.8	10,211	0.2	136,790	(0.6)
2009	1,343	(3.4)	9,876	(3.3)	130,807	(4.4)
2010	1,329	(1.1)	9,809	(0.7)	129,917	(0.7)
2011	1,340	0.8	9,921	1.1	131,497	1.2
2012	1,358	1.4	10,067	1.5	133,739	1.7

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics
* Includes Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.
Estimates for 2010 and 2011 have been revised.

Total Kansas non-farm employment experienced an increase of 17,200 jobs between March 2013 and March 2014. The three largest major industries in terms of job gains over the last year include professional and business services; construction, and education and health services. Employment levels for each Kansas industry can be found in the table on the following page.

KANSAS EMPLOYMENT

	2011	2012	Percent Change 2011-2012
Place of Work Data			
All Industries	1,339,700	1,357,800	1.4%
Goods Producing Industries	223,200	228,000	2.2%
Natural Resources	9,100	9,900	8.8%
Construction	53,100	55,100	3.8%
Manufacturing	161,000	163,100	1.3%
Durable Goods	98,000	99,900	1.9%
Machinery	17,000	18,100	6.5%
Transportation Equip.	40,400	41,000	1.5%
Aerospace Products	32,300	32,500	0.6%
Non-Durable Goods	63,000	63,200	0.3%
Food Manufacturing	31,200	31,000	-0.6%
Animal Slaughter	18,000	18	-99.9%
Service Producing	1,116,600	1,129,700	1.2%
Trade & Transportation	254,900	257,200	0.9%
Wholesale Trade	58,500	59,000	0.9%
Retail Trade	141,700	142,300	0.4%
Motor vehicles	17,600	17,800	1.1%
Grocery Stores	22,100	22,600	2.3%
General merchandise	32,800	32,000	-2.4%
Trans., Warehouse	54,700	55,800	2.0%
Utilities	8,000	8,000	0.0%
Electric Power	6,000	6,000	0.0%

	2011	2012	Percent Change 2011-2012
Transportation & Warehouse	46,700	47,800	2.4%
Truck Transportation	16,200	16,500	1.9%
Information	28,600	28,300	-1.0%
Telecommunications	16,100	16,000	-0.6%
Finance	73,100	74,600	2.1%
Finance & Insurance	59,500	60,800	2.2%
Credit Intermediaries	26,100	25,900	-0.8%
Insurance Carriers	28,000	29,600	5.7%
Real Estate	13,600	13,800	1.5%
Prof. & Tech. Svcs.	148,300	153,200	3.3%
Professional & Science	60,200	62,400	3.7%
Mgmt. Communications	13,500	13,600	0.7%
Administrative	74,700	77,300	3.5%
Education & Health Svcs.	185,100	186,100	0.5%
Education Svcs.	18,400	18,800	2.2%
Health Care & Social Svcs.	166,700	167,400	0.4%
Hospitals	45,200	45,600	0.9%
Leisure & Hospitality	115,000	119,700	4.1%
Arts & Entertainment	13,800	15,200	10.1%
Amuse., Gambling	11,000	12,600	14.5%
Accommodations	101,300	104,500	3.2%
Food Services	91,300	94,400	3.4%
Other Services	51,600	51,600	0.0%
Government	259,900	259,000	-0.3%
Federal	27,300	26,400	-3.3%
State	52,900	52,100	-1.5%
Local	179,600	180,500	0.5%

Source: U.S. Department of Labor, Bureau of Labor Statistics

Consensus Estimates provide for the Kansas unemployment rate to decrease to 4.9 percent in calendar year 2014. The national unemployment rate is expected to remain higher than that of Kansas at 6.8 percent in 2014. The following table provides a historical comparison of the Kansas unemployment rate to regional and national rates.

Unemployment Rate

	Kansas	Plains	United States
2002	5.1	4.5	5.8
2003	5.6	4.8	6.0
2004	5.5	4.9	5.5
2005	5.1	4.5	5.1
2006	4.4	4.1	4.6
2007	4.1	4.2	4.6
2008	4.4	4.7	5.8
2009	7.1	7.5	9.3
2010	7.1	7.3	9.6
2011	6.5	6.6	8.9
2012	5.7	5.6	8.1

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics

Oil and Gas. The average price per taxable barrel of Kansas crude is now estimated to be $85 in FY 2014 (down slightly from the $86 estimate used in November 2013) and reflects the annualized effect of the recent decrease in world prices since the November estimate. The estimated average price of $85 per barrel for FY 2015 (unchanged from November 2013) takes into account current oil futures price expectations. Kansas gross oil production levels reached 44.6 million barrels in FY 2013 (compared with 42.3 million barrels in FY 2012). The current forecast of 48.0 million barrels for FY 2014 is down slightly from the 48.5 million barrels that was estimated in November. For FY 2015, Kansas gross oil production is estimated to increase to 52.0 million barrels, which is down from the 52.5 million barrels estimate in November. It is estimated that Kansas gross oil production levels will continue to experience growth as additional oil drilling activity continues in south central Kansas. Of all Kansas oil produced, 39.0 percent is predicted to not be subject to severance taxation because of various exemptions in state law in FY 2014.

The price of natural gas is expected to average $4.05 per million cubic feet (mcf) for FY 2014 before decreasing to $3.75 per mcf for FY 2015, based on an industry source's analysis of futures markets. The new price estimates are significantly higher than the $3.35 and $3.60 estimates used in November. Kansas natural gas production in FY 2013 of 295.5 million cubic feet represented a significant decrease from the modern era peak of 730.0 million cubic feet in FY 1996 (largely as a result of depletion of reserves in the Hugoton Field). Production is estimated to continue to decrease in the future and is excepted to be 290.0 million cubic feet for FY 2014 and 285.0 million cubic feet for FY 2015.

Agriculture. Although this sector of the Kansas economy does not now employ many people, the importance of agriculture to the State and national economies is evidenced by Kansas' ranking among all states in the production of crops and livestock. Following is a discussion of data pertaining to Kansas

agriculture production and how it compares to other states. The data cited in this section is taken from the 2013 edition of Kansas Farm Facts published by the U.S. Department of Agriculture which contains data for 2012. Kansas Farm Facts is published annually in July.

Kansas has a strong agricultural tradition that predates its statehood, and agriculture continues to be a significant contributor to the state's economic well-being. In 2011, cash receipts from farm marketing totaled more than $15.0 billion, and exports of agricultural products were valued at more than $5.3 billion.

In 2012 Kansas ranked first in wheat produced in the nation and in wheat flour milling. Kansas also ranks second in grain sorghum produced and forth in sunflowers produced.

Kansas ranks third in beef production, with 19 percent of all beef originating from Kansas beef processing facilities. The state ranks third in cattle and calves on farms and third in cattle and calves on grain feed and tenth in hogs on farms.

The value of production for wheat was $2.886 billion in 2012, up from 1.963 billion in 2011. The value of production for corn was $2.749 billion in 2012, down from $2.831 billion in 2011, and the value of production for grain sorghum was $582 million in 2012, below the 2011 value. The value of production for soybean crop was up in 2012 at $1.199 billion. The cash receipts from the sale of cattle improved to $7.6 billion in 2011, up 17 percent from the previous year, while cash receipts from the sale of hogs increased 31 percent to $487.6 million in 2011.

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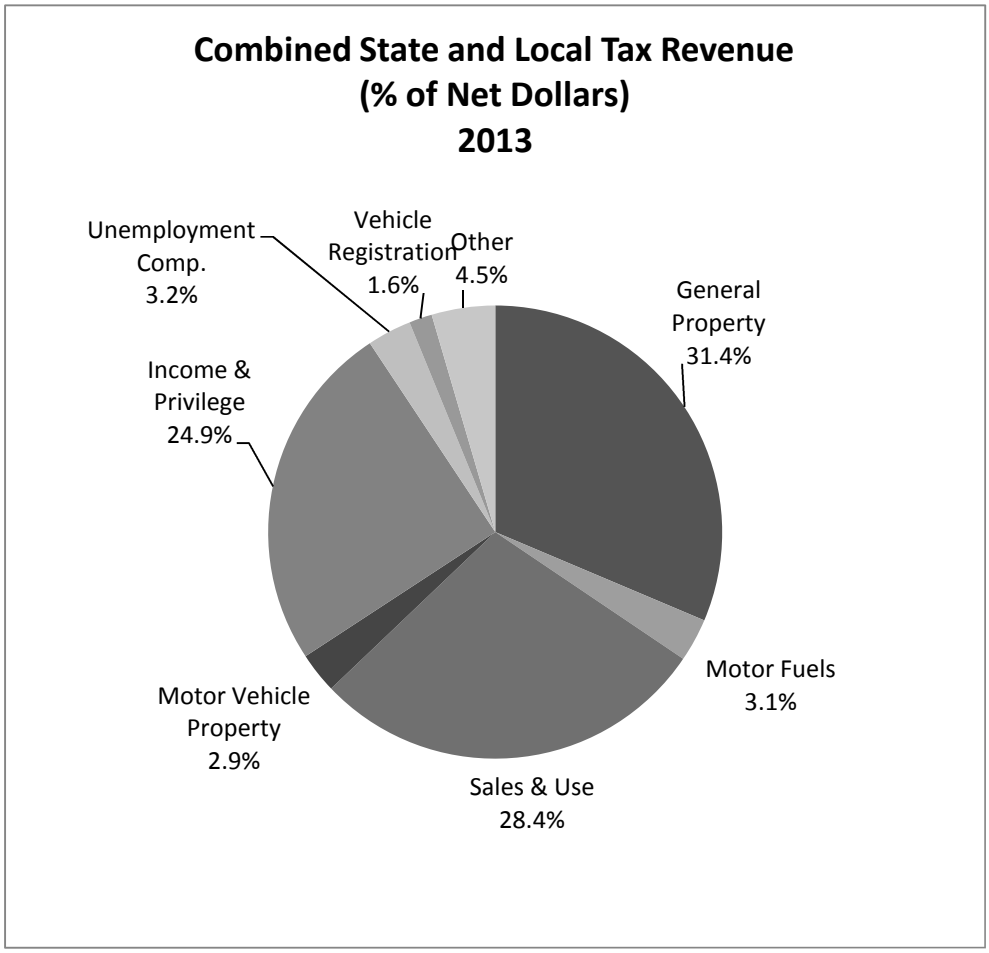
Taxes

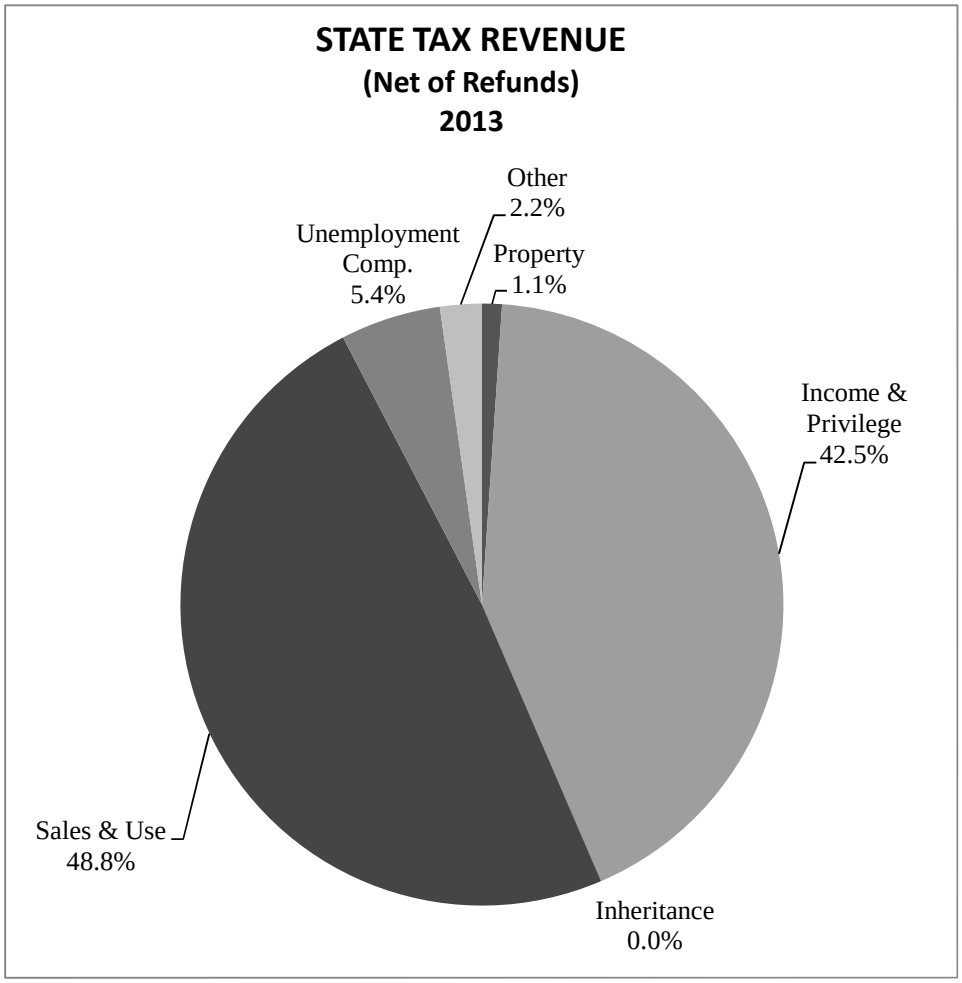
Kansas Tax Facts, 2013 Eighth Edition, December 2013 published by Kansas Legislative Research Department provides the most current information available on taxes collected in Kansas. This publication is the source for data used in this section. Combined state and local tax revenues from all sources for fiscal year 2013 are illustrated in the accompanying pie chart on the following page. Motor fuel taxes accounted for approximately 3.1 percent of tax revenue and vehicle registration fees accounted for 1.6 percent.



Sales and use tax revenue has been increasing as part of the state-local tax mix for decades. It has risen from 16 percent of the total in 1970 to just over 28 percent in 2013. The spread of local sales taxes has contributed significantly to the growth of sales tax revenue since 1970.

General property tax is still the most important single revenue producer; however, its proportion of total state and local taxes has steadily declined over the decades. It was 82 percent in Fiscal Year 1930, 56 percent in Fiscal Year 1960, and 31.4 percent in Fiscal Year 2013. The trend has reversed itself recently, since in FY 1998 the general property tax was only about 27 percent of the tax burden.

The following pie chart illustrates the revenue for Fiscal Year 2013 collected by state sources only. The largest two categories are sales and use tax and income & privilege tax, which constitute 49% and 42%, respectively.



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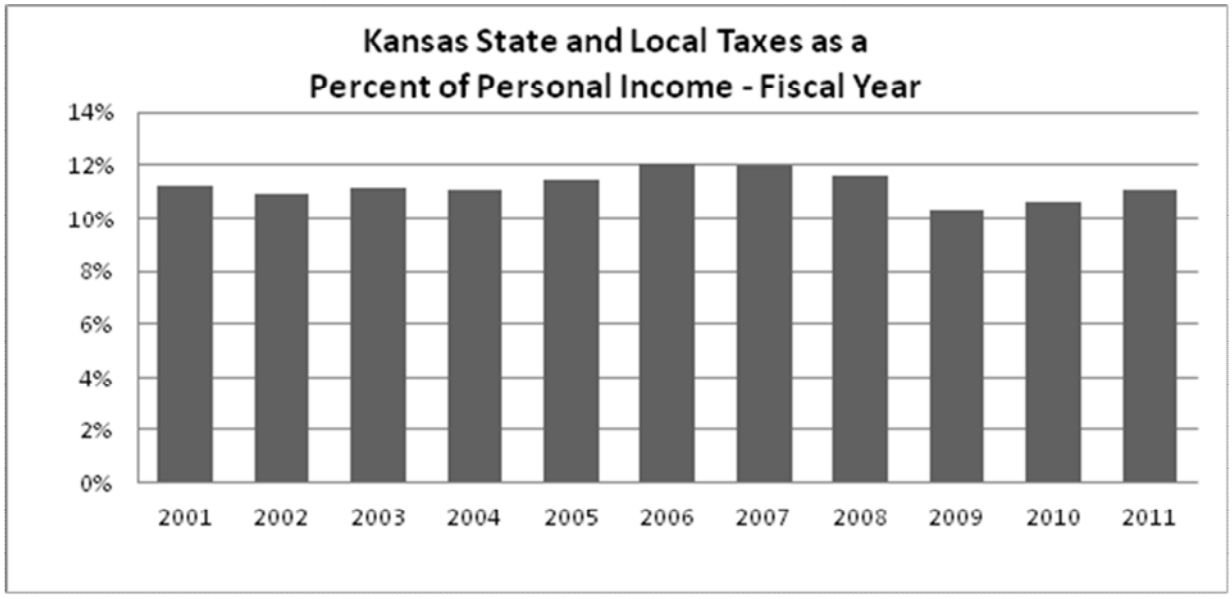
The accompanying chart reflects the relationship between state and local taxes collected and Kansas personal income. As the chart indicates, the percent of income paid in taxes has been relatively stable during the past decade.



Source: Kansas Legislative Research Dept.

The table below shows state tax revenue for the Fiscal Years 2008– 2013.

STATE TAX REVENUE NET OF REFUNDS

(In Millions)

	2008	2009	2010	2011	2012	2013
Property	84	85	81	76	79	84
Income & Privilege	3,410	2,998	2,669	2,953	3,244	3,360
Inheritance	44	23	8	0	1	(0)
Sales & Use	3,305	3,232	3,124	3,585	3,811	3,862
Other	139	132	172	162	169	177
Unemployment Comp.	223	171	306	399	434	425
Total	7,205	6,641	6,360	7,176	7,738	7,909

Source: Kansas Legislative Research Dept.

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APPENDIX B

Basic Financial Statements of the State of Kansas Department of Transportation as of June 30, 2013, and for the Year Then Ended and the Report of Independent Auditors

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Kansas Department of Transportation
Basic Financial Statements
For the Fiscal Year Ended June 30, 2013

Table of Contents

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Independent Auditors' Report

The Secretary of Transportation
State of 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 Department of Transportation, State of Kansas (Department), as of and for the year ended June 30, 2013, 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.

Opinion

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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the State Highway Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2013 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, information on infrastructure assets on the modified approach and the schedule of funding progress for other post employment benefits on pages 6-16 and 52-55 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 Reporting Required By *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

RubinBrown LLP

December 16, 2013

Kansas Department of Transportation
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
(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, 2013, the Department's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $10,486,485. Of this amount, $515,761 is unrestricted and available to use to meet future obligations to citizens and creditors.
- The Department's net position increased by $120,034 during the year.
- At the end of the fiscal year the combined ending fund balances of the Department's governmental funds was $128,520.
- The ending fund balances of governmental funds increased by $365,815.

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 do 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	
	6/30/2013	6/30/2012	6/30/2013	6/30/2012	6/30/2013	6/30/2012
Current and other assets	$ 632,961	$ 485,299	$ 122,534	$ 137,469	$ 755,495	$ 622,768
Capital assets	11,751,526	11,696,643	-	-	11,751,526	11,696,643
Total assets	12,384,487	12,181,942	122,534	137,469	12,507,021	12,319,411
Deferred outflows of resources						
Derivative instrument - interest rate swap	26,117	38,050	-	-	26,117	38,050
Total deferred outflow of resources	26,117	38,050	-	-	26,117	38,050
Less liabilities:						
Other liabilities	638,764	874,665	8,661	11,941	647,425	886,606
Long-term liabilities	1,346,096	1,038,390	53,132	66,014	1,399,228	1,104,404
Total liabilities	1,984,860	1,913,055	61,793	77,955	2,046,653	1,991,010
Net position:						
Net investments in capital assets	9,932,249	10,007,187	-	-	9,932,249	10,007,187
Restricted	-	-	38,475	37,991	38,475	37,991
Unrestricted	493,495	299,750	22,266	21,523	515,761	321,273
Total net position	$ 10,425,744	$ 10,306,937	$ 60,741	$ 59,514	$ 10,486,485	$ 10,366,451

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 $10,486,485, an increase of $120,034.

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 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 decrease in net position invested in capital assets, net of related debt reflects both the activities of constructing new highways and the addition of capital-related debt (both long-term and short-term) as new bonds were issued in the current years. 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, 2013 and 2012.

Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program revenues						
Capital grants	$ 222,787	$ 200,099	$ -	$ -	$ 222,787	$ 200,099
Operating grants	218,536	294,368	-	-	218,536	294,368
Vehicle registrations and drivers' licenses	198,120	177,649	-	-	198,120	177,649
Charges for service & other	20,437	10,016	4,399	3,454	24,836	13,470
General revenues						
Motor fuels tax	274,437	286,150	-	-	274,437	286,150
Sales and use taxes	323,667	311,452	-	-	323,667	311,452
Investment earnings	28,337	(28,207)	744	720	29,081	(27,487)
Unrestricted appropriations from other state funds	1,636	3,665	-	-	1,636	3,665
Total revenue	1,287,957	1,255,192	5,143	4,174	1,293,100	1,259,366
Expenses						
Maintenance and preservation	780,005	765,233	-	-	780,005	765,233
Communications system	13,470	15,786	1,350	850	14,820	16,636
Local support	106,826	113,958	-	-	106,826	113,958
General government	195,470	382,370	-	-	195,470	382,370
Rail, air and public transportation	14,825	43,050	-	-	14,825	43,050
Interest	58,562	67,984	-	-	58,562	67,984
Transportation revolving fund	-	-	2,558	2,638	2,558	2,638
Total expenses	1,169,158	1,388,381	3,908	3,488	1,173,066	1,391,869
Increase in net position before transfers	118,799	(133,189)	1,235	686	120,034	(132,503)
Transfers	8	876	(8)	(876)	(0)	0
Change in net position	118,807	(132,313)	1,227	(190)	120,034	(132,503)
Net position - beginning	10,306,937	10,561,835	59,514	59,704	10,366,451	10,621,539
Prior Period Adjustment	-	(122,585)	-	-	-	(122,585)
Net position - beginning of year, as restated	10,306,937	10,439,250	59,514	59,704	10,366,451	10,498,954
Net position - ending	$ 10,425,744	$ 10,306,937	$ 60,741	$ 59,514	$ 10,486,485	$ 10,366,451

As a result of the activities of the Department during the past year net position increased $120,034. Overall revenues increased by 3% and expenses decreased by 16%.

Governmental activities

Revenues for the year increased $32,765 or about 3%. This slight increase was due primarily to the Department's investment increasing in value over fiscal year 2013. The amount the Department received for vehicle registrations and drivers' licenses increased slightly in fiscal year 2013. Other sources of revenue available to the Department's governmental funds remained static or fluctuated only slightly.

Expenses for the year decreased $219,223 or about 16%. The most significant decrease was for general government activities. Expenditures for general government activities include transfers and payments to other governments for services or statutory transfers. Statutory transfers decreased for FY 2013.

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 $969 or 23% increase. Total expenses increased by $420 or about 12% for these funds. Revenues for the programs increased due to early payments on loans received in FY 2013. Communication system expenses increased 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.

The following table summarizes and compares the balance sheets of the governmental funds at June 30, 2013 and June 30, 2012.

Comparative Summary of Governmental Funds' Balance Sheets

	6/30/2013	6/30/2012	Change	% Change
Assets				
Cash and investments	$ 515,022	$ 357,416	$ 157,606	44
Receivables	76,650	85,552	(8,902)	(10)
Inventories	24,363	24,940	(577)	(2)
Long-term receivable	4,487	6,275	(1,788)	(28)
Total assets	$ 620,522	$ 474,183	$ 146,339	31
Liabilities				
Current liabilities	$ 55,401	$ 84,239	$ (28,838)	(34)
Bonds payable on demand	405,735	596,900	(191,165)	(32)
Deferred revenue	30,866	30,339	527	2
Total liabilities	492,002	711,478	(219,476)	(31)
Fund balances				
Nonspendable:				
Materials & supplies	24,363	24,940	(577)	(2)
Long-term receivable	4,487	6,275	(1,788)	(28)
Restricted for:				
Other purposes	19,348	19,306	42	0
Assigned to:				
Debt Service	109,231	113,867	(4,636)	(4)
Unassigned	(28,909)	(401,683)	372,774	(93)
Total fund balances	128,520	(237,295)	365,815	(154)
Total liabilities and fund balances	$ 620,522	$ 474,183	$ 146,339	31

Total fund balances for all governmental funds increased by $365,815 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 cash and investments from a new bond issuance during fiscal year 2013. The liabilities decreased because some of the Bonds Payable on Demand was refinanced to long term liability and principle 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 cash from the bonds issued during fiscal year 2013.

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

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 6/30/2013	FYE 6/30/2012	Change	% Change
Revenues				
Motor fuel taxes	$ 274,337	$ 286,151	$ (11,814)	(4)
Vehicle registrations and permits	198,120	177,649	20,471	12
Operating grants	220,676	291,525	(70,849)	(24)
Capital grants	224,983	201,092	23,891	12
Sales and use taxes	320,756	312,934	7,822	2
Investment earnings	866	756	110	15
Other	22,997	13,140	9,857	75
Appropriations from other state funds	1,636	3,665	(2,029)	(55)
Total revenues	1,264,371	1,286,912	(22,541)	(2)
Expenditures				
Current operating:				
Maintenance	132,830	130,123	2,707	2
Preservation	397,608	365,988	31,620	9
Modernization	67,102	115,293	(48,191)	(42)
Expansion and Enhancement	247,549	258,498	(10,949)	(4)
Communications system	6,443	10,948	(4,505)	(41)
Local support	106,826	113,958	(7,132)	(6)
Rail, air and public transportation	14,826	43,051	(28,225)	(66)
Management	69,671	63,982	5,689	9
Distributions to other state funds	115,366	313,402	(198,036)	(63)
Debt Service:				
Principal	67,090	65,145	1,945	3
Interest and fees	68,436	70,918	(2,482)	(3)
Total expenditures	1,293,747	1,551,306	(257,559)	(17)
Excess (deficiency) of revenues over expenditures	(29,376)	(264,394)	235,018	(89)
Other financing sources (uses)				
Issuance of debt	496,250	-	496,250	
Premium on issuance of debt	85,738	-	85,738	
Payment to refunded bonds escrow agent	(186,227)	-	(186,227)	
Transfers-in	474,238	443,108	31,130	7
Transfers-out	(474,230)	(442,232)	(31,998)	7
Total other financing sources (uses)	395,769	876	394,893	
Net change in fund balances	366,393	(263,518)	629,911	(239)
Fund balances - beginning of year	(237,295)	25,252	(262,547)	(1,040)
Other changes in fund balances:				
Change in reserve for materials and supplies inventory	(578)	971	(1,549)	(160)
Fund balances - end of year	$ 128,520	$ (237,295)	$ 365,815	(154)

Revenues for the year decreased by $22,541 or 2%. Expenditures for the year decreased by $257,559 or 17%. The decrease in revenues was a result of decreased operating grants revenue. As discussed earlier, the expenditure decrease was the result of decreases in statutory distributions to other state funds. The Rail, air, and public transportation expenditures also decreased due to money spent on the Edgerton intermodal project in fiscal year 2012.

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 2012 Legislature) projected a budgetary surplus of $149,296. The final budget (adopted by the 2012 Legislature) projected a budgetary surplus of $154,110. These budgetary surpluses 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 to more accurately reflect the level of activity expected to be accomplished by the Department.
- The budget for Transfers from other state funds was increased to reflect bond proceeds for the 2010A and 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 for Transfers In decreased to reflect bond proceeds for the 2010A and 2012C bond series.
- The budget without legal limits for construction decreased due to the lower project costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2013, the total investment in capital assets was $11,751,526. The following table summarizes those assets.

Summary of Capital Assets
(net of depreciation)

	Governmental Activities	
	6/30/2013	6/30/2012
Land (excluding right of way)	$ 5,237	$ 5,258
Right of way	188,722	183,042
Total land	193,959	188,300
Roadways	8,659,930	8,204,995
Bridges	2,065,339	1,948,655
Construction in progress	611,013	1,114,037
Total infrastructure and related construction in progress	11,336,282	11,267,687
Buildings	45,341	45,693
Machinery and equipment	175,944	194,963
Total buildings and equipment	221,285	240,656
Total capital assets	$ 11,751,526	$ 11,696,643

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 $1,737,615 and the Department had total bonds outstanding of $1,796,392. This includes $405,735 of bonds payable on demand and $109,601 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 $151,365 Highway Revenue Refunding Bonds Series 2012A, $144,885 Highway Revenue Refunding Bonds Series 2012B, and $200,000 Highway Revenue Bonds Series 2012C. The 2012C series bonds were issued to finance the activities of the Department under the T-WORKS highway program.

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. 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	Aa1	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, expenditures that preserve the asset and return it to its original state are expensed 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. The first network is the roadway system that consists of the Interstate and Non-interstate system. Roadways are also referred to as Roadway Pavement.

The condition of these 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 96% 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 83% of the Non-interstate roads are at PL-1. These measurements were made in the spring of 2013.

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 95.

ECONOMIC AND OTHER FACTORS

Fiscal year 2013 was the third 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
- Expending or committing at $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, Dwight D. Eisenhower State Office Building, Topeka, Kansas 66603-3754. Their phone number is (785) 296-3585 (Hearing Impaired – 711).

Kansas Department of Transportation
Statement of Net Position
June 30, 2013
(amounts in thousands)

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash:			
Unrestricted	$ 290,278	$ 21,947	$ 312,225
Restricted	197,702	30,798	228,500
Investments, at fair value	27,042	15,277	42,319
Receivables	76,506	6,377	82,883
Materials and supplies	24,363	0	24,363
Deferred charges	7,077	497	7,574
Derivative instrument - interest rate swap	5,506	0	5,506
Other long-term receivables	4,487	47,638	52,125
Capital assets:			
Land, including right of way	193,959	0	193,959
Infrastructure (including construction in progress)	11,336,282	0	11,336,282
Buildings and improvements (net of accumulated depreciation)	45,341	0	45,341
Road, office and shop equipment (net of accumulated depreciation)	175,944	0	175,944
Total assets	12,384,487	122,534	12,507,021
DEFERRED OUTFLOWS OF RESOURCES			
Accumulated decrease in fair value of hedging derivatives	26,117	0	26,117
Total deferred outflow of resources	26,117	0	26,117
LIABILITIES			
Accounts payable and other current liabilities	101,988	742	102,730
Bonds payable on demand	405,735	0	405,735
Unearned revenues and other credits	10,014	1,289	11,303
Internal balances	(143)	143	0
Compensated absences:			
Due within one year	7,213	0	7,213
Due in more than one year	1,417	0	1,417
Bonds payable:			
Due within one year	80,790	6,291	87,081
Due in more than one year	1,332,753	53,132	1,385,885
Arbitrage rebate liability	-	196	196
Derivative instrument - interest rate swap	33,167	0	33,167
Other post employment benefits obligation	11,926	0	11,926
Total liabilities	1,984,860	61,793	2,046,653
NET POSITION			
Net investments in capital assets	9,932,249	0	9,932,249
Restricted for:			
Debt service	0	38,475	38,475
Unrestricted	493,495	22,266	515,761
Total net position	$ 10,425,744	$ 60,741	$ 10,486,485

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, 2013
(amounts in thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services: Vehicle Registrations and Drivers' Licenses	Program Revenues: Charges for Services: Other	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
Governmental activities								
Maintenance and preservation	$ 780,005	$ 0	$ 0	$ 152,584	$ 222,787	$ (404,634)	$ 0	$ (404,634)
Communications system	13,470	0	0	0	0	(13,470)	0	(13,470)
Local support	106,826	0	0	58,662	0	(48,164)	0	(48,164)
General government	195,470	198,120	20,437	7,290	0	30,377	0	30,377
Rail, air and public transportation	14,825	0	0	0	0	(14,825)	0	(14,825)
Interest on long-term debt	58,562	0	0	0	0	(58,562)	0	(58,562)
Total governmental activities	1,169,158	198,120	20,437	218,536	222,787	(509,278)	0	(509,278)
Business-type activities								
Transportation revolving fund	2,558	0	2,334	0	0	0	(224)	(224)
Communications system	1,350	0	2,065	0	0	0	715	715
Total business-type activities	3,908	0	4,399	0	0	0	491	491
Total	$ 1,173,066	$ 198,120	$ 24,836	$ 218,536	$ 222,787	(509,278)	491	(508,787)
General revenues								
Motor fuel taxes						274,437	0	274,437
Sales and use taxes						323,667	0	323,667
Investment earnings						28,337	744	29,081
Unrestricted appropriations from other state funds						1,636	0	1,636
Transfers						8	(8)	(0)
Total general revenues						628,085	736	628,821
Change in net position						118,807	1,227	120,034
Net position - beginning of year						10,306,937	59,514	10,366,451
Net position - ending						$ 10,425,744	$ 60,741	$ 10,486,485

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

Kansas Department of Transportation
Balance Sheet
Governmental Funds
June 30, 2013
(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	$ 267,948	$ 0	$ 0	$ 22,330	$ 290,278
Restricted	28,800	84,987	83,915	0	197,702
Investments, at fair value	3,045	23,997	0	0	27,042
Receivables:					
Federal aid	4,962	0	0	0	4,962
Accrued taxes	59,837	0	0	0	59,837
Local governments	10,395	0	0	0	10,395
Accrued interest	23	247	8	1	279
Other KDOT funds	143	0	0	0	143
Loans and other	0	0	0	1,034	1,034
Materials and supplies	24,363	0	0	0	24,363
Long-term receivable:					
Loans and other	0	0	0	4,487	4,487
Total assets	$ 399,516	$ 109,231	$ 83,923	$ 27,852	$ 620,522
LIABILITIES AND FUND BALANCES					
Liabilities:					
Vouchers payable	$ 41,171	$ 0	$ 0	$ 4,017	$ 45,188
Retainage payable	1,569	0	0	0	1,569
Accrued salaries and wages	8,644	0	0	0	8,644
Bonds payable on demand	0	0	405,735	0	405,735
Deferred revenue	30,866	0	0	0	30,866
Total liabilities	82,250	0	405,735	4,017	492,002
Fund Balances:					
Nonspendable:					
Materials & supplies	24,363	0	0	0	24,363
Long-term receivable	0	0	0	4,487	4,487
Restricted for:					
Other Purposes	0	0	0	19,348	19,348
Assigned to:					
Debt Service	0	109,231	0	0	109,231
Unassigned	292,903	0	(321,812)	0	(28,909)
Total fund balances	317,266	109,231	(321,812)	23,835	128,520
Total liabilities and fund balances	$ 399,516	$ 109,231	$ 83,923	$ 27,852	$ 620,522

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, 2013
(amounts in thousands)

Total fund balances - Governmental Funds		$ 128,520
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	$ 193,959	
Infrastructure (including construction in progress)	11,336,282	
Other capital assets net of depreciation	221,285	11,751,526
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable (including unamortized premiums, issuance costs, and deferred refundings)	$ (1,427,587)	
Claims	(25,467)	
Compensated absences	(8,630)	
Derivative instruments (including net interest rate swap positions and change in fair value of hedging derivatives)	(1,544)	
Other post employment benefits obligation	(11,926)	(1,475,154)
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.		20,852
Net Position of Governmental Activities		$ 10,425,744

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, 2013
(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	$ 274,337	$ 0	$ 0	$ 0	$ 274,337
Vehicle registrations and permits	198,120	0	0	0	198,120
Operating grants	216,116	0	0	4,560	220,676
Capital grants	224,983	0	0	0	224,983
Sales and use taxes	320,756	0	0	0	320,756
Investment earnings	303	343	81	139	866
Other	20,622	0	0	2,375	22,997
Appropriations from other state funds	1,636	0	0	0	1,636
Total revenues	1,256,873	343	81	7,074	1,264,371
Expenditures					
Current Operating:					
Maintenance	130,718	0	0	2,112	132,830
Preservation	397,608	0	0	0	397,608
Modernization	67,102	0	0	0	67,102
Expansion and enhancement	247,549	0	0	0	247,549
Communication system	6,168	0	0	275	6,443
Local Support	106,656	0	0	170	106,826
Rail, air and public transportation	0	0	0	14,826	14,826
Management	69,234	0	0	437	69,671
Distributions to other state funds	115,366	0	0	0	115,366
Debt Service:					
Principal	0	67,090	0	0	67,090
Interest and fees	0	68,436	0	0	68,436
Total expenditures	1,140,401	135,526	0	17,820	1,293,747
Excess (deficiency) of revenues over (under) expenditures	116,472	(135,183)	81	(10,746)	(29,376)
Other financing sources (uses)					
Issuance of debt	0	0	496,250	0	496,250
Premium on issuance of debt	0	0	85,738	0	85,738
Payment to refunded bonds escrow agent	0	0	(186,227)	0	(186,227)
Transfers-in	251,948	171,924	41,366	9,000	474,238
Transfers-out	(178,145)	(41,377)	(254,708)	0	(474,230)
Total other financing sources (uses)	73,803	130,547	182,419	9,000	395,769
Net change in fund balances	190,275	(4,636)	182,500	(1,746)	366,393
Fund balances - beginning of year	127,569	113,867	(504,312)	25,581	(237,295)
Change in reserve for materials and supplies	(578)	0	0	0	(578)
Fund balances - end of year	$ 317,266	$ 109,231	$ (321,812)	$ 23,835	$ 128,520

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, 2013
(amounts in thousands)

Net change in fund balances - governmental funds			$	366,393
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 net of value of infrastructure assets replaced	$	68,595		
Cost of acquisition or construction of other capital assets		25,269		
Depreciation expense		(32,430)		61,434
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.				(6,551)
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 issuance costs, 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:				
Issuance of long-term debt	$	(496,250)		
Bond principal payments		67,090		
Amortization of deferred charges and other bond related costs		(76,925)		
Payment to the escrow agent for the refunded bonds		186,227		(319,858)
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.				18,711
Revenues recorded on the Statement of Activities that do not provide current financial resources are not recorded in governmental funds.				(1,322)
Change in net position of governmental activities			$	118,807

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, 2013
(amounts in thousands)

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues:				
Motor fuel taxes	$ 292,302	$ 286,191	$ 273,157	$ (13,034)
Vehicle registrations and permits	192,367	193,593	198,452	4,859
Intergovernmental	433,408	424,630	442,414	17,784
Sales and use taxes	311,561	325,376	319,546	(5,830)
Investment earnings	706	234	269	35
Other	11,772	9,016	20,487	11,471
Transfers from other state funds	0	8	461	453
Total revenues	1,242,116	1,239,048	1,254,786	15,738
Expenditures, with legal limits:				
Current operating:				
Maintenance	154,336	138,745	134,886	3,859
Construction	72,224	66,935	64,673	2,262
Local support	8,694	7,235	6,427	808
Management	62,440	55,511	50,364	5,147
Transfers to other state funds	103,057	110,723	110,097	626
Expenditures with legal limits	400,751	379,149	366,447	12,702
Expenditures, without legal limits:				
Current operating:				
Maintenance	499	540	512	28
Construction	713,307	807,673	607,902	199,771
Local support	30,325	33,355	28,625	4,730
Management	885	9,904	2,690	7,214
Transfers to other state funds	0	0	0	0
Expenditures without legal limits	745,016	851,472	639,729	211,743
Total expenditures	1,145,767	1,230,621	1,006,176	224,445
Excess (deficiency) of revenues over expenditures	96,349	8,427	248,610	240,183
Other financing sources (uses):				
Transfers-in	253,421	337,157	253,878	(83,279)
Transfers-out	(200,474)	(191,474)	(178,119)	13,355
Total other financing sources (uses)	52,947	145,683	75,759	(69,924)
Excess (deficiency) of revenues and other sources over expenditures and other uses	$ 149,296	$ 154,110	$ 324,369	$ 170,259

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, 2013
(amounts in thousands)

Excess (deficiency) of revenues and other sources over expenditures and other uses - Budgetary Basis	$	324,369
Budgetary basis revenues and transfers from other state funds are adjusted to GAAP basis		(251,279)
Net encumbrances are reported as expenditures for budgetary reporting purposes		(58,125)
Budgetary expenditures and transfers to other state funds have been adjusted for GAAP basis		175,310
Net Change in Fund Balance as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	$	190,275

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, 2013
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
ASSETS			
Current Assets:			
Cash:			
Unrestricted	$ 19,795	$ 2,152	$ 21,947
Restricted	30,798	0	30,798
Interest and other receivables	1,030	0	1,030
Current portion of loans and leases receivable	4,895	452	5,347
Total current assets	56,518	2,604	59,122
Noncurrent assets			
Loans and leases receivable	44,970	2,668	47,638
Investments	15,277	0	15,277
Deferred charges	462	35	497
Total noncurrent assets	60,709	2,703	63,412
Total assets	117,227	5,307	122,534
LIABILITIES			
Current liabilities:			
Vouchers payable	136	0	136
Interest payable	589	17	606
Due to other KDOT funds	0	143	143
Current portion of bonds payable	6,100	191	6,291
Total current liabilities	6,825	351	7,176
Noncurrent liabilities			
Bonds payable	51,936	1,196	53,132
Arbitrage rebate liability	196	0	196
Deferred lease revenue	0	1,289	1,289
Total noncurrent liabilities	52,132	2,485	54,617
Total liabilities	58,957	2,836	61,793
NET POSITION			
Restricted for debt service and bond reserves	38,475	0	38,475
Unrestricted	19,795	2,471	22,266
Total net position	$ 58,270	$ 2,471	$ 60,741

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, 2013
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
Operating revenues:			
Interest on loans	$ 2,185	$ 0	$ 2,185
Service fees	149	16	165
Lease income	0	2,049	2,049
Total operating revenues	2,334	2,065	4,399
Operating expenses:			
Professional fees	24	69	93
Arbitrage rebate expense	172	0	172
Interest credit to lessees	0	936	936
Commodities	0	(1)	(1)
Total operating expenses	196	1,004	1,200
Operating income	2,138	1,061	3,199
Nonoperating revenues (expenses):			
Investment earnings	741	3	744
Amortization of premium (net)	47	(13)	34
Interest expense on bonds	(2,409)	(333)	(2,742)
Total nonoperating revenues (expenses)	(1,621)	(343)	(1,964)
Transfers			
Transfers in	4,364	0	4,364
Transfers out	(4,364)	(8)	(4,372)
Total transfers	0	(8)	(8)
Change in Net Position	517	710	1,227
Total net position - beginning	57,753	1,761	59,514
Total net position - ending	$ 58,270	$ 2,471	$ 60,741

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, 2013
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
Cash flows from operating activities:			
Principal collections on loans	$ 22,166	$ 0	$ 22,166
Interest on loans collected	2,513	0	2,513
Service fees collected	171	16	187
Collection on leases	0	8,427	8,427
Loan and lease advances	(987)	0	(987)
Payments for inventory	0	(206)	(206)
Proceeds from sale of inventory	0	0	0
Professional and contractual fees paid	(24)	(69)	(93)
Arbitrage expenses paid	(46)	0	(46)
Net cash provided by operating activities	23,793	8,168	31,961
Cash flows from noncapital financing activities			
Transfers	0	(8)	(8)
Debt service on bonds	(8,757)	(8,176)	(16,933)
Net cash provided by (used in) noncapital financing activities	(8,757)	(8,184)	(16,941)
Cash flows from investing activities			
Interest received on investments	741	3	744
Net cash provided by investing activities	741	3	744
Net increase in cash	15,777	(13)	15,764
Cash - beginning	34,816	2,165	36,981
Cash - ending	$ 50,593	$ 2,152	$ 52,745
Reconciliation of operating income to net cash provided by operating activities			
Operating income	$ 2,138	$ 1,061	$ 3,199
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in loans receivable	21,180	0	21,180
Change in receivable	349	0	349
Change in leases receivable	0	9,078	9,078
Change in deferred lease revenue	0	(1,970)	(1,970)
Change in vouchers payable	126	(1)	125
Change in inventory	0	0	0
Total adjustments	21,655	7,107	28,762
Net cash provided by operating activities	$ 23,793	$ 8,168	$ 31,961

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, 2013
(amounts in thousands)

ASSETS		
Cash	$	33,944
Receivables		12,394
Total assets	$	46,338
LIABILITIES		
Due to cities and counties	$	46,338
Total liabilities	$	46,338

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

Kansas Department of Transportation
Notes to the Financial Statements
June 30, 2013
(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.

In June 2011, GASB Statement 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" was issued. This statement defines deferred outflows of resources and deferred inflows of resources as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future reporting period, respectively. Net position is the residual of all the other elements presented in a statement of financial position. This statement is effective for periods beginning after December 15, 2011. The Department has adopted GASB 63 with this Fiscal Year 2013.

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 invested 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 result 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 consist of the net position that do 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, even though the latter 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. 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 fuels 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. The Transportation Revolving Fund (TRF) has $38,475 of net position restricted by enabling legislation.

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 useful lives:

Assets	Years
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, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs 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.

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 statue, 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 lastly unassigned.

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. Pending Governmental Accounting Standards Board Statements – At June 30, 2013, Governmental Accounting Standards Board Statements (GASB) has issued statements not yet implemented by the Department. The following statements might impact the Department:

GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities" was issued in March 2012. 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). This statement is effective for periods beginning after December 15, 2012.

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 could 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 2013 appropriated budgets subject to legal limitations were adopted by the State Legislature for that portion of the State Highway Fund that is agency operations. 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, 2013, expenditures without legal limitations exceeded the budget established by the Department's internal budgeting process in the Interagency Motor Vehicle Fuel Sales, Public Use General Aviation Airport Development, Rail Service Improvement, Other Federal Grants and Debt Service Fund.

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, 2013, the Department's share in the State's common cash pool was $574,636.

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, 2013 are summarized in the following table.

Quality Rating	U. S. Government Securities	Government Agency Securities	Commercial Paper	Guaranteed Investment Contracts	Total
AA+ (Long-term)	$ 2,993	$ 52	$ -	$ -	$ 3,045
A1+ (Short-term)	-	-	14,998	-	14,998
A1 (Short-term)	-	-	8,999	-	8,999
Not rated	-	-	-	15,277	15,277
	$ 2,993	$ 52	$ 23,997	$ 15,277	$ 42,319

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, 2013:

Bank of Nova Scotia	$8,999
GE Capital Corporation	14,998
Guaranteed Investment Contracts	15,277
U. S. Treasury Strips	2,993

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, 2013, and their weighted average maturity are summarized in the following schedule.

Investment Type	Fair Value	WAM*
U. S. Government		
Treasury strips	$ 2,993	1.1
Agency Securities	52	3.8
Commercial Paper	23,997	0.1
	$ 27,042	
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.

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

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 following table summarizes the FY 2013 appropriations from other state funds and distributions to other state funds.

Appropriations from:		
Department of Administration (a)	$	1,387
Kansas Corporation Commission (b)		244
Other transfers		5
Appropriations to governmental funds from other state funds	$	1,636
Distributions to:		
Department of Revenue (c)	$	53,811
State General Fund (d)		210
Highway Patrol (e)		54,022
Wildlife, Parks, and Tourism (f)		3,004
University of Kansas (g)		1,353
Kansas State University (g)		925
Other state funds		2,041
Total distributions to other state funds	$	115,366

(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) 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.

(d) Transfers were made to the State General Fund (SGF) to pay overhead for the Division of Purchasing.

(e) 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.

(f) 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.

(g) 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, 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.

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	Proprietary Fund	Total
Transfer out:						
State Highway Fund	$ -	$ 169,145	$ -	$ 9,000	$ -	$ 178,145
Debt Service Fund	11	-	41,366	-	-	41,377
Capital Projects Fund	251,929	2,779	-	-	-	254,708
Proprietary Funds	8	-	-	-	4,364	4,372
Nonmajor governmental funds	-	-	-	-	-	-
	$ 251,948	$ 171,924	$ 41,366	$ 9,000	$ 4,364	$ 478,602

Note 5. Capital Assets

Capital asset activity related to governmental activities for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	$ 188,300	$ 5,965	$ (306)	$ 193,959
Infrastructure	10,153,650	654,920	(83,301)	10,725,269
Construction in progress	1,114,037	138,577	(641,601)	611,013
Total capital assets not being depreciated	11,455,987	799,462	(725,208)	11,530,241
Capital assets being depreciated:				
Buildings	91,484	3,374	(24)	94,834
Machinery & equipment	367,489	15,930	(27,715)	355,704
Total capital assets being depreciated	458,973	19,304	(27,739)	450,538
Less accumulated depreciation:				
Buildings	(45,791)	(3,711)	9	(49,493)
Machinery & equipment	(172,526)	(28,719)	21,485	(179,760)
Total accumulated depreciation	(218,317)	(32,430)	21,494	(229,253)
Total capital assets being depreciated, net	240,656	(13,126)	(6,245)	221,285
Total capital assets, net	$ 11,696,643	$ 786,336	$ (731,453)	$ 11,751,526

Depreciation expense was charged to the functions as follows:

Maintenance and preservation	$ 19,997
Communications system	7,027
General government	5,406
	$ 32,430

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 $3,120 and deferred lease revenue at June 30, 2013, was $1,289. Future minimum lease payments to be received are indicated in the following table.

Fiscal year ending June 30	
2014	$ 452
2015	452
2016	454
2017	444
2018	441
2019-2023	821
2024-2028	38
2029-2033	10
2034-2037	8
	$ 3,120

Note 7. Compensated Absences

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

	Governmental Activities
Beginning balance	$ 8,628
Retired	(6,845)
Increase in leave balance	6,847
Ending balance	$ 8,630
Amount due within one year	$ 7,213

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, 2013 is comprised of the following amounts:

Series	Final Scheduled Maturity	Original Principal Amount	6/30/2012 Balance	Additions	Reductions	Principal Amount Outstanding	Amount due Within One Year
Governmental Funds							
State of Kansas Highway Revenue Bonds:							
Series 1998, Refunding	09/01/14	$ 189,195	$ 11,465	$ -	$ -	$ 11,465	$ 11,465
Series 2002B, Refunding*	09/01/19	170,005	158,860	-	21,405	137,455	11,970
Series 2002C, Refunding*	09/01/19	150,000	140,170	-	18,890	121,280	10,550
Series 2003A, Refunding	09/01/13	164,275	113,340	-	67,090	46,250	46,250
Series 2004A	03/01/23	250,000	250,000	-	173,765	76,235	-
Series 2004B	09/01/24	200,000	200,000	-	-	200,000	-
Series 2004C*	09/01/24	147,000	147,000	-	-	147,000	-
Series 2008A*	09/01/15	150,870	150,870	-	150,870	-	-
Series 2009A, Refunding	09/01/20	176,680	176,680	-	-	176,680	-
Series 2010A	09/01/35	325,000	325,000	-	-	325,000	-
Series 2012A, Refunding	09/01/15	151,365	-	151,365	-	151,365	23,075
Series 2012B, Refunding	09/01/22	144,885	-	144,885	-	144,885	-
Series 2012C	09/01/32	200,000	-	200,000	-	200,000	-
Total before adjustments						1,737,615	103,310
Adjustments							
*Less - Bonds payable on demand						(405,735)	(22,520)
Less - Unamortized Deferred Refunding Difference						(20,503)	-
Net unamortized premium (discount)						102,166	-
Total after adjustments			$ 1,673,385	$ 496,250	$ 432,020	$ 1,413,543	$ 80,790
Proprietary Funds							
Transportation Revolving Fund							
Series 2005-TR	10/01/25	$ 32,690	$ 22,150	$ -	$ 2,195	$ 19,955	$ 2,265
Series 2006-TR	12/21/06	24,755	16,320	-	1,835	14,485	1,855
Series 2009-TR	10/01/28	30,950	25,215	-	2,265	22,950	1,980
Communications System Revolving Fund							
Series 2008-CRF	04/01/23	14,200	9,162	-	7,775	1,387	191
Total before adjustments						$ 58,777	
Adjustments							
Net unamortized premium (discount)						646	
Total after adjustments			$ 72,847	$ -	$ 14,070	$ 59,423	$ 6,291

In September 2012, the Department issued Highway Revenue Refunding Bonds Series 2012A, in the amount of $151,365. The purpose of these bonds was to refund the Series 2008A bonds, which had been called at par value, and to pay the costs associated with their issuance. The bonds were issued with variable interest rates and maturities ranging from 2013 to 2015. As a result of this transaction, the Series 2008A bonds have been retired. This transaction was undertaken to reduce total debt service payments by $777 and results in an economic gain of $752.

In October 2012, the Department issued Highway Revenue Refunding Bonds Series 2012B, in the amount of $144,885. The purpose of these bonds was to refund part of the Series 2004A bonds, which had been called at par value, and to pay the costs associated with their issuance. The bonds were issued with interest rates of 5.00% and maturities ranging from 2019 to 2022. As a result of this transaction, part of the Bond Series 2004A has been retired. This transaction was undertaken to reduce total debt service payments by $45,520 and results in an economic gain of $39,110.

In December 2012, the Department issued Highway Revenue Bonds Series 2012C, in the amount of $200,000. The purpose of these bonds was to pay a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. The bonds have a stated interest rate of 4.00% to 5.00% and maturities in fiscal years 2016 through 2033.

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 35% Federal subsidy of interest, the net interest cost to the Department is 2.99%.

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 13.6% of the pledged revenue. The total principal and interest remaining to be paid on the Highway Revenue bonds is $2,347,990. Annual principal and interest payments on the Transportation Revolving Fund and the Communications System Revolving Fund bonds are expected to require approximately 166.1% 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 $73,270.

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 0.05% to 0.53% 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 2013 to September 2014 and require annual commitment fees ranging from 0.45% to 0.525%. 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, 2013 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.

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	Principal	Bond Service Charges	Total	Bond Coverage
$ 815,774	$ 107,385	$ 83,649	$ 191,034	427 %

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. Upon the retirement of all pre-1999 Series bonds, the definition of adjusted revenues will be expanded to include reimbursements received from the federal government. All pre-1999 Series bonds are scheduled to be retired on September 1, 2013, unless they are refunded prior to that date.

Debt service requirements to 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			
2014	$ 103,310	$ 67,576	$ 170,886
2015	113,405	63,563	176,968
2016	102,670	59,907	162,577
2017	107,310	55,872	163,182
2018	108,285	52,222	160,507
2019 - 2023	598,160	180,427	778,587
2024 - 2028	229,475	71,827	301,302
2029 - 2033	174,205	49,863	224,068
2034 - 2036	200,795	9,118	209,913
	$ 1,737,615	$ 610,375	$ 2,347,990
Proprietary Funds			
2014	$ 6,291	$ 2,305	$ 8,596
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 - 2023	19,219	4,341	23,560
2024 - 2028	10,820	917	11,737
	$ 58,777	$ 14,493	$ 73,270

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, 2012, 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, 2013 are shown in the following table.

Bond Series	Principal Defeased
1998 Highway Revenue	$ 12,020
2004A Highway Revenue	173,765
Total	$ 185,785

As of June 30, 2013, 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
2014	$ 45,595	$ 220	$ 14,286	$ 60,101
2015	113,405	208	11,767	125,380
2016	75,225	190	8,789	84,204
2017	38,145	170	7,037	45,352
2018	39,520	149	5,860	45,529
2019 - 2023	163,535	448	13,380	177,363
2024 - 2025	81,675	42	1,398	83,115
Total	$ 557,100	$ 1,427	$ 62,517	$ 621,044

Note 9. Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2013, 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, 2013		
	Classification	Amount	Classification	Amount	Notional
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	$ 11,933	Debt	$ (26,117)	$ 481,010
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	5,791	Investment	(7,050)	75,000
Basis swap	Investment revenue	216	Investment	5,506	75,000

All derivatives are reported on the Statement of Net Position 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 Position 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, or hybrid instruments, the statement calls for bifurcating and accounting for the transaction as two separate components.

In June 2011, the GASB issued Statement 64 an amendment of GASB Statement 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 both are described in the swap agreement. It was applicable for periods beginning after June 15, 2011. The Department adopted GASB 64 beginning Fiscal Year ended 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 Position.

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%, but 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, 2013.

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	$161,707	10/23/02	9/1/2019	3.164%	67% of USD-LIBOR	($14,872)	Goldman Sachs Bank USA	A2/A-/A
** Series 2002 B & C	$120,005	$97,028	3/1/12	9/1/2019	3.1640% Contractual; 0.8166% GASB 64 At-the-Market	67% of USD-LIBOR	$0	The Bank of New York Mellon	Aa1/AA-/AA-
** Series 2012 A	$150,275	$150,275	5/7/12	9/1/2015	3.3590% Contractual; 0.2254% GASB 53 At-the-Market	71% of USD-LIBOR	($38)	Merrill Lynch Derivative Products AG	Aa3/AAA/NR
** Series 2004 C	$147,000	$72,000	11/23/04	9/1/2024	3.571%	63.5% of USD-LIBOR + 0.29%	($11,207)	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	($7,050)	Goldman Sachs Bank USA	A2/A-/A
*** Series 2004 B	$75,000	$75,000	7/10/07	9/1/2024	67% of USD-LIBOR	61.56% of 10 Year CMS	$5,506	JPMorgan Chase Bank, N.A.	Aa3/A+/A+
							($27,661)		

* - two counterparties

** - Considered fair value hedge

*** - 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 four 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, 2013, are shown above. 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 & C 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, as the criteria for continuing hedge accounting with replacement swaps was not met (no default or termination event by the counterparty).

2012A Swap (formerly 2008A, 2003C Swap) - In connection with the issuance of $150,275 of variable-rate Series 2003C Highway Revenue Refunding Bonds, the Department competitively bid a floating-to-fixed interest rate swap on November 20, 2003. 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-month 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. This hybrid instrument can also consist of an imputed borrowing that is considered a cost of refunding and is amortized over the shorter of the life of the new bonds or refunded bonds.

On May 7, 2012, with no termination payment due to or from the Department, the Series 2008A swap that was guaranteed by Merrill Lynch Capital Services Inc. as counterparty was assigned to Merrill Lynch Derivative Products AG, a bank counterparty credit support provider with stronger credit ratings. In accordance with GASB 64, the Department terminated hedge accounting on the swap with the prior counterparty guarantor (Merrill Lynch Capital Services Inc.). The Department 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, as the criteria for continuing hedge accounting with replacement swaps was not met (no default or termination event by the counterparty).

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, and an imputed borrowing that is considered a cost of refunding, and, 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, effective July 1, 2007, 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. On July 10, 2007 a CMS became effective on the previously unhedged 2004 B series bonds so that the Department pays Bear Stearns Financial Products Inc. ("BSFP") 67% of 1-month LIBOR and receives 61.56% of the 10-year LIBOR CMS rate on $75,000. Following the merger of BSFP with and into JPMorgan Chase Bank N.A. ("JPM"), and an Assignment Agreement dated as of March 18, 2009, by and among BSFP, the Department and JPM, the bank counterparty on this swap is now JPM.

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.

Credit risk. As of June 30, 2013, the Department has credit risk exposure to JPMorgan Chase Bank N.A. on the swap associated with the Series 2004 B Revenue Bonds. This is because the transaction has a positive fair value, meaning the Department is exposed to the counterparty in the amount of the derivative's fair value. However, should interest rates change and the fair value of the swap become negative, the Department would not be exposed to credit risk.

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, 2013, were $478.2 million. These commitments will be funded by revenues from various Federal, State, and local sources primarily in the form of matching Federal highway construction funds, motor fuels 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 2013, the Department's contribution rate is 2.916% 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, 2013, the amount of these liabilities included in accounts payable of the government-wide Statement of Net Position was $25,467 and is the Department's best estimate based on available information. Changes in the reported liability since June 30, 2012, resulted from the following:

Fiscal Year	Beginning Liability	Current Claims and Changes in Estimates	Claims Paid	Ending Liability
2012	$ 11,452	$ 5,769	$ 209	$ 17,012
2013	17,012	8,552	97	25,467

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 - Plan members are required to contribute 4% (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 2013 was 10.37%. 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, 2013, 2012, 2011, were $11.0 million, $10.7 million, and $10.2 million, respectively, and were equal to 100% of the required contributions for each year.

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 2013 is $582.92 (dollar amount not in thousands) for single coverage and $852.72 (dollar amount not in thousands) for member-plus-dependent coverage. The changes to employee data and plan assumptions related to the VRIP were included in the most recent actuarial valuation.

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 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 table on the next page 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)	$ 1,664
Normal cost (with interest)	1,197
Annual required contribution (ARC) - Annual OPEB Cost	2,861
Interest on Net OPEB Obligation	429
Adjustment to the ARC	(633)
Annual OPEB Cost	2,657
Claims and Admin Paid on Behalf of Retirees	3,926
Contributions made	(2,056)
Net Employer Contributions	1,870
Other post employment benefits obligations at July 1, 2012	11,139
Annual OPEB Cost	2,657
Net Employer Contributions	(1,870)
Other post employment benefits obligations at June 30, 2013	$ 11,926

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
2011	3,038	277	9%	10,756
2012	2,781	2,398	86%	11,139
2013	2,657	1,870	70%	11,926

D. Funded status and funding progress - As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $29,595. 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 $29,595. The covered payroll (annual payroll of active employees covered by the plan) was $109,460, and the ratio of the UAAL to the covered payroll was 27%.

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.

In the June 30, 2013 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85% discount 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 9% in 2013 decreasing to 5% in 2026. The UAAL is being amortized over a 30 year open period in level dollar amounts. The valuation did not include assumptions related to salary benefit increases or cost-of-living adjustments.

The employer contribution, according to GASB Statement No. 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.

Kansas Department of Transportation
Required Supplementary Information
For the Year Ended June 30, 2013

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.

	Interstate Miles		Non-interstate Miles	
Fiscal Year	Minimum Acceptable Condition Level*	Actual Condition Level*	Minimum Acceptable Condition Level*	Actual Condition Level*
2011	80	96	75	84
2012	85	98	80	83
2013	85	96	80	83
* - 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 $87 million in fiscal year 2013. 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 $215 million in fiscal year 2013. 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.

	Interstate Highways		Non-interstate Highways	
Fiscal Year	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*
2009	$ 110,000	$ 67,603	$ 260,000	$ 392,237
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
* - 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 Pontis 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, the metric was the average health index of the entire system. In 2012, the Bridge Performance Measure for the Department was changed. The current 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 ≥ 85
- Fair Condition: 70≤BHI<85
- Deteriorated Condition: BHI<70

The goal of the Department is to maintain the bridge system at a higher level. In fiscal year 2012, the Department realigned the minimum health index level to be closer to its goals. The minimum acceptable health index has been redefined to an overall state-wide health index of 85 as the minimum acceptable condition level. This table compares the minimum acceptable health index with the actual health index for the current and prior years.

Fiscal Year	Minimum Acceptable Health Index	Actual Health Index
2011	80	94
2012	85	95
2013	85	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 health index, it is estimated that annual preservation and replacement expenditures must be approximately $76 million for fiscal year 2013. The following table compares the estimated annual expenditures needed to maintain the bridges system with the actual expenditures for the current and prior years.

Fiscal Year	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Health Index*	Actual Expenses*
2009	$ 75,000	$ 50,992
2010	75,000	29,219
2011	75,000	69,620
2012	73,000	87,890
2013	76,000	82,046
*- amounts in $1,000		

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

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
06/30/11	-	$ 32,204	$ 32,204	0%	$ 115,883	28%
06/30/12	-	31,493	31,493	0%	113,204	28%
06/30/13	-	29,595	29,595	0%	109,460	27%

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APPENDIX C

Information Concerning Sources of Funds in State Highway Fund

The Official Statement , under the caption "THE STATE HIGHWAY FUND," describes the sources of the funds which are currently authorized or directed by Kansas statutes to be transferred to or credited to the State Highway Fund. In this Appendix C, additional information is provided concerning the Motor Fuels Taxes, vehicle registration, drivers' license and vehicle permit revenues, and the Sales Tax and Compensating Use Tax.

Motor Fuels Taxes

Constitutional Authorization. The Kansas Constitution, at Article 11, Section 10, specifically provides that the State shall have the power to levy special taxes on motor fuels for road and highway purposes.

Fuels Taxed. The motor vehicle fuel tax laws in the State establish specific tax rates per gallon on all motor fuel used on Kansas highways. The statutes restrict the use of the taxes to highway construction, maintenance and administration, including the payment "of bonds heretofore issued for highways included in the state system" of the State.

The tax is currently imposed upon the sale of gasoline, gasohol, diesel and liquefied petroleum. There are three categories of taxes associated with diesel tax receipts: special fuels tax, interstate motor fuel user tax and trip permits.

The special fuels tax is applied to diesel used on Kansas highways and purchased within the State. The interstate motor fuel tax is applied to commercial motor vehicle operators using Kansas highways, but purchasing fuel outside of the State. Kansas is a member state for the International Fuel Tax Agreement ("IFTA"). Truckers who are registered with a member state are permitted to remit to the state of registration all motor fuel taxes owed to states which are members of IFTA. The state then distributes the motor fuel taxes among the participating states. Truckers operating in Kansas who are not registered with an IFTA member state must still remit the interstate motor fuel tax directly to the Kansas Department of Revenue. Trip permits are issued to interstate motor fuel users who are exempt from interstate motor fuel user reporting requirements because of infrequent travel across Kansas.

Tax Rates. The table set forth in this Appendix C and captioned "State of Kansas, Department of Transportation Motor Fuels Taxes Consumption Quantities, Rates, Receipts and Distributions" shows the Kansas motor fuel tax rates for the Fiscal Years 2004 – 2019. Under the current statute, rates were increased by two cents on July 1, 1999, by one cent on July 1, 2001, by two cents on July 1, 2002, and by one cent on July 1, 2003. The statute provided that on July 1, 2020, the rates revert to those in effect on June 30, 1999; however, the 2010 Legislature amended the statute to eliminate reversion of the Motor Fuel Tax rate in 2020 to the rates in effect on June 30, 1999.

From July 1, 1992, to June 30, 1999, the tax per gallon on fuels was 18¢ on gasoline, 20¢ on diesel, 17¢ on liquefied petroleum and 18¢ on gasohol. With the passage of the Comprehensive Transportation Program, the Motor Fuels Tax rates increased by two cents on July 1, 1999, by one cent on July 1, 2001, and by one cent on July 1, 2003. The 2002 Legislature enacted an additional two cents increase effective July 1, 2002. The trip permit fee is $13.00 and increases $0.50 for each $0.01 increase in tax per gallon on diesel fuel. The 2006 Legislature created an E-85 fuel tax rate of 17¢ per gallon effective July 1, 2006. To date, sales of E-85 have been minimal. Projections for E-85 tax collections have been included in Gasoline/Gasohol estimates set forth in the table set forth in this Appendix C and captioned "State of Kansas, Department of Transportation Motor Fuels Taxes Consumption Quantities, Rates, Receipts and Distributions."

Amount of Taxes by Category. The table set forth in this Appendix C and captioned "State of Kansas, Department of Transportation Motor Fuels Taxes Consumption Quantities, Rates, Receipts and Distributions" shows the amount of Motor Fuels Taxes by category credited to or transferred to the State Highway Fund and the estimated revenues for the State Highway Fund from such sources.

Distribution. The daily Motor Fuels Taxes receipts are, after making provisions for refunds and after making a deposit to the Kansas Qualified Agricultural Ethyl Alcohol Producers Incentive Fund, divided between and deposited into two funds: (1) the Special City and County Highway Fund and (2) the State Highway Fund.

With the passage of the Comprehensive Transportation Program, the percentage credited to the State Highway Fund increased from 59.5% to 59.55% as of July 1, 1999. An increase to 61.55% occurred on July 1, 2001. The percentage credited to the State Highway Fund increased to 64.60% on July 1, 2002, and increased to 66.37% on July 1, 2003. The percentage credited to the State Highway Fund was scheduled to decrease to 55.3% as of July 1, 2020, but the 2010 Legislature eliminated such scheduled decrease and provided for the retention of the 66.37% credit to the State Highway Fund.

In each of Fiscal Years 2004 through 2014, $3,500,000 was deposited in the Kansas Qualified Agriculture Ethyl Alcohol Incentive Fund and $3,500,000 is estimated to be deposited in such Fund annually through Fiscal Year 2019.

The table "State of Kansas, Department of Transportation Motor Fuels Taxes Consumption Quantities, Rates, Receipts and Distributions" included in this Appendix C sets forth the historical receipts and distributions of Motor Fuels Taxes in Kansas for Fiscal Years 2004-2013. The table also includes estimated receipts and distributions of Motor Fuel Taxes for the Fiscal Years 2014 through 2019. The estimates were prepared by the Department on the basis of statutory allocations currently in place. Such distributions are subject to change or revocation by the Kansas Legislature.

Basis of Estimates. The Department's estimate for Motor Fuels Taxes receipts was prepared on the basis of estimates developed by the Highway Revenue Estimating Group (see the caption "THE STATE HIGHWAY FUND-Basis of Projections" in the Official Statement) that motor fuel consumption will increase at less than one percent annually throughout the period of the estimates. The estimates consider both the rate increases and distribution percentages of amounts collected, as specified in the Transportation Works for Kansas Program legislation as amended to date.

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State of Kansas, Department of Transportation
Motor Fuels Taxes
Consumption Quantities, Rates, Receipts and Distributions (in thousands unless specified otherwise)
For the Fiscal Years Ended June 30, 2004 – 2013
and Department Estimates for Fiscal Years 2014 – 2019

	2004	2005	2006	2007	2008	2009	2010	2011
Consumption Quantities								
Gasoline, millions of gallons	1,333	1,311	1,291	1,311	1,293	1,276	1,292	1,307
Diesel, millions of gallons	424	454	476	480	489	462	467	486
Liquid Petroleum, millions of gallons	2	2	2	2	1	1	1	1
Carrier Trip Permit	10	10	13	19	20	19	23	24
Rates (in dollars)								
Gasoline/Gasohol	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24
Diesel	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26
Liquid Petroleum	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Carrier Trip Permit	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Receipts								
Gasoline/Gasohol	$ 318,831	$ 314,584	$ 309,832	$ 314,751	$ 310,198	$ 306,060	$ 310,240	$ 313,865
Diesel	109,799	118,112	123,853	124,678	127,062	119,993	121,395	126,333
Liquid Petroleum	273	260	255	226	208	208	182	155
Carrier Trip Permit	128	131	165	243	263	247	295	318
Total Amount	$ 429,032	$ 433,087	$ 434,105	$ 439,898	$ 437,732	$ 426,508	$ 432,112	$ 440,671
Less: Refunds	5,178	6,827	5,939	5,851	6,424	5,237	7,540	4,440
Net Receipts	$ 423,853	$ 426,260	$ 428,166	$ 434,047	$ 431,308	$ 421,271	$ 424,572	$ 436,231
Net Year End Accruals	103	556	927	(1,036)	(28)	0	1,847	(4,835)
Net Revenue	$ 423,956	$ 426,816	$ 429,093	$ 433,011	$ 431,280	$ 421,271	$ 426,419	$ 431,396
Distributions to Funds								
Kansas Qualified Agricultural Ethyl Alcohol Producers Incentive	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500
Special City and County Highway	138,865	139,674	139,815	142,293	141,372	137,913	139,106	143,027
County Equalization and Adjustment	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
State Highway	278,988	280,586	281,851	285,754	283,936	277,358	279,466	287,204
Total	$ 423,853	$ 426,260	$ 428,166	$ 434,047	$ 431,308	$ 421,271	$ 424,572	$ 436,231

Note: Totals may not agree due to rounding.

State of Kansas, Department of Transportation

Motor Fuels Taxes

Consumption Quantities, Rates, Receipts and Distributions (in thousands unless specified otherwise)

For the Fiscal Years Ended June 30, 2004 – 2013

and Department Estimates for Fiscal Years 2014 – 2019

			Estimated					
	2012	2013	2014	2015	2016	2017	2018	2019
Consumption Quantities								
Gasoline, millions of gallons	1,289	1,238	1,282	1,282	1,282	1,282	1,282	1,282
Diesel, millions of gallons	497	470	502	507	512	517	522	527
Liquid Petroleum, millions of gals	1	1		1	1	1	1	1
Carrier Trip Permit	25	22		20	20	2	20	20
Rates (in dollars)								
Gasoline/Gasohol	$ 0.24	$.024	$	$ 0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.24
Diesel	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26
Liquid Petroleum	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Carrier Trip Permit	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Receipts								
Gasoline/Gasohol	$ 309,316	$ 297,033	$ 307,496	$ 307,496	$ 307,496	$ 307,496	$ 307,496	$ 307,496
Diesel	129,264	122090	130,520	131,820	133,120	134,420	135,720	137,020
Liquid Petroleum	163	201	230	230	230	230	230	230
Carrier Trip Permit	327	285	260	260	260	260	260	260
Total Amount	$ 439,070	$ 419,609	$ 438,506	$ 439,806	$ 441,106	$ 442,406	$ 443,706	$ 445,006
Less: Refunds	4,021	4,256	5,100	5,100	5,100	5,100	5,100	5,100
Net Receipts	$ 435,049	$ 415,353	$ 433,406	$ 434,706	$ 436,006	$ 437,306	$ 438,606	$ 439,906
Net Year End Accruals	(1,318)	4,071	0	0	0	0	0	0
Net Revenue	$ 433,731	$ 419,424	$ 433,406	$ 434,706	$ 436,006	$ 437,306	$ 438,606	$ 439,906
Distributions to Funds								
Kansas Qualified Agricultural Ethyl Alcohol Producers Incentive	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500
Special City and County Highway	142,630	136,007	142,077	142,515	142,952	143,389	143,826	144,263
County Equalization and Adjustment	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
State Highway	286,419	273,346	285,329	286,191	287,054	287,917	288,780	289,643
Net Receipts	$ 435,049	$ 415,353	$ 433,406	$ 434,706	$ 436,006	$ 437,306	$ 438,606	$ 439,906

Note: Totals may not agree due to rounding.

Vehicle Registration, Drivers' Licenses and Vehicle Permits

A second general category of funds currently deposited into the State Highway Fund is derived from fees charged for vehicle registration, drivers' licenses and vehicle permits. Each of these is described below.

Constitutional Authorization. The Kansas Constitution, at Article 11, Section 10, specifically provides that the State shall have the power to levy special taxes on motor vehicles for road and highway purposes.

Vehicle Registration Fees. Kansas law currently requires that vehicles be registered by the State before they may be legally operated on Kansas highways and provides that a portion of the registration fees be deposited to the State Highway Fund.

Vehicle registration categories are legislatively mandated and are based on vehicle type and vehicle weight or use. The vehicle type registration categories include passenger vehicles (automobiles), special registrations, buses, trailers and trucks.

Passenger vehicles (automobiles) are registered under one of two weight-related categories (less then 4,500 pounds and 4,500 pounds and more). Special use vehicles (e.g. an antique or special interest vehicle) or vehicles owned by residents who have special affiliations (e.g. an amateur radio station license, a member of the Kansas National Guard, major state university alumni, etc.) are registered under the special registration category.

Buses are registered in one of three categories, according to passenger seating capacity. Buses owned and operated by school districts are not required to register. Local urban transit buses owned by a Metropolitan Transit Authority are registered separately and are subject to lower registration fees.

Trailers are registered in three weight categories: over 12,000 pounds; 8,001 – 12,000 pounds; and 2,001 – 8,000 pounds.

Trucks are registered in five use-related categories: regular, local, 6,000-mile, farm, and custom harvesting farm. Within each use-related category, trucks are registered under gross weight categories. For trucks weighing 12,000 pounds or less the fee is the same as for the highest weight category of cars. Most pickup trucks are registered under the "regular" truck category in the 12,000 pounds or less weight group. Some pickup trucks are registered as farm trucks weighing 16,000 pounds or less. A number of truck owners register annually, but pay their registration fees in quarterly installments. Truck owners based in other states may apply for 30-day and 72-hour permits to travel in Kansas on a temporary basis in lieu of registering on an annual basis.

The 2002 Legislature increased the registration fee for automobiles and pickups by $10 and the registration fee for trucks from $2 to $10 based on the vehicle weight classification. The total increase in registration fees was approximately 8.5%.

The 2010 Legislature increased the registration fee for trucks with a gross weight of more than 16,000 pounds with a fee increase of $50 effective January 1, 2013, and a second $50 fee increase effective January 1, 2014.

Beginning January 1, 2013, the $4 surcharge on registrations collected and remitted to the Department of Revenue for the purpose of integration and modernization of the Vehicle Information Processing System will be credited to the State Highway Fund.

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The following table sets forth the current annual vehicle registration fee schedule for the primary categories of vehicles.

Vehicle Registration Fee Schedule

	Lowest		Highest	
Vehicle Category	Fee	Weight Class	Fee	Weight Class
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 less than 6,000 miles 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.

Vehicle registration fees are collected by the county treasurers and after retaining amounts to pay costs associated with administering the vehicle title and registration laws, the fees are remitted to the Department of Revenue on a monthly basis to be credited to the State Highway Fund.

An alternative method of vehicle registration is provided to owners operating a fleet of vehicles engaged in interstate commerce. Kansas has agreements with most other states and with several Canadian provinces for the registration of vehicles involved in interstate commerce. Under the provisions of the International Registration Plan ("IRP"), interstate motor carriers are allowed to prorate their registration fees among the states in which they do business. Payments are determined by calculating the proportionate number of estimated miles traveled in each state as a percentage of all miles traveled, multiplied by the rate applicable to each fleet vehicle's weight class.

Kansas also participates in the Uniform Vehicle Registration Proration and Reciprocity Agreement (the "Uniform Agreement"). Membership in the Uniform Agreement has been steadily decreasing as more states join the IRP.

Kansas has individual reciprocal agreements with several states which are not members of the IRP or the Uniform Agreement. Fleet operators from states with which Kansas has no reciprocal agreement must apply for a temporary permit.

Drivers' Licenses. Drivers' license laws were established in Kansas in 1931. Today, commercial drivers' licenses are needed to operate all commercial vehicles. There are several classes of commercial drivers' licenses. Commercial drivers' license endorsements are also available for drivers who wish to operate specific types of equipment. A separate fee is charged for each endorsement, except for air brake endorsements. Type A commercial or non-commercial drivers' licenses are needed to operate truck/tractor, trailer/semitrailer, and truck and trailer/semitrailer combinations over 24,000 pounds in weight. Type B commercial or non-commercial licenses are required to operate all trucks that weigh more than 24,000 pounds and buses that carry more than 16 passengers. Type C commercial or non-commercial licenses are required to operate trucks weighing 24,000 pounds or less, passenger cars, and farm trucks. Type M licenses are required to operate motorcycles. Other fees associated with drivers' licenses include examination fees and late penalty charges.

Drivers' license fees are imposed by classification of license and the fees are distributed to the State Highway Fund (in proportions ranging from 62.5% for drivers of passenger cars to 100% for commercial endorsements) and (with the exception of fees for motorcycle drivers' licenses 20% of which goes to the motorcycle safety fund) the balance is distributed to the State Safety Fund. A $2.00 commercial drivers' license surcharge is distributed to the Truck Driver Training Fund.

The drivers' license fees in recent years have provided only approximately 1% of revenues available to the State Highway Fund and the Department projections expect such revenues to be less than 1% of those available to the State Highway Fund.

Special Vehicle Permits. Permits for oversize or overweight vehicles are provided for by Kansas law. The Kansas Department of Revenue issues permits for vehicles to a specified size and weight. In accordance with an agreement between the Department and the Department of Revenue, the Department issues permits for oversize/overweight vehicles. Currently, an oversize/overweight permit costs $20.00 for each single-trip permit. This fee was increased in 2009. Revenue from this source has historically generated less than one percent of the amount deposited annually to the State Highway Fund.

Revenues. The following table sets forth for Fiscal Years 2004 through 2013 the amounts derived from vehicle registration fees, drivers' licenses and special vehicle permits credited to the State Highway Fund and the estimates for Fiscal Years 2014 through 2019.

Credits to State Highway Fund
From Registration, Drivers' Licenses and Vehicle Permits
(Amounts in Thousands)

Fiscal Year	Vehicle Registration Fees	Drivers Licenses	Special Vehicle Permits	Total
2004	$ 149,369	$ 6,994	$ 553	$ 156,916
2005	154,107	9,043	610	163,760
2006	155,833	9,056	684	165,573
2007	161,644	9,153	778	171,575
2008	163,504	7,982	867	172,353
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 [1]	208,000	8,755	2,403	219,158
2015 [1]	215,000	8,755	2,403	226,158
2016 [1]	218,000	8,755	2,403	229,158
2017 [1]	221,000	8,755	2,403	232,158
2018 [1]	224,000	8,755	2,403	235,158
2019 [1]	227,000	8,755	2,403	238,158

Totals may not add due to rounding.

1 Vehicle registration fees for Fiscal Years 2014-2019 are estimates developed by the Highway Revenue Estimating Group as of November 12, 2013 (see the caption "THE STATE HIGHWAY FUND-Basis of Projections" in the Official Statement). The estimates also assume that rates currently provided by statute and the distribution of amounts collected will remain in effect throughout the period.

Sales Tax and Compensating Use Tax

The Department receives a portion of the amounts collected from the Sales Tax and Compensating Use Tax.

Sales Taxes and Compensating Use Taxes as a funding source for the Department were initiated during the 1980's under two separate statutory provisions. The first statute was passed in 1983 and was phased in over six years. The second was passed in 1989 and took effect in Fiscal Year 1990.

The current Sales Tax and Compensating Use Tax rates, effective July 1, 2013, are 6.15% (decreased from the 6.30% tax rates previously in effect), a portion of which is credited directly to the State Highway Fund in accordance with State law. Prior to July 1, 2006, 5/106ths of the 5.30%, the equivalent of a .25% tax rate, was credited directly to the State Highway Fund. The 2004 Legislature changed the statute to 19/265ths of the 5.30% effective July 1, 2006, and 13/106ths of the 5.30% effective July 1, 2007, the equivalent of .38% for Fiscal Year 2007 and .65% for Fiscal Year 2008 and thereafter. The 2010 Legislature amended the statute to credit 11.427% of the revenue collected at the rate of 6.30% to the State Highway Fund effective July 1, 2010, 11.26% of the revenue collected to the State Highway Fund effective July 1, 2011, and 11.233% of the revenue collected to the State Highway Fund effective July 1, 2012, and beginning July 1, 2013, and thereafter, 18.421% of the revenue collected at the rate of 5.70% to the State Highway Fund. The 2013 Legislature amended the statute to credit 17.073% of the revenue collected at the rate of 6.15% to the State Highway Fund effective July 1, 2013, and thereafter.

History of the Retailers' Sales Tax. The Kansas Retail Sales Tax was first enacted in 1937. The tax rate when the law was enacted was two percent. The rate was increased to 2.5% by the 1958 Special Session of the Kansas Legislature. The Sales Tax rate was further increased to 3% in 1965 and remained at this rate until the 1986 Kansas Legislature increased the rate to 4%. In 1989, the Kansas Legislature raised the State Sales Tax from 4% to 4.25% and directed that 1/17th of the tax be credited to the State Highway Fund. In 1992, the Kansas Legislature raised the State Sales Tax from 4.25% to 4.90% (2.50% on certain selected services) and expanded the taxable base; the 1992 Kansas Legislature did not disturb the amount of tax to be credited to the State Highway Fund at 1/17th of the tax at the 4.25% rate (effectively an amount equivalent to a tax rate of .25%). The current Sales Tax rate, effective July 1, 2010, is 6.30% (increased from the 5.30% tax rate previously in effect and currently scheduled to decrease to 5.70% effective July 1, 2013). Prior to July 1, 2006, 5/106ths of the 5.30%, the equivalent of a .25% tax rate, was credited directly to the State Highway Fund. The 2004 Legislature changed the statute to 19/265ths of the 5.30% effective July 1, 2006, and 13/106ths of the 5.30% effective July 1, 2007, the equivalent of .38% for Fiscal Year 2007 and .65% for Fiscal Year 2008 and thereafter. The 2010 Legislature amended the statute to credit 11.427% of the revenue collected at the rate of 6.30% to the State Highway Fund effective July 1, 2010, 11.26% of the revenue collected to the State Highway Fund effective July 1, 2011, and 11.233% of the revenue collected to the State Highway Fund effective July 1, 2012, and beginning July 1, 2013, and thereafter, 18.421% of the revenue collected at the rate of 5.70% to the State Highway Fund. The 2013 Legislature amended the statute to credit 17.073% of the revenue collected at the rate of 6.15% to the State Highway Fund effective July 1, 2013, and thereafter.

History of the Compensating Use Tax. The Compensating Use Tax was first enacted in 1937 for consumers and in 1945 for retailers. The tax base is tangible personal property used, stored, or consumed in Kansas. All property purchased or leased inside or outside of Kansas and subsequently used, stored, or consumed in Kansas is subject to the Compensating Use Tax if the same property or transaction would have been subject to the state retail sales tax if the transaction had been made wholly in Kansas. In effect, the consumer's Compensating Use Tax is imposed on Kansas consumers who make retail purchases from nonregistered, out-of-state retailers, while the retailers' compensating tax is collected by registered out-of-state retailers. If the property has already been subjected to a sales tax in another state, the Compensating Use Tax is due only for the difference between the other state's sales tax and the Kansas Compensating Use Tax. The initial Compensating Use Tax rate was 2 percent. The rate was increased to 2.5% by a 1958 Special Session of the Kansas Legislature, 3.0% in 1965, and further increased to 4.0% in 1986. In 1989, the Kansas Legislature increased the Compensating Use Tax from 4% to 4.25% and directed that 1/17th of the tax be credited to the State Highway Fund. In 1992, the Kansas Legislature increased the Compensating Use Tax from 4.25% to 4.90% and expanded the taxable base; the 1992 Kansas Legislature did not disturb the amount of tax to be credited to the State Highway Fund at 1/17th of the tax at the 4.25% rate (effectively an amount equivalent to a tax rate of .25%). The current Compensating Use Tax rate, effective July 1, 2013, is 6.15% (decreased from the 6.30% tax rate previously in effect). Prior to July 1, 2006, 5/106ths of the 5.30%, the

equivalent of a .25% tax rate, was credited directly to the State Highway Fund. The 2004 Legislature changed the statute to 19/265ths of the 5.30% effective July 1, 2006, and 13/106ths of the 5.30% effective July 1, 2007, the equivalent of .38% for Fiscal Year 2007 and .65% for Fiscal Year 2008 and thereafter. The 2010 Legislature amended the statute to credit 11.427% of the revenue collected at the rate of 6.30% to the State Highway Fund effective July 1, 2010, 11.26% of the revenue collected to the State Highway Fund effective July 1, 2011, and 11.233% of the revenue collected to the State Highway Fund effective July 1, 2012, and beginning July 1, 2013, and thereafter, 18.421% of the revenue collected at the rate of 5.70% to the State Highway Fund. The 2013 Legislature amended the statute to credit 17.073% of the revenue collected at the rate of 6.15% to the State Highway Fund effective July 1, 2013, and thereafter.

Sales Tax Base. The tax base for the retail sales tax is gross receipts from retail sales of tangible personal property and certain services. Historically, this tax base has changed throughout the years providing for either the exemption or inclusion of certain property items and services. Kansas exempts prescription drugs from sales tax but imposes the tax on food.

Sales Tax and Compensating Use Tax Collections and Deposits. The table below sets forth the amounts of Sales Taxes and Compensating Use Taxes collected for Fiscal Years 2004 through 2013 and estimates for Fiscal Years 2014 through 2019. Deposits to the State General Fund for Fiscal Years 2004 through 2013 are included in the Department's Comprehensive Annual Financial Report as supplemental information. The Department's estimates for Sales Tax and Compensating Use Tax receipts are based on estimates by the State Consensus Estimating Group and the Highway Revenue Estimating Group. See the caption "THE STATE HIGHWAY FUND-Basis of Projections" in the Official Statement. The State Consensus Estimating Group prepares estimates for the current Fiscal Year and the next Fiscal Year only. The Highway Revenue Estimating Group prepares long-range estimates.

Retailers' Sales Tax and Compensating Use Tax Deposits
to State General Fund and State Highway Fund
(Amounts in Thousands)

	Deposits to State General Fund		Deposits to State Highway Fund
Fiscal Year	Sales Tax	Compensating Use Tax	Sales Tax and Compensating Use Tax
2004	$ 1,612,067	$ 214,503	$ 90,664
2005	1,647,663	244,755	94,208
2006	1,736,048	269,250	99,938
2007	1,766,768	284,981	162,525
2008	1,711,398	246,277	283,597
2009	1,697,522	225,000	268,259
2010	1,652,037	205,540	259,899
2011	1,965,388	287,730	295,989
2012	2,136,353	325,339	312,934
2013	2,184,573	340,044	320,756
2014 [1]	2,110,000	345,000	485,166
2015 [1]	2,170,000	360,000	521,047
2016 [2]	2,251,375	373,500	540,580
2017 [2]	2,335,802	387,506	560,846
2018 [2]	2,423,395	402,037	581,871
2019 [2]	2,514,272	417,114	603,685

1. Amounts for Fiscal Year 2014 – 2015 are estimates developed by the State Consensus Estimating Group as of April 17, 2014.

2. Amounts for Fiscal Years 2016-2019 reflect the Highway Revenue Estimating Group's November 12, 2013, projection that annual growth in Sales Tax and Compensating Use Tax collections will be 3.75 percent in Fiscal Year 2015 and thereafter.

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APPENDIX D

SUMMARY OF 1992 RESOLUTION

The following is a brief summary of certain provisions of the 1992 Resolution (the "1992 Resolution") and is qualified in its entirety by reference thereto, copies of which may be obtained from the Secretary. See "THE SERIES 2014B BONDS" and "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS" herein for a summary of certain additional provisions of the 1992 Resolution. Capitalized terms used and not otherwise defined in this "SUMMARY OF THE 1992 RESOLUTION" are defined in **Appendix E** hereto and in the 1992 Resolution.

1992 Resolution to Constitute Contract

In consideration of the purchase and acceptance of any or all of the Bonds by those who will hold the same from time to time, the provisions of the 1992 Resolution will be part of the contract of the State with the Owners of the Bonds, and will be deemed to be and will constitute contracts between the State (for itself and for KDOT), the Bond Registrar and Paying Agent, and the Owners from time to time of the Bonds. The pledge made in the 1992 Resolution and the provisions, covenants and agreements therein set forth to be performed by or on behalf of the State will be for the equal benefit, protection and security of the Owners of any and all of the Outstanding Bonds except as otherwise expressly provided or permitted by the 1992 Resolution.

Pledge of Revenues

All of the Bonds, together with the interest accruing thereon and any redemption premium due in connection therewith, will be special obligations of the State, and will be payable and collectible solely from, and be secured by a first lien and claim on, the Revenues and moneys in certain funds and accounts as provided in the 1992 Resolution. The Owners(s) thereof may not look to any general or other fund of the State (or of KDOT) for the payment of the principal of, interest on, or any prior redemption premium due in connection with, the Bonds, except the designated security pledged therefor and the Bonds will not constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, nor will they be considered or held to be general obligations of the State; and each of the Bonds authorized to be issued will recite on its face that it is payable and collectible solely from the Revenues, and that the Owners thereof may not look to any general or other fund for the payment of the principal of, premium, if any, or interest on the Bonds.

Subject only to the rights of the Secretary and the Paying Agent to apply the amounts under the provisions of the 1992 Resolution, a gross pledge of the Revenues is made, and the same is pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds, and to provide regularly scheduled payments due under a Qualified Swap Agreement, if applicable. The security so pledged and then or thereafter transferred or deposited in the State Highway Fund will immediately be subject to the first lien and claim of such pledge, and the first lien and claim of such pledge will be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the State, irrespective of whether such parties have notice thereof.

Maintenance of State Highway Fund and Revenues

(a) The State covenants and agrees for the benefit, security and protection of all Owners of the Bonds issued and to be issued under the 1992 Resolution and each Supplemental Resolution

to maintain the State Highway Fund so long as any of the Bonds remain Outstanding. The State further covenants and agrees that so long as any of the Bonds remain Outstanding the State will cause to be imposed, enforced, collected, transferred and deposited into the State Highway Fund such taxes, fees and charges including without limitation, those on motor fuels, motor vehicles, or such other taxes, fees and charges which are statutorily or constitutionally permitted, and in such amounts as will be required to provide Revenues sufficient to provide transfers from the State Highway Fund to the Highway Bond Debt Service Fund to pay when due the principal of, premium, if any, and interest on all Bonds issued pursuant to the 1992 Resolution, including any junior and subordinate highway revenue bonds.

(b) The State covenants and agrees for the benefit, protection and security of all Bondowners that Revenues (less any federal and local reimbursement moneys received) in each Fiscal Year will be not less than three hundred percent (300%) of the amount sufficient to pay the Bond Service Charges on all Bonds Outstanding during each such Fiscal Year; *provided, that* on and after the date upon which no Bonds issued prior to the date of issuance of the Series 1999 Bonds remain Outstanding, federal reimbursement moneys shall be *included* in Revenues for purposes of this covenant.

Records

Proper books of record and account will be kept by KDOT, separate and apart from all other records and accounts, showing complete and correct entries of all transactions relating to the Revenues, including (without limitation) complete records relating to deposits into, transfers and withdrawals from the State Highway Fund, the Highway Bond Proceeds Fund and the Highway Bond Debt Service Fund. The Secretary will cause the financial statements of KDOT to be prepared in conformity with generally accepted accounting principals.

Report Requirements

The Secretary covenants that promptly after the close of each Fiscal Year it will cause an audit of the books and accounts of the State with respect to the State Highway Fund, the Highway Bond Proceeds Funds and the Highway Bond Debt Service Fund for the preceding Fiscal Year to be made by an Independent Accountant designated by the Secretary. The Secretary will make available to such Independent Accountant all books and records with respect to said funds. Within the first six (6) months of each Fiscal Year, reports of each such audit will be filed with the State, all rating services contracted with by the Secretary to rate the Bonds and made available for a reasonable charge to all Bondowners who will have filed their names and addresses with the Secretary for such purpose. Each such audit report will set forth in respect to the preceding Fiscal Year:

(a) the amount of all Revenues, transfers and expenditures, as the case may be, from the State Highway Fund, the Highway Bond Proceeds Fund and the Highway Bond Debt Service Fund,

(b) a brief description of all Bonds issued, paid, purchased or redeemed,

(c) a balance sheet as of the end of such Fiscal Year for each such fund, and

(d) the amount held for the credit of each such fund at the end of such Fiscal Year, and the details of any investments thereof.

Such audit reports will be available at all reasonable times to the inspection of the Owners, their agents and representatives.

Annual Budget and Multi-year Program Report

KDOT will prepare an annual budget for submission to the Governor and subsequently to the Legislature for legislative authorization. Annually, prior to the tenth (10th) day of each regular session of the Legislature, the Secretary will submit to the Governor and each member of the Legislature a written multi-year report providing: a detailed explanation of the methods or criteria employed to select construction projects; the proposed allocation and expenditure of moneys and proposed work plan for the current Fiscal Year and at least the next five (5) years; information concerning construction work completed in the preceding Fiscal Year and construction work in progress; and an explanation of any material changes from the previous report.

Tax Covenant

The Secretary covenants for the benefit of the purchasers and Owners of the Bonds, that no action will be taken with respect to the State Highway System or the implementation of the Comprehensive Highway Program, or with respect to the proceeds of each series of Bonds, the interest on which is intended to be excludable from gross income for purposes of federal income taxation, or with respect to the proceeds of each series of Government Interest Subsidy Bonds, and that no use of the proceeds of any such series of tax-exempt Bonds or Government Interest Subsidy Bonds or any moneys reasonably expected to be used to pay the principal of, premium, if any, or interest on, any such series of Bonds will be made which would cause any such series of Bonds to be arbitrage bonds within the meaning of Section 103(c) of the Code, or which would result in the loss of exemption from federal income taxation of interest on such series of tax-exempt Bonds or the loss of the Secretary's right to receive Government Interest Subsidy Payments with respect to each payment of interest on any such series of Government Interest Subsidy Bonds. The State, the Secretary and KDOT will comply with Section 103(c) of the Code.

Defeasance

When the principal of, premium, if any, and interest on all the Bonds will have been paid in accordance with their terms or provision has been made for such payments, as provided in the next paragraph and provision will also have been made for paying all other sums payable hereunder, then the right, title and interest of the Owners under the 1992 Resolution and the appropriate Supplemental Resolution will thereupon cease, determine and be void.

Bonds will be deemed to be paid within the meaning of the 1992 Resolution when payment of the principal of and the applicable premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity or upon redemption as provided in the 1992 Resolution, or otherwise), either (i) will have been made or caused to be made in accordance with the terms thereof, or (ii) will have been provided for by depositing with the Paying Agent or any bank located in the State of Kansas having full trust powers and also having capital and surplus of not less than $100,000,000, in trust and irrevocably set aside exclusively for such payment (A) moneys sufficient to make such payment, or (B) Defeasance Securities not subject to redemption prior to their maturity by the obligor thereof, the maturing principal of and interest on which will provide funds in such amounts and at such times as will insure the availability, without reinvestment, of sufficient moneys to make such payment. Such Defeasance Securities will be certified or reported upon by an Independent Accountant to be of such amounts, maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment and such certification will be filed with the Paying Agent together with an Opinion of Counsel to the effect that (1) all

legal conditions of the 1992 Resolution to the defeasance and discharge of such Bonds will have been met and fulfilled, and (2) as a result thereof there is no adverse effect with respect to the exclusion from gross income for federal income tax purposes of the interest on any of the tax-exempt Bonds or the Secretary's right to receive Government Interest Subsidy Payments with respect to each payment of interest on any series of Governmental Interest Subsidy Bonds. At such time as Bonds will be deemed to be paid, such Bonds will no longer be secured by the 1992 Resolution and the appropriate Supplemental Resolution, and the Owner or Owners thereof will no longer be entitled to the benefits of the 1992 Resolution, except for the purposes of any such payment from such moneys or Defeasance Securities and except for the purposes of registration, transfer and exchange of such Bond or series of Bonds.

Notwithstanding the foregoing, in the case of Bonds which by their terms may be redeemed prior to the stated maturities thereof, no deposit under the immediately preceding paragraph will be deemed a payment of such Bonds as aforesaid until, as to all such Bonds which are to be redeemed prior to their respective stated maturities, proper notice of such redemption will have been given in accordance with the 1992 Resolution and any Supplemental Resolution authorizing the issuance of such Bonds or irrevocable instructions will have been given to the Bond Registrar to give such notice.

Notwithstanding any provision of any other section of the 1992 Resolution which may be contrary to the provisions summarized above with respect to defeasance of the Bonds, all moneys or Defeasance Securities (or replacements or substitutions therefor) set aside and held in trust pursuant to the provisions of this Section for the payment of Bonds (including premium thereon, if any) and interest thereon will be applied to and used solely for the payment of the particular Bonds (including premium thereon, if any) and interest thereon with respect to which such moneys and Defeasance Securities have been so set aside in trust.

Events of Default

Each of the following is defined as and will be deemed an "Event of Default":

(a) *Nonpayment of Principal*. If payment of the principal of any of the Bonds is not made when the same will become due and payable, either at maturity, or by prior redemption (including mandatory sinking fund redemption), or otherwise;

(b) *Nonpayment of Interest*. If payment of any installment of interest on any Bonds is not made when the same will become due and payable;

(c) *Failure to Make Required Sinking Fund Deposit*. If there will occur a failure to make any deposit into the Interest Account or the Principal Account in the time and manner required by any Supplemental Resolution with respect to any series of Bonds and such failure continues beyond any grace or cure period provided in any such Supplemental Resolution; and

(d) *Failure to Comply with Other Provisions*. If there continues any failure in the observance or performance of any covenant, agreement, condition or provision contained in the Bonds or in the 1992 Resolution (other than as described in clauses (a), (b) or (c) hereof) and such failure continues for a period of thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Secretary, or to the Bond Registrar, by the Owners of at least ten percent (10%) in aggregate principal amount of the Initial Series and any Additional Bonds then Outstanding; provided, with respect to any such failure under this clause (d), no Event of Default will be deemed to have occurred so long as a course of action adequate to remedy such failure shall have been commenced within such

thirty (30) day period and will thereafter be diligently pursued to completion and the failure will be remedied thereby.

Upon the occurrence of any Event of Default enumerated in clauses (a), (b) or (c) above or upon receipt of any written notice with respect to a failure which may become an Event of Default with the passage of time and failure to remedy pursuant to clause (d) above, the Bond Registrar promptly will give written notice to the Owners of all the Bonds Outstanding specifying the Event of Default or failure, as the case may be, and advising the Owners of their rights to direct the time, method and place of conducting all proceedings to be taken in conjunction with the enforcement of the terms and conditions of the 1992 Resolution in accordance with the provisions of the 1992 Resolution.

Remedies for Defaults

Upon the happening and continuance of any Event of Default, then and in every case, but only in compliance with the 1992 Resolution, the Bondowners may proceed against the Secretary, the State, its legislature and its agents, officers and employees, including KDOT, to protect and enforce the rights of any Owner of Bonds under the 1992 Resolution, by mandamus or other suit, action or special proceeding, in equity or at law, in any court of competent jurisdiction, for the specific performance of any covenant or agreement contained herein, or an award of execution of any power herein granted for the enforcement of any proper legal or equitable remedy as the Bondowners may deem most effectual to protect and enforce their rights aforesaid, or thereby to enjoin any act or thing which may be unlawful or in violation of any right of any Bondowner, or to require the Secretary or the State to act as if it (they) were the trustee(s) of an express trust, or any combination of such remedies. All such proceedings at law or in equity will be instituted, had and maintained for the equal benefit of all Owners (except Owners of junior and subordinate highway revenue bonds) then Outstanding.

No right or remedy is intended to be exclusive of any other right or remedy, but each and every such right or remedy will be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

The remedies set forth above are subject to the provisions of the Kansas Constitution, its statutes, the Act and all agreements, if any, to which the Secretary or the State is a party with respect to the State's (or KDOT's) ownership, with others, of the state highway and road network.

Trustee Appointment Upon Event of Default

The Secretary covenants for the benefit of the Purchasers and Owners of the Bonds, that upon the happening and continuance of an Event of Default, a bank or trust company having the same qualifications as required by the 1992 Resolution will be appointed to act as trustee under the 1992 Resolution and exercise the remedies provided therein for the benefit of the Owners of the Bonds.

Majority of Bondowners May Control Proceedings

Notwithstanding anything in the 1992 Resolution to the contrary, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, or the Trustee, if appointed, shall have the right, at any time, to the extent permitted by law, by instrument(s) in writing, executed and delivered to the Bond Registrar, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the 1992 Resolution and any other proceeding hereunder; provided that such direction will not be otherwise than in accordance with the provisions hereof.

Rights and Remedies of Bondowners

(a) No Owner of any Bond shall have any right to institute any suit, action or proceeding, in equity or at law, for the enforcement of the 1992 Resolution or for the execution of any trust hereof or for the exercise of any remedy hereunder, unless: (i) a default has occurred of which the Secretary or Bond Registrar has been notified as provided in clause (d) herein under the caption "Events of Default" of the 1992 Resolution or under clauses (a), (b) or (c) herein under the caption "Events of Default" as to which the Bond Registrar is deemed to have notice; (ii) such default has become an Event of Default; and (iii) the Owners of not less than a majority in aggregate principal amount of the Initial Series and any Additional Bonds then Outstanding shall not have complied with the requirements of the 1992 Resolution, it being understood and intended (A) that no one or more Owner(s) of the Bonds shall have the right in any manner whatsoever to affect, disturb or prejudice the lien of the 1992 Resolution by any action or to enforce any right hereunder, except in the manner herein provided, and (B) that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the Owners of all Bonds (except Owners of junior and subordinate highway revenue bonds) then Outstanding.

(b) Notwithstanding the provisions of the immediately preceding paragraph, if an Event of Default has occurred and pursuant to the 1992 Resolution, a trustee has been appointed and has accepted such appointment, then no Owner of a Bond shall have the right to exercise any remedy or undertake any action or proceeding at law or in equity or otherwise attempt to enforce the terms of the 1992 Resolution or any Supplemental Resolution unless the Owners of not less than twenty-five percent (25%) of the Initial Series and Additional Bonds then Outstanding have requested the trustee to act, have afforded such trustee adequate security or indemnity against its costs, expenses and liabilities, and such trustee has not complied with such request within a reasonable period of time.

(c) Nothing in the 1992 Resolution shall, however, affect or impair the right of any Owner of any Bond(s) to enforce the payment of the principal of, premium, if any, or interest on any Bond at and after the maturity thereof, or the obligation of the State to pay the principal of, premium, if any, and interest on each of the Bonds to the respective Owners of the Bonds at the time and place, from the source, and in the manner herein and in the Bonds expressly provided.

Waivers of Events of Default

The Owners of a majority in aggregate principal amount of the Bonds of each series then Outstanding in respect of which default exists, may, in their discretion, waive any Event of Default hereunder and its consequences; provided, however, that there will not be waived (a) any Event of Default in the payment of the principal of, or premium on, any Outstanding Bonds at the date of maturity specified therein, or (b) any Event of Default in the payment of the interest on any such Bonds unless, prior to such waiver or rescission, all arrears of payments of interest or all arrears of payments of principal and premium, if any (with interest on such principal at a rate that will be equal to the rate on the Bonds upon which the payment of the principal has been defaulted), when due, as the case may be, and all amounts to be paid by the State (or by KDOT) hereunder in connection with such Event of Default will have been paid or provision has been made for such payment. In case of any such waiver or rescission, or in case any proceedings taken by the Bondowners on account of any such Event of Default will have been discontinued or abandoned or determined adversely to the Bondowners, then, and in every such case, the State (for itself and KDOT) and the Bondowners will be

restored to their former positions and rights hereunder, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default, or impair any rights consequent thereon.

Supplemental Resolutions Not Requiring Consent of Bondowners

The Secretary may, without the consent of, or notice to, the Bondowners, adopt Supplemental Resolutions (which will thereafter form a part of the 1992 Resolution) for any one or more of all of the following purposes:

(a) To add to the covenants and agreements in the 1992 Resolution or in any Supplemental Resolution contained, other covenants and agreements thereafter to be observed for the protection or benefit of the Bondowners; or

(b) To cure any ambiguity, or to cure, correct or supplement any defect or inconsistent provision contained in the 1992 Resolution or in any Supplemental Resolution, or to make any provisions with respect to matters arising under the 1992 Resolution or in any Supplemental Resolution for any other purpose if such provisions are necessary or desirable, do not materially adversely affect the security of the Owners and will not result in the reduction or the withdrawal of any ratings then assigned to the Bonds; or

(c) To comply with the provisions of the Code or any Federal or state securities law, including without limitation the Trust Indenture Act of 1939; or

(d) To subject to the 1992 Resolution or in any Supplemental Resolution additional revenues, properties or collateral; or

(e) To issue Bonds as permitted by the 1992 Resolution.

Supplemental Resolutions Requiring Consent of Bondowners

Exclusive of Supplemental Resolutions permitted by the 1992 Resolution, the Owners of (a) not less than sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding affected thereby, or (b) not less than sixty percent (60%) in aggregate principal amount of the Bonds of any series then Outstanding affected thereby, in case one or more but less than all series of Bonds then Outstanding hereunder are so affected, will have the right, from time to time, to consent to and approve the adoption by the Secretary of such Supplemental Resolution(s) as will be deemed necessary or desirable by the Secretary for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the 1992 Resolution or in the Bonds; provided, however, that without the consent of the Owners of all Bonds at the time Outstanding, nothing herein contained will permit or be construed as permitting:

(a) An extension of the maturity of, or a reduction of the principal amount of, or a reduction of the rate of, or extension of the time of payment of interest on, or a reduction of a premium payable upon any redemption of, any Bond; or

(b) The deprivation of the Owner of any Bond then Outstanding of the lien created by the 1992 Resolution (other than as permitted hereby when such Bond was initially issued); or

(c) A privilege or priority of any Bond(s) over any other Bond(s); or

(d) A reduction in the aggregate principal amount of the Bonds required for consent to any Supplemental Resolution.

If, at any time, the Secretary will adopt such Supplemental Resolution for any of these purposes, the Secretary will cause notice of the proposed execution of such Supplemental Resolution to be mailed to the Owners of the Bonds at the address appearing on the registration books of the Bond Registrar. Such notice will briefly set forth the nature of the proposed Supplemental Resolution and will state that copies thereof are on file in the office of the Secretary for inspection by all Bondowners. If, within thirty (30) days or such longer period as will be prescribed by the Secretary following the giving of such notice, the Owners of the requisite principal amount of the Bonds Outstanding at the time of the execution of any such Supplemental Resolution will have consented to and approved the execution thereof as herein provided, no Owner of any Bond will have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Secretary from executing the same, or from taking any action pursuant to the provisions thereof.

Bond Counsel Opinion on Supplemental Resolutions

In adopting any Supplemental Resolution permitted by the 1992 Resolution, the Secretary will receive an Opinion of Bond Counsel stating that the adoption and delivery of such Supplemental Resolution is authorized or permitted by the 1992 Resolution and does not adversely affect the exclusion from gross income for federal income tax purposes of the interest on any Outstanding tax-exempt Bond or the right of the Secretary to receive Government Interest Subsidy Payments with respect to each payment of interest on any Outstanding Government Interest Subsidy Bond.

APPENDIX E

DEFINITIONS OF CERTAIN TERMS

"Accreted Value" shall mean (a) with respect to any Bonds that are Capital Appreciation Bonds, an amount equal to the principal amount of such Capital Appreciation Bond (determined on the basis of the initial principal amount per $5,000 at maturity thereof) plus the amount assuming compounding (as set forth in the applicable Supplemental Resolution) of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Capital Appreciation Bond and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce $5,000 at maturity. As of any Valuation Date, the Accreted Value of any Capital Appreciation Bonds shall mean the amount set forth for such date in the applicable Supplemental Resolution authorizing such Bonds and as of any date other than a Valuation Date, the sum of (i) the Accreted Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, using for such calculation 30 day months and a 360 day year and (2) the difference between the Accreted Values for such Valuation Dates.

"Act" shall mean K.S.A. 68-2314 to 68-2330, inclusive, as amended.

"Additional Bonds" shall mean any series of Bonds or other obligations that may hereafter be issued by the Secretary pursuant to the Act, in accordance with a Supplemental Resolution, on a parity (as provided in the 1992 Resolution) with the Initial Series of Bonds and any Additional Bonds then Outstanding.

"Adjusted Debt Service Requirements" shall mean, for any period, as of any date of calculation, the aggregate Debt Service Requirements on the Bonds for such period taking into account the following adjustments:

(i) With respect to Bonds that bear interest at a Variable Interest Rate, the aggregate Debt Service Requirements thereon shall be determined as if each such Bonds bore interest at the Assumed Rate; provided, however, if the Secretary (1) enters into a Qualified Swap Agreement with a Swap Provider requiring the Secretary to pay a fixed interest rate on a notional amount, and (2) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement the interest rate on such Bonds shall be determined as if such Bonds bore interest at the fixed interest rate payable by the Secretary under such Qualified Swap Agreement.

(ii) With respect to Bonds that bear interest at a fixed interest rate, if the Secretary (1) enters into a Qualified Swap Agreement with a Swap Provider requiring the Secretary to pay a variable interest rate on a notional amount and (2) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default under such Qualified Swap Agreement the interest rate on such Bonds shall be determined as if such Bonds bore interest at an Assumed Rate on the notional amount of such Bonds.

(iii) With respect to Optional Tender Bonds, the aggregate Debt Service Requirements thereon shall not include amounts payable upon mandatory or optional tender, but shall be deemed to include all periodic Bond Related Costs and other payments to the provider of any Liquidity Facility, and shall not be based upon the terms of any reimbursement obligation to such provider except to the extent and for periods during which Bond Related Costs and other payments have been required to be made pursuant to such reimbursement obligation due to such provider advancing funds and not reimbursed.

(iv) With respect to Bonds that have Credit Enhancement, the aggregate Debt Service Requirements thereon shall be deemed to include all periodic Bond Related Costs and other payments to the provider of the Credit Enhancement, but shall not be based upon the terms of any reimbursement obligation to such provider except to the extent and for periods during which Bond Related Costs and other payments have been required to be made pursuant to such reimbursement obligation due to such provider advancing funds and not reimbursed.

(v) The aggregate Debt Service Requirements for any period on any Bonds shall not include any interest which is payable from Capitalized Interest (defined below) which is to be deposited into the applicable Interest Account in the Highway Bond Debt Service Fund at the time of such computation for the period in question, and which is available and is to be applied under the applicable Supplemental Resolution to make interest payments on such Bond when due. "Capitalized Interest" means that portion of the proceeds of any series of Bonds that are restricted to be used to pay interest due or to become due on such Bonds, including funds held in connection with Crossover Refunding Bonds.

(vi) With respect to Crossover Refunding Bonds, the aggregate Debt Service Requirements thereon until the Crossover Refunding Bonds Break Date shall be disregarded.

For purposes of this definition of Adjusted Debt Service Requirements, the principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of any Deferred Income Bonds becoming due at maturity or by virtue of Mandatory Sinking Fund Requirements shall be included in the calculation of accrued and unpaid and accruing interest or principal installments in such manner and during such period of time, in both cases as is specified in the Supplemental Resolution authorizing such Capital Appreciation Bonds or Deferred Income Bonds.

"Appreciated Value" shall mean with respect to any Bonds that are Deferred Income Bonds until the Interest Commencement Date thereon, an amount equal to the principal amount of such Deferred Income Bond (determined on the basis of the initial principal amount per $5,000 at the Interest Commencement Date thereof) plus the amount, assuming compounding (as set forth in the applicable Supplemental Resolution) of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Deferred Income Bond and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce $5,000 at the Interest Commencement Date. As of any Valuation Date, the Appreciated Value of any Additional Bonds that are Deferred Income Bonds shall mean the amount set forth for such date in the Supplemental Resolution authorizing such Deferred Income Bonds and as of any date other than a Valuation Date, the sum of (i) the Appreciated Value on the preceding Valuation Date and (ii) the product of (1) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days from such preceding Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

"Assumed Rate" shall mean the lesser of (a) the Maximum Interest Rate on such Bond, or (b) the interest rate which all Rating Agencies indicate in written evidence to the Secretary will not, by itself, result in a reduction or withdrawal of each of their respective ratings on the Bonds that is in effect prior to such lower rate being used as the Assumed Rate.

"BAB Interest Subsidy Payments" means payments to be received by the Secretary from the U.S. Department of the Treasury under Code §§ 54AA(g) and 6431 in connection with payments of interest on a Series of Bonds.

"Bond Counsel" shall mean any attorney or firm of attorneys, acceptable to the Secretary, whose expertise in matters relating to the issuance of obligations by states and their political subdivisions, the interest on which is excludable from gross income for purposes of federal income taxation, is nationally recognized.

"Bond Issuance Costs" shall mean: all printing, publication or advertising expenses with respect to the sale and issuance of any Bonds; all fees, expenses and costs of Registrars and Paying Agents retained by the Secretary; all fees, expenses and costs of attorneys, Bond Counsel, accountants, feasibility consultants, computer programmers or other experts employed to aid in the sale and issuance of the Bonds, and all other costs related thereto; and all other costs, fees and expenses incurred or reasonably related to the issuance and sale of the Bonds that may under the Act be paid from proceeds of Bonds.

"Bondowner" or **"Owner"** shall mean any person in whose name any Bond is registered on the bond register maintained by the Bond Registrar.

"Bond Registrar" shall mean the State Treasurer of Kansas or the entity otherwise specified in the Supplemental Resolution authorizing a specific series of Bonds.

"Bond Related Costs" shall mean all costs, fees and expenses of the Secretary incurred or reasonably related to any Liquidity Facility, Credit Enhancement, Reserve Fund Guaranty, any remarketing or other secondary market transactions, Qualified Swap Agreement (whether requiring the Secretary to pay fixed or variable amounts) that the Secretary has determined was entered into for the purposes of providing substitute interest payments for a particular maturity of Bonds (other than regularly scheduled amounts payable under a Qualified Swap Agreement, if applicable), any fees of Bond Counsel, attorneys, financial advisors, remarketing agents, rebate consultants, accountants and other advisors retained by the Secretary in connection with a Series, and any other fees, charges and expenses that may be lawfully incurred by the Secretary relating to Bonds, including, without limitation, any obligation of the Secretary to a provider of a Credit Enhancement, of a Liquidity Facility or of a Reserve Fund Guaranty for a Series, to repay or reimburse any amounts paid by such provider due to payment under such enhancement, facility or guaranty and any interest on such repayment obligation unless any such amount constitutes a Bond Service Charge for such series.

"Bond Related Costs Account" shall mean the Account within the Highway Bond Debt Service Fund created by the 1992 Resolution.

"Bonds" shall mean any highway revenue bonds, authorized pursuant to the Act by the 1992 Resolution and by any Supplemental Resolution.

"Bond Service Charges" shall mean, for any applicable time period or date, the scheduled principal of and premium, if any, interest and the fees, expenses and costs of the Bond Registrar and Paying Agent, if any, on any Bonds (excluding any junior and subordinate highway revenue bonds) accruing for that period or due and payable on that date. In determining Bond Service Charges accruing for any period or due and

payable on any date, Mandatory Sinking Fund Requirements accruing for that period or due on that date shall be included.

"Business Day" shall mean any day other than a Saturday, Sunday, legal holiday in the State of Kansas or a day on which either the Bond Registrar, the Paying Agent, any provider of applicable Credit Enhancement or Liquidity Facility, or the State, is legally authorized to close.

"Capital Appreciation Bonds" shall mean any Additional Bonds as to which interest is payable only at the maturity or prior redemption thereof. For the purposes of (i) receiving payment of the redemption price, if any, of a Capital Appreciation Bond that is redeemed prior to maturity, and (ii) computing the principal amount of Capital Appreciation Bonds held by the Owner thereof in giving any notice, consent, request, or demand pursuant to the applicable Supplemental Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond as of a specific date shall be deemed to be its Accreted Value as of such date.

"Code" shall mean the Internal Revenue Code of 1986, the regulations (whether proposed, temporary or final) under that code or the statutory predecessor of that Code, and any amendments of, or successor provisions to, the foregoing and any official rulings, announcements, notices, procedures and judicial determinations regarding any of the foregoing, all as and to the extent applicable. Unless otherwise indicated, reference to a Section means that Section of the Code, including such applicable regulations, rulings announcements, notices, procedures and determinations pertinent to that Section.

"Comprehensive Highway Program" shall mean the authorized program of construction, reconstruction, maintenance or improvement of highways in the State authorized by the Act.

"Credit Enhancement" shall mean any agreement with a bank, trust company, insurance company, surety bonding company, pension fund or other financial institution that provides increased credit on or security for any series (or portion thereof) of Bonds which agreement is rated in one of the two highest Rating Categories by all of the Rating Agencies then rating such agreements.

"Crossover Refunding Bonds" shall mean any Additional Bonds the proceeds of which: (i) are deposited in an escrow account, in the State Treasury or a Kansas bank having trust powers, established for such purpose, (ii) cannot be applied to the purpose for which such Crossover Refunding Bonds are to be issued until the Crossover Refunding Bonds Break Date, (iii) must be certified by the Secretary to be sufficient, together with the investment income thereon, after the payment of Bond Issuance Costs and Bond Related Costs, if any, to pay the Bond Service Charges on such series on and prior to such Crossover Refunding Bonds Break Date and (iv) other than paying or providing for the payment of Bond Issuance Costs and Bond Related Costs, if any, cannot be used for any purpose (subject to lien and other requirements of the 1992 Resolution) other than the payment of Bond Service Charges on such Crossover Refunding Bonds on and prior to the Crossover Refunding Bonds Break Date.

"Crossover Refunding Bonds Break Date" shall mean the date specified in the Supplemental Resolution authorizing a Series of Crossover Refunding Bonds as the date upon which the proceeds of such Crossover Refunding Bonds can be applied to the purpose of which such Crossover Refunding Bonds are to be issued upon the satisfaction of certain conditions, which conditions shall be set forth in such Supplemental Resolution.

"Debt Service Requirements" shall mean during the applicable period and as of any date of calculation (a) with respect to any series of Outstanding Bonds, the aggregate of the Bond Service Charges on such series. For purposes of this definition, the scheduled principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of Deferred Income Bonds becoming due at maturity

or by virtue of mandatory sinking fund redemption shall be included in the calculations of accrued and unpaid and accruing interest or principal payments in such manner and during such period of time as is specified in the Supplemental Resolution authorizing such Capital Appreciation Bonds or Deferred Income Bonds.

"Debt Service Reserve Account" shall mean the account created and established by the 1992 Resolution and into which there shall be deposited moneys from sources, in such amounts and at such times as shall be specified in any Supplemental Resolution.

"Defeasance Securities" shall mean:

(i) direct and general obligations of, or obligations which as to principal and interest are unconditionally guaranteed as to full and timely payment by, the United States of America, to the payment of which the full faith and credit of the United States of America is irrevocably and unconditionally pledged, including evidences of direct ownership of proportionate interests in future principal or interest payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in safekeeping in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated. The obligations described in this paragraph are hereinafter called "United States Government Obligations;" and

(ii) pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's and meeting the following conditions:

(a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer of such municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(b) the municipal obligations are secured by cash or non-callable United States Government Obligations that may be applied only to interest, principal and premium payments of such municipal obligations;

(c) the principal of and interest on such United States Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations;

(d) the cash and United States Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; and

(e) the United States Government Obligations are not available to satisfy any other claims, including those against the trustee or escrow agent.

"Deferred Income Bonds" shall mean any Additional Bonds as to which accruing interest is not paid prior to the Interest Commencement Date specified in the Supplemental Resolution authorizing such series and the Appreciated Value for such series is compounded on the Valuation Date for such series.

"Event of Default" shall mean any of those defaults specified in **Article VIII** of the 1992 Resolution.

"Financial Advisor" shall mean Public Financial Management, Inc. or the entity, if any, specified in the Supplemental Resolution authorizing any Additional Bonds.

"Fiscal Year" shall mean the twelve-month period commencing on July 1 of any year and ending on June 30 of the following year, or any other twelve-month period which the State or other appropriate authority hereafter may establish as the Fiscal Year for KDOT.

"Government Interest Subsidy Bonds" means any Bonds with respect to which the Secretary intends to be entitled to receive Government Interest Subsidy Payments.

"Government Interest Subsidy Payments" means payments received by the Secretary from the federal or state government that are made to reduce or off-set debt service payments on any indebtedness, including without limitation any BAB Interest Subsidy Payments.

"Highway Bond Debt Service Fund" shall mean the statutory fund established by K.S.A. 68-2325.

"Highway Bond Proceeds Fund" shall mean the Highway Bond Proceeds Fund created by K.S.A. 68-2321, including all accounts therein.

"Highway Bond Sinking Fund Account" shall mean the Sinking Fund created by the 1992 Resolution.

"Independent Accountant" shall mean any certified public accountant or registered accountant, or firm of such accountants, duly licensed to practice and practicing as such under the laws of the State of Kansas, who (a) is, in fact, independent and not under the control of the State, (b) does not have any substantial interest, direct or indirect, in the State, and (c) is not connected with the State as an officer or employee of the State, but who may be regularly retained to make annual or similar audits of the books or records of the State.

"Initial Series" shall mean the Series 1992 Bonds issued pursuant to the 1992 Resolution and the First Supplemental Resolution.

"Interest Account" shall mean the Interest Account within the Sinking Fund created by the 1992 Resolution.

"Interest Commencement Date" shall mean, with respect to any particular Deferred Income Bonds, the date specified in the applicable Supplemental Resolution authorizing such Deferred Income Bonds (which date must be prior to the maturity date for such Deferred Income Bonds), after which interest accruing on such Deferred Income Bonds shall be payable with the first such payment date being the applicable interest payment date immediately succeeding such Interest Commencement Date.

"Investment Securities" shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the Secretary's funds:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed as to fun and timely payment of principal and interest by, the United States of America, including obligations of any of the Federal agencies set forth in clause (ii) below to the extent unconditionally guaranteed by the United States of America;

(ii) bonds, debentures, or other evidences of indebtedness issued or guaranteed by the following United States government sponsored agencies: Federal Home Loan Mortgage Corporation, Farm Credit System, Federal Home Loan Banks, Federal National Mortgage Association, Student Loan Marketing Association, Financing Corporation, Resolution Trust Corporation, Resolution Funding Corporation or any other government-sponsored agencies which are not backed by the full faith and credit of the U. S. government which has been or may hereafter be created pursuant to an Act of Congress as an agency or instrumentality of the United States of America; provided, that mortgage-backed securities purchased prior to the adoption of the Third Amendatory Supplemental Resolution may be held to maturity;

(iii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bond or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instruction, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clauses (i) and (ii) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (iii) on the maturity date or dates thereof or on the Redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (iii), as appropriate;

(iv) project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(v) direct and general obligations of any state of the United States of America, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, provided that at the time of their purchase hereunder such obligations are rated in one of the two highest Rating Categories by all Rating Agencies;

(vi) obligations of any state of the United States of America or any political subdivision of any state of the United States of America or any agency or instrumentality of any such state or political subdivision which shall be rated at the time of their purchase hereunder in one of the two highest Rating Categories by all Rating Agencies;

(vii) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in custody by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least $50,000,000, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed as to payment pursuant to a credit support arrangement provided by one or more financial institutions or insurance companies or associations which shall be rated in the highest Rating Categories by two or more Rating Agencies, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and

interest on municipal bonds, such insurance policy shall result in such municipal bonds being so rated at the time of purchase hereunder;

(viii) certificates that evidence ownership of the right of payments of principal or interest on obligations described in clauses (i) to (vi), provided that such obligations shall be held in custody by a bank or trust company or a national banking association having capital stock, surplus and undivided earnings aggregating at least $50,000,000;

(ix) certificates of deposit, whether negotiable or non-negotiable, and banker's acceptances either of which at the time of their purchase have a rating in the highest short-term Rating Categories or one of the two highest long-term Rating Categories by both Moody's Investors Service and Standard & Poor's Corporation, so long as such issuing bank or trust company is either a bank or trust company organized and operating in the United States or it is an agency of a foreign bank domiciled in the United States; and certificates of deposit, whether negotiable or non-negotiable, of banks which are located in the State and which have combined capital, undivided profits and surplus of $8,500,000 or more;

(x) any repurchase agreements secured by securities described in clauses (i) and (ii) above with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction or any commercial bank, if such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated (an "unsecured rating") "Prime-1" and "A" or better by Moody's Investors Service or "A-1" or "A-3" or better by Standard & Poor's Corporation or Fitch, provided (1) a specific written agreement governs the transaction; (2) the securities are held by a depository acting solely as agent for the State Treasurer, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and with combined capital surplus and undivided profits of not less than $25 million, and the State Treasurer shall have received written confirmation from such third party that it holds such securities; (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the State Treasurer; (4) the repurchase agreement has a term of 1 year or less, and the collateral securities will be valued no less frequently than weekly and will be liquidated if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and (5) the fair market value of the securities in relation to the amount of the repurchase obligations, including principal and interest is equal to at least 102%;

(xi) shares of an Investment Company, organized under the Investment Company Act of 1940 as amended, which invests its assets exclusively in obligations of the type described in clauses (i) to (x);

(xii) investment agreements which represent the unconditional obligation of one or more banks, insurance companies or other financial institutions, or are guaranteed by a financial institution, in either case that has an unsecured rating, or which agreement is itself rated, as of the date of execution thereof, in one of the two highest rating categories by two or more nationally recognized rating agencies. The following additional requirements shall apply:

1. For non-bond proceeds, the maturity of the agreement shall not exceed one year.

2. For bond proceeds, the maturity of the agreement shall not exceed the expected final draw of the projected construction draw schedule by more than three months.

3. The agreement shall require the agreement provider to redeem the agreement at par plus accrued interest if the provider is downgraded below a rating of "AA-" by Standard & Poor's or "Aa3" by Moody's Investor's Service.

4. Collateralized agreements may only be collateralized by obligations described in (i) and (ii) above.

5. Collateral must be equal to at least 102% of the value of the agreement and shall be marked-to-market no less frequently than weekly.

6. Any collateralized agreement shall require that a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the State Treasurer;

(xiii) Unsecured short-term debt of U.S. Corporations, provided the issuing corporation, or its guarantor, has a short-term debt rating of P-1 by Moody's Investors Service and A1 or A1+ by Standard & Poor's Corporation; and

(xiv) any other investment permitted by State law that is rated at the time of purchase in one of the two highest rating categories by Moody's Investors Service and Standard & Poor's Corporation.

"Junior and Subordinate Highway Revenue Bond Sinking Fund Account" shall mean the account created by the 1992 Resolution.

"KDOT" shall mean the Kansas Department of Transportation.

"Liquidity Facility" shall mean any agreement with a bank, trust company, insurance company, surety bonding company, pension fund or other financial institution under which it agrees to purchase Optional Tender Bonds which agreement is rated in one of the two highest Rating Categories by all of the Rating Agencies then rating such agreements.

"Mandatory Sinking Fund Requirements" shall mean the principal amount of term Bonds which are required to be redeemed by mandatory sinking fund redemption, in the principal amounts, at the prices and on the dates as set forth in the applicable Supplemental Resolution.

"Maximum Interest Rate" shall mean, with respect to any particular Bonds that bear interest at a Variable Interest Rate, a numerical rate of interest, which shall be set forth in the Supplemental Resolution authorizing such Additional Bonds, that shall be the maximum rate of interest such Bonds that bear interest at a Variable Interest Rate may at any time bear.

"1992 Resolution" shall mean the resolution, as amended or supplemented from time to time in accordance with its terms which relates to the authorization of Highway Revenue Bonds of the State.

"Opinion of Counsel" shall mean an opinion, in writing, of Bond Counsel.

"Optional Tender Bonds" shall mean any Additional Bonds which by their terms may be tendered by and at the option of, or required to be tendered by, the Owner thereof for payment or purchase of the Secretary or another party prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Owner thereof.

"Outstanding" shall mean Bonds theretofore issued which remain outstanding and unpaid, or Bonds thereupon being authenticated and delivered under the applicable Supplemental Resolution, except:

(i) Bonds cancelled pursuant to the 1992 Resolution at or prior to their maturity dates;

(ii) Bonds (or portions of Bonds) for the payment or redemption or purchase for cancellation of which sufficient moneys shall be held in trust under the provisions of the 1992 Resolution and set aside for such purpose (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions thereof) are to be redeemed, notice of such redemption shall have been given or provision satisfactory to the Secretary shall have been made for the giving of such notice as provided in the 1992 Resolution;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered hereunder; and

(iv) Optional Tender Bonds deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Bonds on the applicable tender, adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payments as provided therein.

In determining requisite percentages of the Owners of aggregate principal amount of Bonds Outstanding for the purposes of direction, consent, approval or waiver under the terms and provisions of the 1992 Resolution and any Supplemental Resolution: (i) the aggregate principal amount of any Bonds that are Capital Appreciation Bonds shall be determined by their Accreted Value as of the date of such determination, and (ii) the aggregate principal amount of any Bonds that are Deferred Income Bonds shall be determined by their Appreciated Value as of the date of such determination.

"Owner" or **"Bondowner"** shall mean any person in whose name any Bond is registered on the bond register maintained by the Bond Registrar.

"Paying Agent" shall mean the State Treasurer of Kansas or any bank or trust company organized under the laws of any state of the United States of America or any national banking association designated as paying agent for the Bonds of any series, and its successor or successors otherwise appointed in the Supplemental Resolution authorizing a specific series of Bonds.

"Principal Account" shall mean the Principal Account within the Sinking Fund created by the 1992 Resolution.

"Qualified Swap Agreement" shall mean an interest rate exchange, hedge or similar agreement entered into by the Secretary and a Swap Provider, expressly identified in a certificate of the Secretary as having been entered into in order to hedge the interest rate payable on all or any portion of any Bonds, which agreement (i) may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put , cap, floor or collar) and (ii) does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof. Anything in the 1992 Resolution to the contrary notwithstanding, any Bonds for which a Qualified Swap Agreement has been entered into by the Secretary shall be deemed to bear interest for the period of time that such Qualified Swap Agreement is in effect at a net rate which takes into account the interest payments made by the Secretary with respect to such Bonds and the payments made or received by the Secretary with respect to such Qualified Swap Agreement; provided that the long-term credit rating of the Swap Provider (or any guarantor thereof) is in one of the two highest rating categories of any Rating Agency (without regard to any refinements of gradation of any rating category by numerical modifier or otherwise) then rating such Bonds

unless such Bonds are secured by a Credit Enhancement, in which case such Qualified Swap Agreement shall be approved in writing by the provider of such Credit Enhancement. For purposes of the Additional Bonds provisions of the 1992 Resolution described in the Official Statement under the caption "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2014B BONDS -- Additional Bonds" and the rate covenant provisions of the 1992 Resolution described in **Appendix D** under the caption "SUMMARY OF THE 1992 RESOLUTION -- Maintenance of State Highway Fund and Revenues", so long as any Bonds are deemed to bear interest at a rate taking into account a Qualified Swap Agreement, any payments made by the Secretary with respect to such Qualified Swap Agreement shall be *excluded* from the calculation of Adjusted Debt Service Requirements and Bond Service Charges and any payments received by the Secretary with respect to such Qualified Swap Agreement shall be excluded from Revenues.

"Rating Agency" shall mean Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services ("S&P") and Fitch, Inc. ("Fitch") or all, as applicable, or their successors or assigns then maintaining a rating on the Bonds.

"Rating Categories" shall mean the rating as published by a Rating Agency in its written compilations of ratings and any written supplement or amendment thereto and any such rating shall be determined on the generic rating without regard to any modifiers and, unless otherwise specified in the 1992 Resolution, shall be long term ratings.

"Refunding Bonds" shall mean any Bonds authorized pursuant to K.S.A. 68-2328 authorized to be authenticated and delivered under the 1992 Resolution.

"Reserve Fund Guaranty" shall mean a letter of credit, surety bond or similar arrangement representing the unconditional and irrevocable obligation of a financial institution to pay the Paying Agent upon request made by the Paying Agent up to an amount stated therein for application as provided in a Supplemental Resolution, which Reserve Fund Guaranty shall be held as part of the Debt Service Reserve Fund and which is rated in one of the two highest Rating Categories by all of the Rating Agencies then rating such obligations.

"Revenues" shall mean (i) all tax receipts deposited in the State Highway Fund as provided in K.S.A. 79-34,142 in the percentages as therein required; (ii) all sales tax and compensating use tax required to be transferred or credited to the State Highway Fund by K.S.A. 79-3620, K.S.A. 79-3710 and K.S.A. 79-34,147, respectively; (iii) vehicle registration and certificates of title fees required to be transferred or credited to the State Highway Fund by K.S.A. 8-146, (iv) any Government Interest Subsidy Payments, and (v) all other moneys regardless of their origin, transferred or credited to the State Highway Fund, excepting only those moneys prohibited or restricted by Federal law or regulation from being used to pay Bond Service Charges.

"Secretary" shall mean the Secretary of Transportation of the State of Kansas.

"Sinking Fund" shall mean the same as the Highway Bond Sinking Fund Account.

"Special Counsel" shall mean an attorney at law admitted to practice before the Supreme Court of Kansas and having special expertise in matters involving the financing of the construction of roads, bridges and highways.

"State" shall mean the State of Kansas.

"State Highway Fund" shall mean the fund of the same name referred to in various statutes of the State relating to highways and transportation, including the Act.

"State Highway System" shall mean the system of roads and highways consisting of public roads, including interstate highways located in corridors designated by the State Legislature which link the principal population centers of the State and other major express highways in the State and in neighboring states.

"State Treasurer" shall mean the person validly holding the office of State Treasurer of the State of Kansas created by statute.

"Supplemental Resolution" shall mean any resolution of the Secretary passed in accordance with the provisions of the 1992 Resolution.

"Swap Provider" shall mean the counterparty with whom the Secretary enters into a Qualified Swap Agreement.

"Valuation Date" shall mean (i) with respect to any Additional Bonds that are Capital Appreciation Bonds, the date or dates set forth in the Supplemental Resolution authorizing such Bonds on which specific Accreted Values are assigned to such Bonds and (ii) with respect to any Additional Bonds that are Deferred Income Bonds, the date or dates prior to the Interest Commencement Date set forth in the Supplemental Resolution authorizing such Bonds on which specific Appreciated Values are assigned to such Bonds.

"Variable Interest Rate" shall mean a variable interest rate or rates to be borne by a series of Bonds or any one or more maturities within a series of Bonds. The method of computing such variable interest rate shall be specified in the Supplemental Resolution authorizing such Bonds.

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

August 28, 2014

The Honorable Michael S. King
Secretary of Transportation
Topeka, Kansas

Re: Kansas Department of Transportation
Highway Revenue Refunding Index Bonds, Series 2014B

We have acted as bond counsel in connection with the issuance by the Secretary of the Kansas Department of Transportation (the "Secretary") of the above-captioned Series 2014B Bonds (the "Series 2014B Bonds"), pursuant to the 1992 Resolution (the "1992 Resolution") adopted by the Secretary, as supplemented by the Thirtieth Supplemental Resolution adopted by the Secretary with respect to the Series 2014B Bonds (the "Thirtieth Supplemental Resolution," together with the 1992 Resolution, the "Resolution"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Resolution.

We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion. As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Secretary has authority under the Act to authorize the issuance of the Series 2014B Bonds and the Series 2014B Bonds have been duly authorized, executed and delivered by the Secretary and are valid and legally binding special obligations of the State of Kansas, payable and collectible solely from, and are secured by a valid first lien and claim on, the Revenues and moneys in certain funds and accounts as provided in the Resolution on parity with the Outstanding Series 2004A Bonds, Series 2004B Bonds, Series 2004C Bonds, Series 2009A Bonds, Series 2010A Bonds, Series 2012A Bonds, Series 2012B Bonds, Series 2012C Bonds, Series 2014A Bonds and any Additional Bonds that may hereafter be issued under the Resolution. The Series 2014B Bonds do not constitute general obligations of the State of Kansas nor do they otherwise constitute an indebtedness of the State of Kansas within the meaning of any constitutional or statutory provision, limitation or restriction.

2. The Thirtieth Supplemental Resolution has been duly adopted by the Secretary and constitutes a valid and legally binding obligation of the State of Kansas enforceable in accordance with its terms.

3. There has been compliance with all laws and requirements with respect to the form and execution by the Thirtieth Supplemental Resolution, and the execution and delivery by the Secretary of the Series 2014B Bonds, and all instruments furnished to the Bond Registrar in connection with the issuance of the Series 2014B Bonds conform to the requirements of the 1992 Resolution and constitute sufficient authority thereunder for the Bond Registrar to authenticate and deliver the Series 2014B Bonds.

4. The interest on the Series 2014B Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; but the interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in this paragraph is subject to the condition that the Secretary comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series 2014B Bonds in order to preserve the exclusion of the interest on the Bonds from gross income for federal income tax purposes. The Secretary has covenanted to comply with all of these requirements. Failure to comply with certain of these requirements may cause the interest on the Series 2014B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2014B Bonds. The Series 2014B Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code.

5. The Series 2014B Bonds and all income or interest therefrom are exempt from all Kansas taxes.

We express no opinion regarding the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2014B Bonds (except to the extent, if any, stated in the Official Statement).

The rights of the owners of the Series 2014B Bonds and the enforceability of the Series 2014B Bonds and the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

This opinion is given as of its date, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may come to our attention or any changes in law that may occur after the date of this opinion.

Very truly yours,

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

$212,875,000
State of Kansas
Department of Transportation
Highway Revenue Refunding Index Bonds
Series 2014B

Dated: August 28, 2014

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Secretary (the "Secretary") of the Kansas Department of Transportation ("KDOT") in connection with the issuance of the above referenced bonds (the "Series 2014B Bonds") pursuant to the hereinafter defined Bond Resolution, in which the Secretary, on behalf of KDOT, covenants to enter into this undertaking to provide certain financial and other information with respect to the Series 2014B Bonds in order to assist the Participating Underwriters (as hereinafter defined) in complying with the provisions of the SEC Rule. The Secretary is the only "obligated person" with responsibility for continuing disclosure with respect to the Series 2014B Bonds.

Section 1. **Definitions**. In addition to the definitions set forth in the Bond Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined herein, the following capitalized terms shall have the following meanings:

"Annual Report" means the Annual Report provided by the Secretary pursuant to, and as described in, ***Section 2*** of this Disclosure Certificate.

"Beneficial Owner" means any registered owner of any Series 2014B Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2014B Bonds (including persons holding Series 2014B Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2014B Bonds for federal income tax purposes.

"Bond Resolution" means, collectively, the 1992 Resolution, adopted March 31, 1992, as amended and supplemented, specifically including the Thirtieth Supplemental Resolution.

"CAFR" means the Comprehensive Annual Financial Report of KDOT.

"Dissemination Agent" means the Secretary, or any successor Dissemination Agent designated in writing by the Secretary, and which has filed with the Secretary a written acceptance of such designation.

"EMMA" means the Electronic Municipal Market Access system for municipal securities disclosures, which can be accessed at www.emma.msrb.org.

"Financial Information" means the financial information of KDOT described in ***Section 2(a)(1)*** hereof.

"Fiscal Year" means the one year period ending June 30, or such other date or dates as may be adopted by KDOT for its general accounting purposes.

"GAAP" means generally accepted accounting principles, as applied to governmental units, as in effect at the time of the preparation of the Financial Information.

"GASB" means the Governmental Accounting Standards Board.

"Issue Date" shall mean August 28, 2014.

"KDOT" shall mean the Kansas Department of Transportation.

"Material Events" means any of the events listed in ***Section 3(a)*** hereof.

"MSRB" means the Municipal Securities Rulemaking Board, or any successor repository designated as such by the Securities and Exchange Commission in accordance with the Rule.

"Official Statement" means the Official Statement dated August 13, 2014, relating to the issuance of the Series 2014B Bonds.

"Operating Data" means the operating data of KDOT described in ***Section 2(a)(2)*** hereof.

"Participating Underwriters" shall mean any of the underwriters of the Series 2014B Bonds required to comply with the SEC Rule in connection with the offering of the Series 2014B Bonds.

"SEC" means the Securities and Exchange Commission of the United States.

"SEC Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Secretary" shall mean the Secretary of Transportation of the State.

"Series 2014B Bonds" shall mean the State of Kansas Department of Transportation Highway Revenue Refunding Index Bonds, Series 2014B, dated as of the Issue Date.

"State" shall mean the State of Kansas.

Section 2. **Provision of Annual Reports**.

(a) The Secretary shall, or shall cause the Dissemination Agent to, not later than six months after the end of each Fiscal Year, commencing with the 2014 Fiscal Year, provide to the MSRB, through EMMA, the CAFR, which shall contain the Financial Information and Operating Data (collectively, the "Annual Report") as follows:

(1) ***Financial Information***. The audited financial statements of KDOT for such prior Fiscal Year, prepared in accordance with generally accepted accounting principles, in substantially the format contained in ***Appendix B*** to the Official Statement. If audited financial statements are not available by the time the Annual Report is required to be filed pursuant to this Section, the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report within 10 business days after they become available. The financial statements of KDOT will be prepared in accordance with GAAP as promulgated to apply to governmental entities from time to time by GASB. Such financial statements shall include as a distinct reporting entity the State Highway Fund. A more detailed explanation of the accounting basis is contained in ***Appendix B*** to the Official Statement. The method of preparation and basis of

accounting of the Financial Information may not be changed to a basis less comprehensive than contained in the Official Statement, unless the Secretary provides notice of such change in the same manner as for a Material Event under ***Section 3(b)*** hereof.

(2) ***Operating Data.*** Included within the CAFR shall be: (i) a letter of transmittal of the Secretary and the chief financial officer of KDOT accompanying the Financial Information which shall contain a discussion of any State legislative enactment which may materially effect the Revenues; and (ii) a statistical section, which shall include, but shall not be limited to, KDOT's:

(A) Revenues by source and expenditures by function;
(B) State motor fuel tax rates, receipts and distributions;
(C) State vehicle registration rates, receipts and distributions; and
(D) State sales and compensating use tax rates, receipts and distributions.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Secretary is an "obligated person" (as defined by the SEC Rule), which have been provided to the MSRB or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Secretary shall clearly identify each such other document so included by reference.

In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section; *provided* that the audited financial statements of KDOT may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If KDOT's Fiscal Year changes, it shall give notice of such change in the same manner as for a Material Event under ***Section 3(b)***.

(b) If no Dissemination Agent has been appointed, the Secretary shall file the Annual Report as specified by ***Section 2(a)*** hereof; or if the Annual Report is not filed within the time period specified in ***Section 2(a)*** hereof, the Secretary shall send a notice to the MSRB in substantially the form attached as ***Schedule I***.

Section 3. Reporting of Material Events.

(a) Not more than 10 business days after the occurrence of any of the following events, the Secretary shall give, or cause the Dissemination Agent, if any, to give to the MSRB, through EMMA, notice of the occurrence of any of the following events with respect to the Series 2014B Bonds ("Material Events"):

(1) principal and interest payment delinquencies;

(2) non-payment related defaults, if material;

(3) unscheduled draws on debt service reserves reflecting financial difficulties;

(4) unscheduled draws on credit enhancements reflecting financial difficulties;

(5) substitution of credit or liquidity providers, or their failure to perform;

(6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series

2014B Bonds, or other material events affecting the tax status of the Series 2014B Bonds;

(7) modifications to rights of bondholders, if material;

(8) bond calls, if material, and tender offers;

(9) defeasances;

(10) release, substitution or sale of property securing repayment of the Series 2014B Bonds, if material;

(11) rating changes;

(12) bankruptcy, insolvency, receivership or similar event of the State;

(13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of KDOT, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(14) appointment of a successor or additional trustee or the change of name of the trustee, if material.

Section 4. Dissemination Agent.

(a) ***General.*** The Secretary may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

(b) ***Annual Reports.*** If a Dissemination Agent shall be appointed, not later than 15 business days prior to the date specified in ***Section 2(a)*** for providing the Annual Report to the MSRB, the Secretary shall provide the Annual Report to the Dissemination Agent. The Dissemination Agent shall file a report with the Secretary certifying that the Annual Report has been provided pursuant to this Disclosure Certificate and stating the date it was provided, or that the Secretary has certified to the Dissemination Agent that the Secretary has provided the Annual Report to the MSRB. If the Dissemination Agent has not received an Annual Report or has not received a written notice from the Secretary that it has provided an Annual Report to the MSRB by the date required in ***Section 2(a)***, the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as ***Schedule I.***

(c) ***Material Event Notices.***

(1) The Dissemination Agent shall, promptly after obtaining actual knowledge of the occurrence of any event that it believes may constitute a Material Event, contact the chief financial officer of KDOT or his or her designee, or such other person as the Secretary shall designate in writing to the Dissemination Agent from time to time, inform such person of the event, and request that the Secretary promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to ***Section 4(c)(3)***.

(2) The Secretary will promptly respond in writing to any such request. Whenever the Secretary obtains knowledge of the occurrence of a Material Event, because of a notice from the Dissemination Agent pursuant to this subsection (c) or otherwise, the Secretary shall promptly determine if such event would be material under applicable federal securities law. If the Secretary has determined that knowledge of the occurrence of a Material Event would be material under applicable federal securities law, the Secretary shall promptly so notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to ***Section 4(c)(3)***. If the Secretary has determined that knowledge of a Material Event would not be material under federal securities law, the Secretary shall promptly so notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent not to report the occurrence pursuant to ***Section 4(c)(3)***.

(3) If the Dissemination Agent has been given written instructions by the Secretary to report the occurrence of a Material Event, the Dissemination Agent shall promptly file a notice of such occurrence with the MSRB, with copies to the Secretary. Notwithstanding the foregoing, notice of Material Events described in ***Sections 3(a)(4)*** and ***(5)*** need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Series 2014B Bonds pursuant to the Bond Resolution.

(d) ***Duties, Immunities and Liabilities of Dissemination Agent.*** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Secretary agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Secretary under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2014B Bonds. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Secretary pursuant to this Disclosure Certificate.

Section 5. **Termination of Reporting Obligation**. The Secretary's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2014B Bonds. If the Secretary's obligations hereunder are assumed in full by some other entity as permitted in the Bond Resolution, such person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the Secretary, and the Secretary shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Series 2014B Bonds, the Secretary shall give notice of such termination or substitution in the same manner as for a Material Event under ***Section 3(b)***.

Section 6. **Amendment; Waiver**. Notwithstanding any other provision of this Disclosure Certificate, the Secretary and the Dissemination Agent, if any, may amend of this Disclosure Certificate (and the Dissemination Agent shall not unreasonably refuse to execute any amendment so requested by the Secretary) and any provision of this Disclosure Certificate may be waived, provided that: (a) Bond Counsel or other counsel experienced in federal securities law matters provides the Secretary and the Dissemination Agent, if any, with its opinion that the undertaking of the Secretary contained herein, as so amended or after giving effect to such waiver, is in compliance with the SEC Rule and all current amendments thereto and interpretations thereof that are applicable to of this Disclosure Certificate; (b) if the amendment or waiver relates to ***Sections 2(a)*** or ***3(a)***, it may only be made in connection with a change in circumstances that arises from a change in law or legal requirements, or change in the identity, nature or status of an obligated person with respect to the Series 2014B Bonds, or the type of business conducted; and (c) the amendment or waiver is either (1) approved by the Owners of the Series 2014B Bonds in the same manner as provided in the Bond Resolution with consent of the Owners, or (2) does not in the opinion of Bond Counsel materially impair the interests of the Owners or Beneficial Owners of the Series 2014B Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Secretary shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of Financial Information or Operating Data being presented by the Secretary. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (a) notice of such change shall be given in the same manner as for a Material Event under ***Section 3(b)***, and (b) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Secretary from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Disclosure Certificate. If the Secretary chooses to include any information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is specifically required by this Disclosure Certificate, the Secretary shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

Section 8. Noncompliance. As of the date hereof, the Secretary has not failed to comply in any material respect with any previous continuing disclosure undertaking made by him in accordance with the SEC Rule. In the event of a failure of the Secretary or the Dissemination Agent, if any, to comply with any provision of this Disclosure Certificate, the Participating Underwriters or any Beneficial Owner of the Series 2014B Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Secretary or the Dissemination Agent, if any, as the case may be, to comply with its obligations under this Disclosure Certificate. Noncompliance with the provisions of this Disclosure Certificate shall not be deemed an Event of Default under the Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Secretary or the Dissemination Agent, if any, to comply with this Disclosure Certificate shall be an action to compel performance.

Section 9. **Electronic Transactions**. Actions taken hereunder and the arrangement described herein may be conducted and related documents may be stored by electronic means.

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Secretary, the Dissemination Agent, if any, the Participating Underwriters and Beneficial Owners from time to time of the Series 2014B Bonds, and shall create no rights in any other person or entity.

Section 11. Severability. If any provision in this Disclosure Certificate, the Bond Resolution or the Series 2014B Bonds relating hereto, shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 12. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State.

SCHEDULE I

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Secretary of Transportation of the State of Kansas

Name of Bond Issue: $212,875,000 State of Kansas, Department of Transportation Highway Revenue Refunding Index Bonds, Series 2014B, dated as of the Issue Date

Issue Date: August 28, 2014

NOTICE IS HEREBY GIVEN that the Secretary has not provided an Annual Report with respect to the above-named bonds (the "Series 2014B Bonds") as required by the Bond Resolution authorizing the Series 2014B Bonds and the Continuing Disclosure Certificate regarding the Series 2014B Bonds. The Secretary anticipates that the Annual Report will be filed by _____.

Dated: _____

SECRETARY OF TRANSPORTATION
OF THE STATE OF KANSAS

_____

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