

# **KANSAS DEPARTMENT OF TRANSPORTATION**

A DEPARTMENT OF THE STATE OF KANSAS

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED**

**JUNE 30, 2011**

**PREPARED BY: BUREAU OF FISCAL SERVICES**

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Kansas Department of Transportation  
 Comprehensive Annual Financial Report  
 For the Fiscal Year Ended June 30, 2011

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# **INTRODUCTORY SECTION**

**Comprehensive Annual Financial Report  
For the fiscal year ended June 30, 2011**

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Kansas Department of Transportation

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director



January 30, 2012

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

Kansas Statutes Annotated 68-2315 requires the Kansas Department of Transportation (the Department) to annually prepare a comprehensive financial report of all funds for the preceding year, which shall include a report by an independent public accountant attesting that the financial statements present fairly the financial position of the Department in conformity with accounting principles generally accepted in the United States of America (GAAP). Pursuant to that requirement, we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Department for the fiscal year ended June 30, 2011.

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

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

For the fiscal year ended June 30, 2011, the independent audit required by statute was performed by RubinBrown. The auditors concluded there was a reasonable basis for rendering unqualified opinions and that the financial statements for the fiscal year ended June 30, 2011, are fairly presented in conformity with GAAP. Their report is presented as the first component of the financial section of this report.

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

## **Profile of the Department**

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

1917. The Secretary of Transportation is appointed by the Governor with the consent of the Senate. The Department has statutory responsibility to coordinate planning, development, and operation of various modes and systems of transportation in the State; however, the actual authority varies by mode and system. Although the Kansas Turnpike Authority (KTA) cooperates with the Department to achieve these objectives, the KTA is not a part of this reporting entity.

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

### **Economic Condition and Outlook**

Economic forecasts are developed using a consensus process that involves the Legislative Research Department, Division of the Budget, and Department of Revenue for the State plus three consulting economists from state universities. The Consensus Group meets bi-annually in April and November. The economic condition and outlook are based upon the November, 2011 meeting.

Although the US economy has been growing for two years and is expected to continue to do so, the anticipated rate of growth has decelerated somewhat relative to expectations in the spring. Significant events for the global and US economies since the April estimate have included additional energy price volatility as a result of political upheavals in the Middle East, the possibility of a US debt downgrade, and the European Union debt crisis. The current assumption is that modest growth will continue in the national and state economies during the forecast period. Nominal Gross Domestic Product is now expected to grow by 4.0 percent in 2011 (the April estimate had been 4.1 percent) and 4.2 percent in 2012 (the April estimate was 5.6 percent); and nominal Kansas Gross State Product is now forecast to grow by 4.2 and 4.3 percent for the two years, respectively (whereas the prior forecast had used 4.0 and 5.3 percent). Although various economic indicator indices also suggest a continued -- if slowing -- expansion, a good deal of uncertainty remains as a result of the aforementioned international situations and a sluggish domestic residential housing market. The estimates contained in this memo for FY 2012 and FY 2013 are premised on this general economic forecast.

Kansas Personal Income (KPI) in 2011 is expected to increase by a relatively healthy 5.7 percent above the 2010 level, although it is important to note that this figure would have been 4.9 percent but for the enactment of a Social Security payroll tax cut by the federal government. Additional personal income generated from that provision is not subject to the income tax. Both figures are nevertheless higher than the 4.1 percent KPI growth for 2011 that had been estimated in April. The new forecast calls for additional KPI growth of 5.0 percent in 2012 and 4.8 percent in 2013.

Data obtained from the Kansas Department of Labor verify that employment has begun to rebound. The most recent monthly data from the Kansas Department of Labor show that total Kansas non-farm private sector employment from September 2010 to September 2011 increased by about 7,800 jobs; while public sector jobs fell by 2,600. From its peak in April of 2008 to its low point in February of 2011, the state lost 89,100 jobs. Sectors with the biggest percentage increases over the last year include manufacturing; professional and business services; and private education and health services. The current average estimates used by the Department indicate that the overall Kansas unemployment rate, which was 7.0 percent in CY 2010, is expected to be 6.7 percent in CY 2011 before further declining to 6.4 percent in CY 2012. One positive sign relates to initial unemployment claims data, which throughout 2011 have been well below the same time

periods studied for 2010. The national unemployment rate is expected to remain well above the Kansas rate, with the US rate now expected to be 9.1 percent in 2011 and 8.7 percent in 2012.

## **Federal Funding**

The federal surface transportation legislation, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), which authorized federal funds for states and local governments for Federal Fiscal Years (FFY) 2005-2009, expired September 30, 2009. After eight short-term extensions of SAFETEA-LU, the legislation is set to expire again on March 31, 2012.

Congressional action will be necessary by March 31, 2012 to extend the current SAFETEA-LU legislation. The U.S. Congress is currently considering two proposals including a multiyear surface transportation program in the House and the Senate proposal known as “Moving Ahead for Progress in the 21st Century (MAP-21). The House has not released details of the plan but members have urged leadership to move legislation through the House before the end of the year. The Senate proposal is a two-year program that maintains current funding levels plus inflation.

### Highway Trust Fund Shortfall Crisis Continues

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

For decades the Highway Trust Fund adequately funded the nation’s roads, and in later years transit projects, as the revenue sources continued to support the spending on federal projects. However, in recent years the balances in the HTF began to take a downward slope and the solvency of the Highway Account of the Trust Fund became a major concern. Projections by the Federal Highway Administration suggested that spending would outpace receipts before the end of 2008, a situation which would have resulted in the federal government’s inability to reimburse states for their federal projects’ expenses. To address this situation, Congress acted in September 2008 to transfer \$8 billion from the nation’s General Fund to the Highway Trust Fund. However, in July 2009, another transfer of \$7.8 billion was necessary for the Fund to remain solvent and to insure that states would be reimbursed.

Despite two rescues of the HTF in less than a year’s time, it was well known that the crisis was not over, in fact, an even more significant shortfall was anticipated in Federal Fiscal Year 2010. Congress took an opportunity to address the situation in March 2010, when the Hiring Incentives to Restore Employment bill, known simply as the HIRE Act, was passed. The legislation restored the Highway Trust Fund’s baseline funding level for FFY 2010 to \$41.5 billion, up from \$30 billion, by again transferring money from the General Fund. The HIRE Act also provided a \$19.5 billion infusion to the HTF, a reimbursement of interest payments not received since 1998 when Congress first prohibited the Fund from accumulating interest. The legislation also allows the HTF to collect interest on its invested balances in the future. These actions have preserved the Highway Trust Fund for a short time, however, current projections show the cash balance in the Highway Account depleted in 2013, and, the Mass Transit Account depleted in 2014.

## Economic Stimulus Legislation

The American Recovery and Reinvestment Act (ARRA), was signed into law on February 17, 2009. The \$787 billion stimulus legislation provided \$27.5 billion for highway infrastructure nationwide. Kansas received \$348 million in highway funding, \$38 million of which was designated for the Kansas City and Wichita metropolitan areas. The Department moved quickly to award projects and obligate the stimulus funds. As of July 2011, 152 ARRA highway projects were under contract and work has been completed on 125 of them.

## Conclusion

There is a significant amount of federal funding uncertainty at this time. 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 for federally-funded projects. Reliability in receiving federal funds is imperative for the Department's future planning purposes.

## **Future financial planning and budgetary outlook**

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

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

Expenditures for T-Works are estimated to be \$16.0 billion, including construction expenditures estimated to be \$7.0 billion. The T-Works program began in FY 2011, as such, there are some resulting revenues and expenditures variations from FY 2010.

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

## **Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its CAFR for the fiscal year ended June 30, 2010. This was the 23<sup>rd</sup> consecutive year that the Department has achieved this prestigious award. In order to be awarded a Certificate of

Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

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

**Other Information**

This information is available in alternative accessible formats. To obtain an alternative format, contact the Kansas Department of Transportation, Office of Transportation Information, Dwight D. Eisenhower State Office Building, Topeka, Kansas, 66603-3754 or phone (785) 296-3585 (Voice) or 711 for Hearing impaired service.

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

Sincerely,



Barbara W. Rankin  
Acting Secretary of Transportation

**KANSAS DEPARTMENT OF TRANSPORTATION**

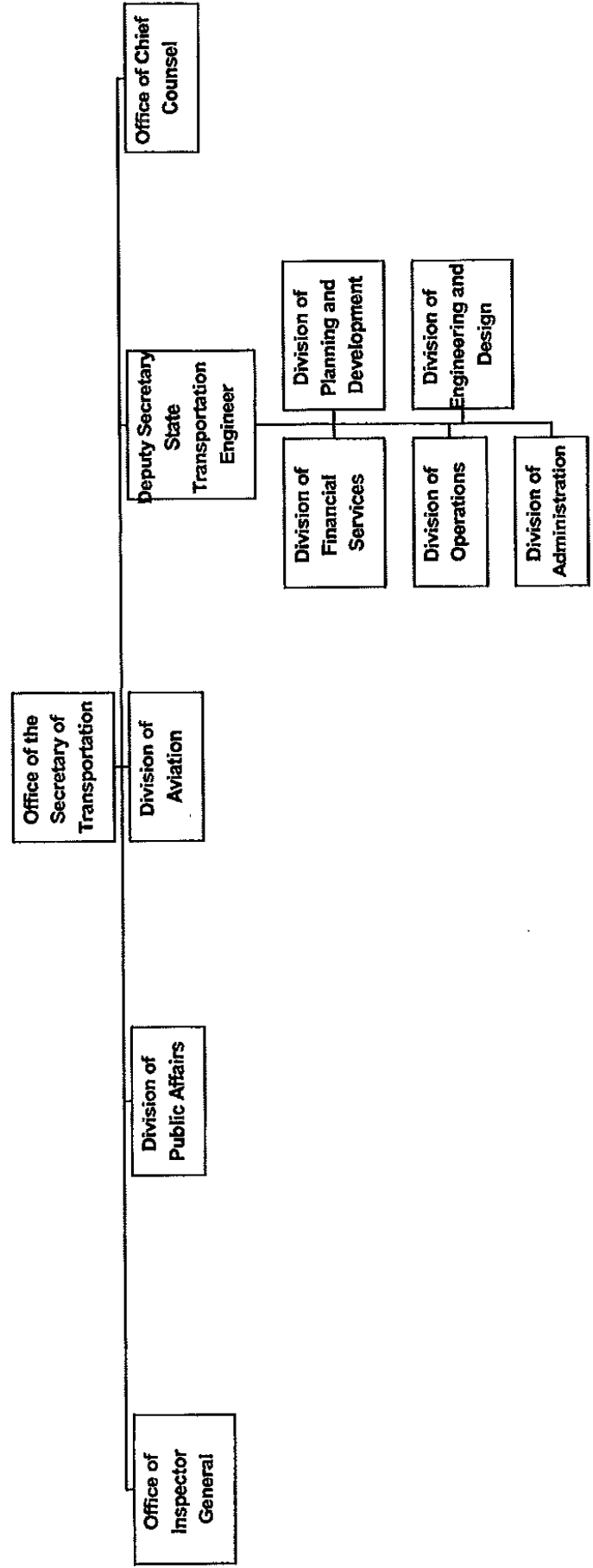
**LIST OF PRINCIPAL OFFICIALS**

**Comprehensive Annual Financial Report  
As of January 30, 2012**

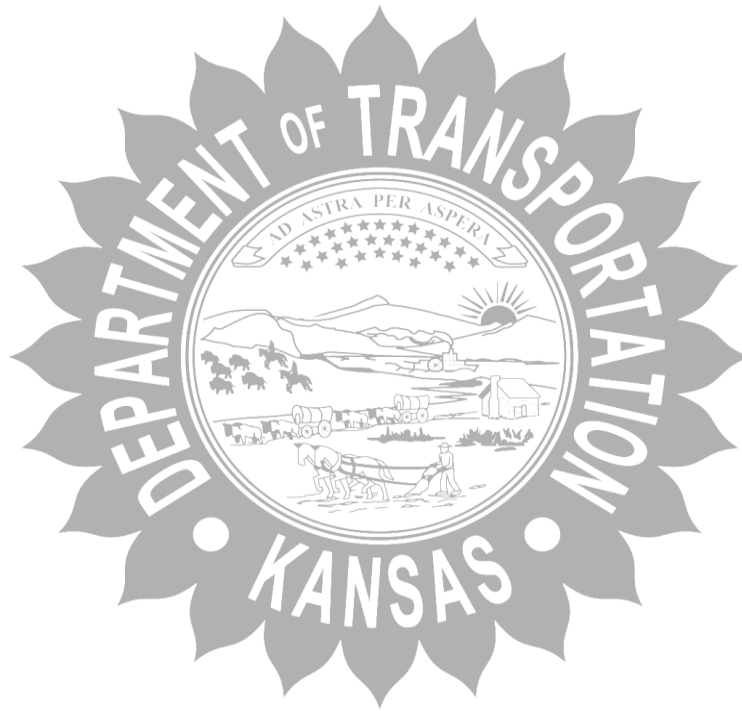
**EXECUTIVE STAFF**

<u>TITLE</u>	<u>NAME</u>
Acting Secretary of Transportation	Barbara W. Rankin
Deputy Secretary and State Transportation Engineer	Jerry Younger
Special Assistant to the Secretary and Director, Division of Public Affairs	Sally Lunsford
Acting Chief Counsel	Gelene Savage
Director, Division of Planning and Development	Chris Herrick
Director, Division of Aviation	Ed Young
Director, Division of Administration	Robert A. Stacks
Director, Division of Financial Services	Marcia Ferrill
Acting Inspector General	Bruce Burditt
Director, Division of Operations	Catherine Patrick
Director, Division of Engineering and Design	Dan Scherschligt

# Kansas Department of Transportation



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## **FINANCIAL SECTION**

**Comprehensive Annual Financial Report  
For the fiscal year ended June 30, 2011**

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## Independent Auditors' Report

The Acting Secretary of Transportation  
State of Kansas

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 (the Department), as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements, as listed in the accompanying table of contents. These financial statements are the responsibility of the Department's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Kansas that is attributable to the transactions 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, 2011, and the changes in its financial position, cash flows and budgetary comparisons for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the State Highway Fund (the Department's General Fund) for the year then ended in conformity with accounting principles generally accepted in the United States of America.

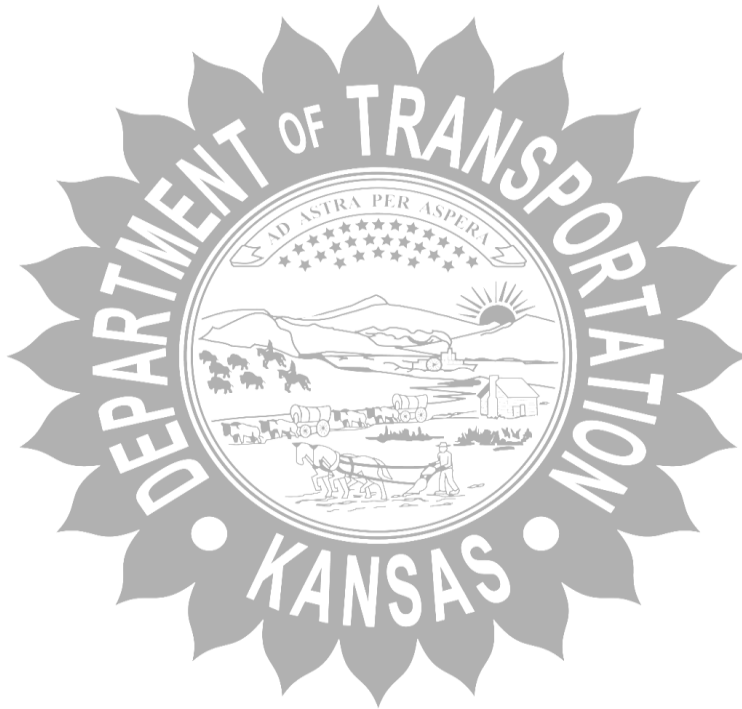
In accordance with Government Auditing Standards, we have also issued a report, dated January 30, 2012 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis, information on infrastructure assets on the modified approach and the schedule of funding progress for other post employment benefits, as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining and individual fund financial statements and schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*RubinBrown LLP*

Overland Park, Kansas  
January 30, 2012



## Management's Discussion and Analysis

**Kansas Department of Transportation  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2011  
(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, 2011, the Department's assets exceeded its liabilities by \$10,621,539. Of this amount \$684,756 is unrestricted and is available to use to meet future obligations to citizens and creditors.
- The Department's net assets increased by \$250,270 during the year.
- At the end of the fiscal year the combined ending fund balances of the Department's governmental funds was \$25,252.
- The ending fund balances of governmental funds increased by \$304,964.

**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 KDOT'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 KDOT'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 Assets presents information on all of the Department's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the last fiscal year. All changes in net assets 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 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). KDOT'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 operations of the transportation and communication system revolving funds.

### **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 demonstrate compliance with finance 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.

KDOT 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 only 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 KDOT'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 KDOT'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 Assets**

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

	Summary of Net Assets					
	Governmental Activities		Business-type Activities		Total	
	6/30/2011	6/30/2010	6/30/2011	6/30/2010	6/30/2011	6/30/2010
Current and other assets	\$ 836,767	\$ 511,766	\$ 145,860	\$ 127,870	\$ 982,627	\$ 639,636
Capital assets	11,723,055	11,568,535	-	-	11,723,055	11,568,535
Total assets	12,559,822	12,080,301	145,860	127,870	12,705,682	12,208,171
Less liabilities:						
Other liabilities	890,934	897,055	12,399	12,892	903,333	909,947
Long-term liabilities	1,107,053	845,571	73,757	81,384	1,180,810	926,955
Total liabilities	1,997,987	1,742,626	86,156	94,276	2,084,143	1,836,902
Net assets:						
Invested in capital assets, net of related debt	9,921,506	9,985,914	-	-	9,921,506	9,985,914
Restricted	-	76,632	15,277	15,279	15,277	91,911
Unrestricted	640,329	275,129	44,427	18,315	684,756	293,444
Total net assets	\$ 10,561,835	\$ 10,337,675	\$ 59,704	\$ 33,594	\$ 10,621,539	\$ 10,371,269

As noted earlier, over time, total net assets may serve as a useful indicator of a government's financial position. At the end of the year, total net assets were \$10,621,539, an increase of \$250,270.

The vast majority of KDOT's net assets reflect 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.

Management's Discussion and Analysis

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

The decrease in net assets invested in capital assets, net of related debt reflects both the activities of constructing new highways and the net increase of capital-related debt (both long-term and short-term) as additional bonds were issued in the current year. Unrestricted net assets increased due to favorable operating results in the current year.

**Changes in Net Assets**

The following table summarizes and compares governmental and business-type activities for the years ended June 30, 2011 and 2010.

	Changes in Net Assets					
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues</b>						
Program revenues						
Capital grants	\$ 386,427	\$ 302,685	\$ -	\$ -	\$ 386,427	\$ 302,685
Operating grants	285,940	212,523	-	-	285,940	212,523
Vehicle registrations and drivers' licenses	178,492	175,291	-	-	178,492	175,291
Charges for service & other	11,423	7,654	3,726	3,617	15,149	11,271
General revenues						
Motor fuels tax	284,022	281,314	-	-	284,022	281,314
Sales and use taxes	299,263	258,721	-	-	299,263	258,721
Investment earnings	9,179	5,293	813	910	9,992	6,203
Unrestricted appropriations from other state funds	3,478	2,597	-	-	3,478	2,597
<b>Total revenue</b>	<u>1,458,224</u>	<u>1,246,078</u>	<u>4,539</u>	<u>4,527</u>	<u>1,462,763</u>	<u>1,250,605</u>
<b>Expenses</b>						
Maintenance and preservation	589,587	223,473	-	-	589,587	223,473
Communications system	13,412	18,630	533	1,452	13,945	20,082
Local support	192,813	194,261	-	-	192,813	194,261
General government	331,416	352,490	-	-	331,416	352,490
Rail, air and public transportation	19,684	14,222	-	-	19,684	14,222
Interest	62,152	70,165	-	-	62,152	70,165
Transportation revolving fund	-	-	2,896	3,109	2,896	3,109
<b>Total expenses</b>	<u>1,209,064</u>	<u>873,241</u>	<u>3,429</u>	<u>4,561</u>	<u>1,212,493</u>	<u>877,802</u>
<b>Increase in net assets before transfers</b>	249,160	372,837	1,110	(34)	250,270	372,803
Transfers	(25,000)	(5,032)	25,000	-	-	(5,032)
<b>Change in net assets</b>	224,160	367,805	26,110	(34)	250,270	367,771
<b>Net assets - beginning</b>	10,337,675	9,969,870	33,594	33,628	10,371,269	10,003,498
<b>Net assets - ending</b>	<u>\$ 10,561,835</u>	<u>\$ 10,337,675</u>	<u>\$ 59,704</u>	<u>\$ 33,594</u>	<u>\$ 10,621,539</u>	<u>\$ 10,371,269</u>

As a result of the activities of the Department during the past year net assets increased \$250,270. Overall revenues increased by 17 percent and expenses increased by 38 percent.

Governmental activities

Revenues for the year increased \$212,146 or about 17 percent. This increase was due primarily to an increase in intergovernmental revenues received as partial reimbursement of the Department's maintenance and preservation activities. In addition, the Department's share of the State's sales and use tax revenues increased by \$40,542. Other sources of revenue available to the Department's governmental funds remained static or fluctuated only slightly.

Expenses for the year increased \$335,823 or about 38 percent. The most significant increase was for maintenance and preservation activities. Expenditures for the types of projects that are considered capital additions decreased in 2011 compared to 2010 causing the remaining expenses for maintenance and preservation to reflect an increase.

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 increased \$12. Expenses for these funds decreased by \$1,132 or about 25 percent.

INDIVIDUAL FUND ANALYSIS

As noted earlier, the Department uses fund accounting to 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, 2011 and June 30, 2010.

Management's Discussion and Analysis

<b>Comparative Summary of Governmental Funds' Balance Sheets</b>				
	<u>6/30/2011</u>	<u>6/30/2010</u>	<u>Change</u>	<u>% Change</u>
<b>Assets</b>				
Cash and investments	\$ 665,241	\$ 342,563	\$ 322,678	94
Receivables	85,790	93,535	(7,745)	(8)
Inventories	23,968	24,728	(760)	(3)
Long-term receivable	<u>5,545</u>	<u>3,530</u>	<u>2,015</u>	57
Total assets	<u>\$ 780,544</u>	<u>\$ 464,356</u>	<u>\$ 316,188</u>	68
<b>Liabilities</b>				
Current liabilities	\$ 78,021	\$ 31,191	\$ 46,830	150
Bonds payable on demand	641,725	664,315	(22,590)	(3)
Deferred revenue	<u>35,546</u>	<u>48,562</u>	<u>(13,016)</u>	(27)
Total liabilities	<u>755,292</u>	<u>744,068</u>	<u>11,224</u>	2
<b>Fund balances</b>				
Nonspendable:				
Materials & supplies	23,968	24,728	(760)	(3)
Long-term receivable	5,545	3,530	2,015	57
Assigned to:				
Transportation	-	-	-	-
Debt Service	106,038	98,841	7,197	7
Other purposes	20,357	25,078	(4,721)	(19)
Unassigned	<u>(130,656)</u>	<u>(431,889)</u>	<u>301,233</u>	(70)
Total fund balances	<u>25,252</u>	<u>(279,712)</u>	<u>304,964</u>	(109)
Total liabilities and fund balances	<u>\$ 780,544</u>	<u>\$ 464,356</u>	<u>\$ 316,188</u>	68

Total fund balances for all governmental funds increased by \$304,964 during the year. This increase results from greater increases in assets than increases in liabilities. The increase in assets was primarily the result of an increase in cash and investments which includes bond proceeds in the Capital Project Fund. The increase in liabilities was primarily the result of an increase in current liabilities in conjunction with T-Works and the letting of more construction projects. Since long-term debt is not recorded in the fund level statements, the transaction improved the Departments short-term financial outlook with a \$284,851 increase to the Capital Projects Funds Unassigned Fund Balance.

The General Fund balance increased by \$15,622 during the year. This increase results from greater increases in assets than increases in liabilities. The General Fund assets increased primarily due to transfers from the Capital Projects Fund. Current liabilities increased in conjunction with T-Works and the letting of more construction projects.

According to GASB 54, only encumbered amounts for specific purposes for which resources already have been restricted, committed, or assigned are reflected in the balance sheet. Encumbrances are not included in the Unassigned Fund Balance. The significant negative unassigned balance of the Capital Projects Fund is a result of aggregate bonds payable on demand exceeding cash and investment in the fund. Since the bonds are payable on demand, they are required to be reported as a current liability in the capital projects fund. The decrease is the result of the cash and investments on long-term debt issued during the year.

Management's Discussion and Analysis

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

<b>Comparative Statement of Governmental Funds Revenues, Expenditures and Other Financing Sources (Uses)</b>				
	FYE <u>6/30/2011</u>	FYE <u>6/30/2010</u>	<b>Change</b>	<b>% Change</b>
<b>Revenues</b>				
Motor fuel taxes	\$ 283,981	\$ 280,376	\$ 3,605	1
Vehicle registrations and permits	178,492	175,291	3,201	2
Operating grants	288,114	203,908	84,206	41
Capital grants	387,953	304,557	83,396	27
Sales and use taxes	295,989	259,899	36,090	14
Investment earnings	2,664	4,698	(2,034)	(43)
Other	6,840	9,615	(2,775)	(29)
Appropriations from other state funds	3,478	2,598	880	34
Total revenues	<u>1,447,511</u>	<u>1,240,942</u>	<u>206,569</u>	17
<b>Expenditures</b>				
Current operating:				
Maintenance	133,381	132,535	846	1
Preservation	235,091	145,846	89,245	61
Modernization	130,798	235,031	(104,233)	(44)
Expansion and Enhancement	238,329	183,348	54,981	30
Communications system	9,135	13,398	(4,263)	(32)
Local support	192,813	194,199	(1,386)	(1)
Rail, air and public transportation	19,682	14,198	5,484	39
Management	63,103	69,473	(6,370)	(9)
Distributions to other state funds	261,759	286,447	(24,688)	(9)
Debt Service:				
Principal	82,295	78,530	3,765	5
Interest and fees	75,401	69,185	6,216	9
Total expenditures	<u>1,441,787</u>	<u>1,422,190</u>	<u>19,597</u>	1
Excess (deficiency) of revenues over expenditures	<u>5,724</u>	<u>(181,248)</u>	<u>186,972</u>	(103)
<b>Other financing sources (uses)</b>				
Issuance of debt	325,000	176,680	148,320	
Premium on issuance of debt	-	24,452	(24,452)	
Transfers-in	285,332	200,624	84,708	42
Transfers-out	<u>(310,332)</u>	<u>(205,656)</u>	<u>(104,676)</u>	51
Total other financing sources (uses)	<u>300,000</u>	<u>196,100</u>	<u>103,900</u>	53
Net change in fund balances	<u>\$ 305,724</u>	<u>\$ 14,852</u>	<u>\$ 290,872</u>	1,958

Revenues for the year increased by \$206,569 or 17 percent and expenditures increased by \$19,597 or 1 percent. As discussed earlier, the increase in revenues was a net of increased intergovernmental revenues and increases in the Department's share of State sales and use taxes. The increase in expenditures was a result of increased spending on road projects.

### **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 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 2010 legislature) projected a budgetary surplus of \$136,307. The final budget (adopted by the 2011 legislature) projected a budgetary deficit of \$28,026. These budgetary deficits are covered by beginning reserves held by the Fund.

Significant differences between the original and final budget include:

- The budgets for preservation and capital improvements without legal limits were increased to more accurately reflect the level of activity being accomplished by the Department.
- The budget for transfers from other state funds was increased to reflect bond proceeds for the 2010A 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 Footnote 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:

- Intergovernmental revenues reflect Federal Aid receipts that exceed estimates due to a more aggressive use of the advanced construction funding option that is available from the Federal Highway Administration.
- The budget without legal limits for capital improvements includes construction of State projects. Some of the projects included in this budget item were postponed in FY 2010 due to short-term cash flow concerns.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2011, the total investment in capital assets was \$11,723,055. The following table summarizes those assets.

Management's Discussion and Analysis

Summary of Capital Assets  
(net of depreciation)

	Governmental Activities	
	6/30/2011	6/30/2010
Land (excluding right of way)	\$ 5,258	\$ 5,247
Right of way	177,963	174,559
Total land	<u>183,221</u>	<u>179,806</u>
Roadways	8,393,936	8,174,101
Bridges	1,870,798	1,835,409
Construction in progress	<u>1,034,784</u>	<u>1,149,842</u>
Total infrastructure and related construction in progress	<u>11,299,518</u>	<u>11,159,352</u>
Buildings	46,307	46,231
Machinery and equipment	194,009	183,146
Total buildings and equipment	<u>240,316</u>	<u>229,377</u>
Total capital assets	<u>\$ 11,723,055</u>	<u>\$ 11,568,535</u>

The above amounts are stated at cost or estimated historical cost net of depreciation on those assets being depreciated (for additional information related to capital assets see Footnote 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 \$1,783,355 and the Department had total bonds outstanding of \$1,863,680. This includes \$617,875 of bonds payable on demand and \$117,448 par value of bonds due in the next fiscal year. As a result of the statutory change limiting bond by the 18% debt service cap, we have a fluid debt ceiling.

During the year the Department issued \$325,000 Highway Revenue Refunding Bonds Series 2010A. These 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. In The ratings assigned to KDOT'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.
- 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.

The condition of these systems is assessed using a Pavement Management System which measures the condition of the pavement surface. 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. Management has defined a goal and a minimum acceptable performance level for both the Interstate and Non-interstate systems.

The current stated goal 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. With this goal in place, a less stringent performance level has been identified as a minimum acceptable performance level. This minimum acceptable performance level for the interstate system is 80% or more in PL-1. The latest reported measurements of performance indicate that 97 percent of the Interstate roads are at PL-1. The stated goal for non-interstate roads is 80% in PL-1, with an acceptable performance level of 75%. The latest reported measurements indicate 86 percent of the non-interstate roads are at PL-1. These measurements were made in the Spring of 2010. Since it is the goal of the Department to maintain these assets above the minimum acceptable performance level, actual maintenance and preservation expenditures typically will be greater than the estimated expenditures needed to maintain the system at the minimum acceptable level.

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, which, in turn, are aggregated to establish a health index for the entire system.

The current stated goal is to maintain these assets at an overall health index of 90. With this goal in place, a less stringent health index of 80 has been identified as a minimum acceptable performance level. The latest evaluation, based on inspections made throughout the year, indicates a current health index of 94.

### ECONOMIC AND OTHER FACTORS

Fiscal year 2011 was the beginning 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 and an increase in the Department's share of the State sales tax. The increases will, in aggregate, be fully 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).



## **Basic Financial Statements**

### Government-wide Financial Statements

Kansas Department of Transportation  
Statement of Net Assets  
June 30, 2011  
(amounts in thousands)

	Governmental Activities	Business- type Activities	Total
<b>ASSETS</b>			
Cash:			
Unrestricted	\$ 281,055	\$ 2,289	\$ 283,344
Restricted	341,225	32,148	373,373
Investments, at fair value	42,961	15,277	58,238
Receivables	85,706	10,121	95,827
Materials and supplies	23,968	0	23,968
Deferred charges	53,627	690	54,317
Derivative - investment instrument	2,680	0	2,680
Other long-term receivables	5,545	85,335	90,880
Capital assets:			
Land, including right of way	183,221	0	183,221
Infrastructure (including construction in progress)	11,299,518	0	11,299,518
Buildings and improvements (net of accumulated depreciation)	46,307	0	46,307
Road, office and shop equipment (net of accumulated depreciation)	194,009	0	194,009
Total assets	<u>12,559,822</u>	<u>145,860</u>	<u>12,705,682</u>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	113,267	914	114,181
Bonds payable on demand	641,725	0	641,725
Unearned revenues and other credits	13,740	3,749	17,489
Internal balances	(85)	85	0
Compensated absences:			
Due within one year	7,533	0	7,533
Due in more than one year	1,618	0	1,618
Bonds payable:			
Due within one year	65,145	7,478	72,623
Due in more than one year	1,094,679	73,757	1,168,436
Arbitrage rebate liability	0	173	173
Borrowing payable	2,733	0	2,733
Derivative - fair value hedge	46,876	0	46,876
Other post employment benefits obligation	10,756	0	10,756
Total liabilities	<u>1,997,987</u>	<u>86,156</u>	<u>2,084,143</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	9,921,506	0	9,921,506
Restricted for:			
Debt service	0	15,277	15,277
Unrestricted	640,329	44,427	684,756
Total net assets	<u>\$ 10,561,835</u>	<u>\$ 59,704</u>	<u>\$ 10,621,539</u>

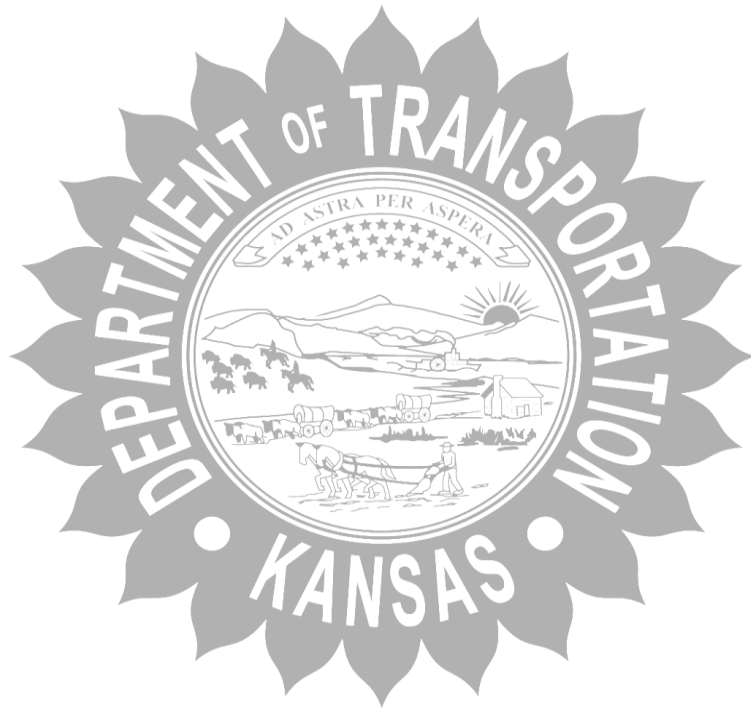
The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation  
Statement of Activities  
For the Year Ended June 30, 2011  
(amounts in thousands)

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services		Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
		Vehicle Registrations and Drivers' Licenses	Other					
<b>Governmental activities</b>								
Maintenance and preservation	\$ 589,587	\$ 0	\$ 0	\$ 158,689	\$ 386,427	\$ (44,471)	\$ 0	\$ (44,471)
Communications system	13,412	0	0	0	0	(13,412)	0	(13,412)
Local support	192,813	0	0	119,025	0	(73,788)	0	(73,788)
General government	331,416	178,492	11,423	8,226	0	(133,275)	0	(133,275)
Rail, air and public transportation	19,684	0	0	0	0	(19,684)	0	(19,684)
Interest on long-term debt	62,152	0	0	0	0	(62,152)	0	(62,152)
Total governmental activities	<u>1,209,064</u>	<u>178,492</u>	<u>11,423</u>	<u>285,940</u>	<u>386,427</u>	<u>(346,782)</u>	<u>0</u>	<u>(346,782)</u>
<b>Business-type activities</b>								
Transportation revolving fund	2,896	0	3,200	0	0	0	304	304
Communications system	533	0	526	0	0	0	(7)	(7)
Total business-type activities	<u>3,429</u>	<u>0</u>	<u>3,726</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>297</u>	<u>297</u>
<b>Total</b>	<b><u>\$ 1,212,493</u></b>	<b><u>\$ 178,492</u></b>	<b><u>\$ 15,149</u></b>	<b><u>\$ 285,940</u></b>	<b><u>\$ 386,427</u></b>	<b><u>(346,782)</u></b>	<b><u>297</u></b>	<b><u>(346,485)</u></b>
<b>General revenues</b>								
Motor fuel taxes						284,022	0	284,022
Sales and use taxes						299,263	0	299,263
Investment earnings						9,179	813	9,992
Unrestricted appropriations from other state funds						3,478	0	3,478
Transfers						(25,000)	25,000	0
Total general revenues						<u>570,942</u>	<u>25,813</u>	<u>596,755</u>
Change in net assets						224,160	26,110	250,270
Net assets - beginning of year						10,337,675	33,594	10,371,269
Net assets - ending						<u>\$ 10,561,835</u>	<u>\$ 59,704</u>	<u>\$ 10,621,539</u>

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

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## **Basic Financial Statements**

### Fund Financial Statements

Kansas Department of Transportation  
Balance Sheet  
Governmental Funds  
June 30, 2011  
(amounts in thousands)

	State Highway Fund (agency's general fund)	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash:					
Unrestricted	\$ 260,237	\$ 0	\$ 0	\$ 20,818	\$ 281,055
Restricted	12,200	106,741	222,284	0	341,225
Investments, at fair value	3,000	0	39,961	0	42,961
Receivables:					
Federal aid	13,422	0	0	67	13,489
Accrued taxes	56,273	0	0	0	56,273
Local governments	14,579	0	0	0	14,579
Accrued interest	18	275	16	0	309
Other KDOT funds	85	0	0	0	85
Loans and other	69	0	0	986	1,055
Materials and supplies	23,968	0	0	0	23,968
Long-term receivable:					
Loans and other	0	0	0	5,545	5,545
Total assets	<u>\$ 383,851</u>	<u>\$ 107,016</u>	<u>\$ 262,261</u>	<u>\$ 27,416</u>	<u>\$ 780,544</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Vouchers payable	\$ 64,356	\$ 978	\$ 0	\$ 1,511	\$ 66,845
Retainage payable	2,235	0	0	0	2,235
Accrued salaries and wages	8,938	0	0	3	8,941
Bonds payable on demand	0	0	641,725	0	641,725
Deferred revenue	35,546	0	0	0	35,546
Total liabilities	<u>111,075</u>	<u>978</u>	<u>641,725</u>	<u>1,514</u>	<u>755,292</u>
Fund Balances:					
Nonspendable:					
Materials & supplies	23,968	0	0	0	23,968
Long-term receivable	0	0	0	5,545	5,545
Assigned to:					
Debt Service	0	106,038	0	0	106,038
Other Purposes	0	0	0	20,357	20,357
Unassigned	248,808	0	(379,464)	0	(130,656)
Total fund balances	<u>272,776</u>	<u>106,038</u>	<u>(379,464)</u>	<u>25,902</u>	<u>25,252</u>
Total liabilities and fund balances	<u>\$ 383,851</u>	<u>\$ 107,016</u>	<u>\$ 262,261</u>	<u>\$ 27,416</u>	<u>\$ 780,544</u>

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

Kansas Department of Transportation  
 Reconciliation of the Balance Sheet of the Governmental Funds  
 to the Statement of Net Assets  
 June 30, 2011  
 (amounts in thousands)

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<b>Total fund balances - Governmental Funds</b>	\$	25,252
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Amounts reported for governmental activities in the statement of net assets 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	\$	183,221	
Infrastructure (including construction in progress)		11,299,518	
Other capital assets net of depreciation		<u>240,316</u>	11,723,055

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, deferred refundings, and accrued interest)	\$	(1,129,992)	
Claims		(11,452)	
Compensated absences		(9,151)	
Derivative instruments		(44,196)	
Other post employment benefits obligation		<u>(10,756)</u>	(1,205,547)

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, net of amortization of deferred swap premium

19,075

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<b>Net assets of Governmental Activities</b>	<b>\$</b>	<b><u>10,561,835</u></b>
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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, 2011  
(amounts in thousands)

	State Highway Fund (agency's general fund)	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Motor fuel taxes	\$ 283,981	\$ 0	\$ 0	\$ 0	\$ 283,981
Vehicle registrations and permits	178,492	0	0	0	178,492
Operating grants	282,789	0	0	5,325	288,114
Capital grants	387,953	0	0	0	387,953
Sales and use taxes	295,989	0	0	0	295,989
Investment earnings	1,082	329	1,115	138	2,664
Other	4,754	0	0	2,086	6,840
Appropriations from other state funds	2,478	0	0	1,000	3,478
Total revenues	<u>1,437,518</u>	<u>329</u>	<u>1,115</u>	<u>8,549</u>	<u>1,447,511</u>
<b>Expenditures</b>					
Current Operating:					
Maintenance	131,900	0	0	1,481	133,381
Preservation	235,091	0	0	0	235,091
Modernization	130,798	0	0	0	130,798
Expansion and enhancement	238,329	0	0	0	238,329
Communication system	7,028	0	0	2,107	9,135
Local Support	192,511	0	0	302	192,813
Rail, air and public transportation	0	0	0	19,682	19,682
Management	62,552	0	0	551	63,103
Distributions to other state funds	261,759	0	0	0	261,759
Debt Service:					
Principal	0	82,295	0	0	82,295
Interest and fees	0	75,401	0	0	75,401
Total expenditures	<u>1,259,968</u>	<u>157,696</u>	<u>0</u>	<u>24,123</u>	<u>1,441,787</u>
Excess (deficiency) of revenues over (under) expenditures	<u>177,550</u>	<u>(157,367)</u>	<u>1,115</u>	<u>(15,574)</u>	<u>5,724</u>
<b>Other financing sources (uses)</b>					
Issuance of debt	0	0	325,000	0	325,000
Transfers-in	61,720	187,154	22,590	13,868	285,332
Transfers-out	<u>(222,888)</u>	<u>(22,590)</u>	<u>(63,854)</u>	<u>(1,000)</u>	<u>(310,332)</u>
Total other financing sources (uses)	<u>(161,168)</u>	<u>164,564</u>	<u>283,736</u>	<u>12,868</u>	<u>300,000</u>
Net change in fund balances	16,382	7,197	284,851	(2,706)	305,724
Fund balances - beginning of year	257,154	98,841	(664,315)	28,608	(279,712)
Change in reserve for materials and supplies	<u>(760)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(760)</u>
Fund balances - end of year	<u>\$ 272,776</u>	<u>\$ 106,038</u>	<u>\$ (379,464)</u>	<u>\$ 25,902</u>	<u>\$ 25,252</u>

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

Kansas Department of Transportation  
 Reconciliation of the Statement of Revenues, Expenditures  
 and Changes in Fund Balances of the Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2011  
 (amounts in thousands)

**Net change in fund balances - governmental funds** \$ 305,724

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	\$ 140,167	
Cost of acquisition or construction of other capital assets	45,670	
Depreciation expense	<u>(28,675)</u>	157,162

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. (2,640)

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. Neither of these transactions, however, has any effect on the net assets 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	\$ (325,000)	
Bond principal payments	82,295	
Amortization of deferred charges and other bond related costs	<u>2,600</u>	(240,105)

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. 4,407

Revenues recorded on the Statement of Activities that do not provide current financial resources are not recorded in governmental funds. (388)

**Change in net assets of governmental activities** \$ 224,160

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, 2011  
(amounts in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Motor fuel taxes	\$ 296,603	\$ 281,417	\$ 287,203	\$ 5,786
Vehicle registrations and permits	174,438	177,408	178,638	1,230
Intergovernmental	515,121	559,364	664,081	104,717
Sales and use taxes	277,194	289,523	292,782	3,259
Investment earnings	6,556	13,603	2,193	(11,410)
Other	4,798	8,115	19,508	11,393
Transfers from other state funds	6,481	204,464	64,237	(140,227)
Total revenues	1,281,191	1,533,894	1,508,642	(25,252)
<b>Expenditures, with legal limits:</b>				
Current operating:				
Maintenance	140,236	143,304	139,219	4,085
Construction	60,978	60,205	56,448	3,757
Local support	8,134	8,214	7,384	830
Management	61,625	59,250	56,589	2,661
Capital improvements	11,762	11,748	8,459	3,289
Transfers to other state funds	257,867	257,871	257,871	0
Expenditures with legal limits	540,602	540,592	525,970	14,622
<b>Expenditures, without legal limits:</b>				
Current operating:				
Preservation	153,434	368,577	370,416	(1,839)
Local support	16,878	17,265	24,288	(7,023)
Management	4,124	5,261	13,135	(7,874)
Capital improvements	250,472	374,362	446,283	(71,920)
Transfers to other state funds	1,797	1,797	1,785	12
Expenditures without legal limits	426,705	767,263	855,907	(88,644)
Total expenditures	967,307	1,307,855	1,381,877	(74,022)
Excess (deficiency) of revenues over expenditures	313,884	226,039	126,765	(99,274)
<b>Other financing sources (uses):</b>				
Transfers-in	0	0	0	0
Transfers-out	(177,577)	(254,065)	(223,931)	30,134
Total other financing sources (uses)	(177,577)	(254,065)	(223,931)	30,134
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ 136,307	\$ (28,026)	\$ (97,166)	\$ (69,140)

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

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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, 2011  
 (amounts in thousands)

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Excess (deficiency) of revenues and other sources over expenditures and other uses - Budgetary Basis	\$ (97,166)
Budgetary basis revenues and transfers from other state funds are adjusted to GAAP basis	(61,226)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	615,546
Expenditures on prior year encumbrances are not reported for budgetary reporting	0
Budgetary expenditures and transfers to other state funds have been adjusted for GAAP basis	<u>(440,772)</u>
Net Change in Fund Balance as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u><u>\$ 16,382</u></u>

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

Kansas Department of Transportation  
Statement of Net Assets  
Proprietary Funds  
June 30, 2011  
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
<b>ASSETS</b>			
Current Assets:			
Cash:			
Unrestricted	\$ 0	\$ 2,289	\$ 2,289
Restricted	32,148	0	32,148
Interest and other receivables	1,510	0	1,510
Current portion of loans and leases receivable	6,626	1,985	8,611
Total current assets	<u>40,284</u>	<u>4,274</u>	<u>44,558</u>
Noncurrent assets			
Loans and leases receivable	72,450	12,885	85,335
Investments	15,277	0	15,277
Deferred charges	628	62	690
Total noncurrent assets	<u>88,355</u>	<u>12,947</u>	<u>101,302</u>
Total assets	<u>128,639</u>	<u>17,221</u>	<u>145,860</u>
<b>LIABILITIES</b>			
Current liabilities:			
Vouchers payable	99	0	99
Interest payable	695	120	815
Due to other KDOT funds	0	85	85
Current portion of bonds payable	6,225	1,253	7,478
Total current liabilities	<u>7,019</u>	<u>1,458</u>	<u>8,477</u>
Noncurrent liabilities			
Bonds payable	64,595	9,162	73,757
Arbitrage rebate liability	173	0	173
Deferred lease revenue	0	3,749	3,749
Total noncurrent liabilities	<u>64,768</u>	<u>12,911</u>	<u>77,679</u>
Total liabilities	<u>71,787</u>	<u>14,369</u>	<u>86,156</u>
<b>NET ASSETS</b>			
Restricted for debt service and bond reserves	15,277	0	15,277
Unrestricted	41,575	2,852	44,427
Total net assets	<u>\$ 56,852</u>	<u>\$ 2,852</u>	<u>\$ 59,704</u>

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

Kansas Department of Transportation  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2011  
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
<b>Operating revenues:</b>			
Interest on loans	\$ 2,996	\$ 0	\$ 2,996
Service fees	204	36	240
Lease income	0	490	490
Total operating revenues	<u>3,200</u>	<u>526</u>	<u>3,726</u>
<b>Operating expenses:</b>			
Professional fees	36	20	56
Arbitrage rebate expense	88	0	88
Interest credit to lessees	0	2	2
Commodities	0	0	0
Total operating expenses	<u>124</u>	<u>22</u>	<u>146</u>
<b>Operating income</b>	<u>3,076</u>	<u>504</u>	<u>3,580</u>
<b>Nonoperating revenues (expenses):</b>			
Investment earnings	802	11	813
Amortization of premium (net)	56	(16)	40
Interest expense on bonds	(2,828)	(495)	(3,323)
Total nonoperating revenues (expenses)	<u>(1,970)</u>	<u>(500)</u>	<u>(2,470)</u>
<b>Transfers</b>			
Transfers in	25,000	0	25,000
Transfers out	0	0	0
Total transfers	<u>25,000</u>	<u>0</u>	<u>25,000</u>
<b>Change in Net Assets</b>	26,106	4	26,110
Total net assets - beginning	30,746	2,848	33,594
Total net assets - ending	<u>\$ 56,852</u>	<u>\$ 2,852</u>	<u>\$ 59,704</u>

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

Kansas Department of Transportation  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2011  
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
<b>Cash flows from operating activities:</b>			
Principal collections on loans	\$ 14,851	\$ 0	\$ 14,851
Interest on loans collected	3,066	0	3,066
Service fees collected	209	36	245
Collection on leases	0	1,949	1,949
Loan and lease advances	(3,990)	0	(3,990)
Payments for inventory	0	0	0
Proceeds from sale of inventory	0	0	0
Professional and contractual fees paid	(36)	(22)	(58)
Arbitrage expenses paid	(212)	0	(212)
Net cash provided by operating activities	<u>13,888</u>	<u>1,963</u>	<u>15,851</u>
<b>Cash flows from noncapital financing activities</b>			
Transfers	25,000	0	25,000
Debt service on bonds	(8,902)	(1,733)	(10,635)
Net cash provided by (used in) noncapital financing activities	<u>16,098</u>	<u>(1,733)</u>	<u>14,365</u>
<b>Cash flows from investing activities</b>			
Interest received on investments	804	46	850
Net cash provided by investing activities	<u>804</u>	<u>46</u>	<u>850</u>
Net increase in cash	30,790	276	31,066
Cash - beginning	1,358	2,013	3,371
Cash - ending	<u>\$ 32,148</u>	<u>\$ 2,289</u>	<u>\$ 34,437</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income	\$ 3,076	\$ 504	\$ 3,580
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in loans receivable	10,862	0	10,862
Change in receivable	74	0	74
Change in leases receivable	0	2,024	2,024
Change in deferred lease revenue	0	(565)	(565)
Change in vouchers payable	(124)	0	(124)
Change in inventory	0	0	0
Total adjustments	<u>10,812</u>	<u>1,459</u>	<u>12,271</u>
Net cash provided by operating activities	<u>\$ 13,888</u>	<u>\$ 1,963</u>	<u>\$ 15,851</u>

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

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Kansas Department of Transportation  
Statement of Fiduciary Net Assets  
Agency Funds  
June 30, 2011  
(amounts in thousands)

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**ASSETS**

Cash	\$ 35,804
Receivables	<u>12,133</u>
Total assets	<u>\$ 47,937</u>

**LIABILITIES**

Due to cities and counties	<u>\$ 47,937</u>
Total liabilities	<u>\$ 47,937</u>

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

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## **Basic Financial Statements**

### Notes to the Financial Statements

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# Kansas Department of Transportation

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**Kansas Department of Transportation**  
**Notes to the Financial Statements**  
**June 30, 2011**

(amounts expressed in thousands)

**Note 1. Summary of Significant Accounting Policies**

The financial statements of the Kansas Department of Transportation (the Department), 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. 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 assets 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.

The statement of net assets presents the Department's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are displayed in three categories: *invested in capital assets, net of related debt* 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 assets* 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 assets* which consist of net assets which do not meet the definitions of the two preceding categories. Unrestricted net assets 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 the Debt Service Fund are reported as major funds. The State Highway Fund is the Department'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 bond proceeds. The Debt Service Fund accounts for 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 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector guidance.

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 an expenditure is 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. Bond reserve funds required by bond covenants have been established in the Transportation Revolving Fund.

G. Capital assets – Capital assets which include land, buildings, equipment, infrastructure and construction in progress are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000 (amount 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. KDOT 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:

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

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

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

I. Long-term obligations – Long-term debt is reported as a liability on the government-wide and proprietary funds financial statements. In addition, bond premiums and discounts, 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 – In February 2009, the GASB issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. GASB 54 was created to enhance the usefulness of the fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. GASB 54 establishes 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 of reserved, designated, and unreserved have been replaced with five new classifications: nonspendable, restricted, committed, assigned, and unassigned.

*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.

*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.

*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.

#### Fund balance classification policies and procedures

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 a formal action. Committed fund balances do not lapse at year end.

For assigned fund balance, the Department is authorized to assign amounts to a specific purpose. The authorization to assign fund balances is delegated by the State Legislature to the Secretary.

For the classification of the fund balances, the Department considers restricted amounts to have been spent first when an expenditure is 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.

## **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 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. Allocations to the Departmental functions are made for internal control purposes only.

FY 2011 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), 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 (including claims), capital improvements for other than buildings, and certain transfers to other state funds.

Throughout the fiscal year, the Department updates budgetary data. Those budgets subject to legal limitations by the State Legislature 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, 2011, expenditures without legal limitations exceeded the budget established by the Department's internal budgeting process in the State Highway, Interagency Motor Vehicle Fuel Sales, and Public Use General Aviation Airport Development.

### **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 KDOT'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 percent 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, 2011, the Department's share in the State's common cash pool was \$692,488.

#### 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 KDOT's name.

The Standard & Poor's Corporation's ratings of the debt securities in KDOT's investment portfolio as of June 30, 2011 are summarized in the following table.

<u>Quality Rating</u>	<u>U. S. Government Securities</u>	<u>Government Agency Securities</u>	<u>Commercial Paper</u>	<u>Guaranteed Investment Contracts</u>	<u>Total</u>
AAA (Long-term)	\$ 2,916	\$ 84	\$ -	\$ -	\$ 3,000
A1 (Short-term)	-	-	39,961	-	39,961
Not rated	-	-	-	15,277	15,277
	<u>\$ 2,916</u>	<u>\$ 84</u>	<u>\$ 39,961</u>	<u>\$ 15,277</u>	<u>\$ 58,238</u>

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, 2011:

Commercial Paper	\$39,961
Guaranteed Investment Contracts	15,277
U. S. Treasury Strips	2,916

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 State Highway Fund as of June 30, 2011, and their weighted average maturity are summarized in the following schedule.

<u>Investment Type</u>	<u>Fair Value</u>	<u>WAM*</u>
U. S. Government		
Treasury strips	\$ 2,916	3.1
Agency Securites	84	5.8
Commercial Paper	39,961	0.3
	<u>\$ 42,961</u>	
Portfolio Weighted Average Maturity		
* - Weighted Average Maturity (years)		

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

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

**Note 4. Interfund Transactions**

A. From/To other state funds - As required by State law, the Department receives from and makes transfers to certain funds involving other State agencies. The following summarizes the FY 2011 appropriations from other state funds and distributions to other state funds.

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Notes to the Financial Statements

Appropriations from:	
Department of Administration (a)	\$ 1,401
Economic Development Initiatives Fund (b)	1,000
Other transfers	1,077
Appropriations to governmental funds from other state funds	\$ 3,478
Distributions to:	
Department of Revenue (c)	\$ 45,066
State General Fund (d)	185,803
Highway Patrol (e)	19,304
Department of Commerce (f)	5,000
Parks and Wildlife (g)	1,650
University of Kansas (h)	1,692
Kansas State University (h)	1,117
Other state funds	2,127
Total distributions to other state funds	\$ 261,759

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(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 State Economic Development Initiatives Fund as reimbursement of a transfer made to the North Central Kansas Air Passenger Service Support Fund in the prior year.

(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 fund the operations of the Kansas Highway Patrol (\$36,000), for debt service on the SGF bonds sold to finance highway projects (\$25,000) and to assist in alleviating budget shortfalls (\$124,803).

(e) Transfers to the Kansas Highway Patrol are for the purpose of financing the Motor Carrier Inspection Program and other highway safety programs.

(f) A transfer was made to the State Affordable Airfare Fund in the Department of Commerce.

(g) Transfers were made to the Department of Wildlife and Parks for the purpose of financing the Access Road Fund and the Bridge Maintenance Fund.

(h) 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 Coordinated Public Transportation Assistance Fund and the Public Use General Aviation Airport Development 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	\$ -	\$ 184,020	\$ -	\$ 13,868	\$ 25,000	\$ 222,888
Debt Service Fund	-	-	22,590	-	-	22,590
Capital Projects Fund	60,720	3,134	-	-	-	63,854
Proprietary Funds	-	-	-	-	-	-
Nonmajor governmental funds	1,000	-	-	-	-	1,000
	<u>\$ 61,720</u>	<u>\$ 187,154</u>	<u>\$ 22,590</u>	<u>\$ 13,868</u>	<u>\$ 25,000</u>	<u>\$ 310,332</u>

## Note 5. Capital Assets

Capital asset activity in the governmental funds for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increase	Decrease	Adjustment	Ending Balance
Capital assets not being depreciated:					
Land	\$ 179,806	\$ 3,453	\$ (38)	\$ -	\$ 183,221
Infrastructure	10,009,510	406,826	(151,602)	-	10,264,734
Construction in progress	1,149,842	255,554	(370,612)	-	1,034,784
Total capital assets not being depreciated	<u>11,339,158</u>	<u>665,833</u>	<u>(522,252)</u>	<u>-</u>	<u>11,482,739</u>
Capital assets being depreciated:					
Buildings	85,089	4,279	(394)	-	88,974
Machinery & equipment	341,545	35,462	(6,207)	(18,382)	352,418
Total capital assets being depreciated	<u>426,634</u>	<u>39,741</u>	<u>(6,601)</u>	<u>(18,382)</u>	<u>441,392</u>
Less accumulated depreciation:					
Buildings	(38,858)	(3,870)	61	-	(42,667)
Machinery & equipment	(158,399)	(24,805)	3,936	20,859	(158,409)
Total accumulated depreciation	<u>(197,257)</u>	<u>(28,675)</u>	<u>3,997</u>	<u>20,859</u>	<u>(201,076)</u>
Total capital assets being depreciated, net	<u>229,377</u>	<u>11,066</u>	<u>(2,604)</u>	<u>2,477</u>	<u>240,316</u>
Total capital assets, net	<u>\$ 11,568,535</u>	<u>\$ 676,899</u>	<u>\$ (524,856)</u>	<u>\$ 2,477</u>	<u>\$ 11,723,055</u>

Depreciation expense was charged to the functions as follows:

Maintenance and preservation	\$	19,132
Communications system		4,276
General government		5,267
	\$	<u>28,675</u>

**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 \$14,870 and deferred lease revenue at June 30, 2011, was \$3,749. Future minimum lease payments to be received are indicated in the following table.

Fiscal year ending	
June 30	
2012	\$ 1,985
2013	1,987
2014	1,985
2015	1,983
2016	1,981
2017-2021	4,772
2022-2026	155
2027-2031	10
2032-2036	10
2037	2
	<u>\$ 14,870</u>

**Note 7. Compensated Absences**

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

	Governmental Activities
Beginning balance	\$ 8,678
Retired	(7,112)
Increase in leave balance	7,585
Ending balance	<u>\$ 9,151</u>
Amount due within one year	<u>\$ 7,533</u>

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, 2011 is comprised of the following amounts:

Series	Final Scheduled Maturity	Original Principal Amount	6/30/2010 Balance	Additions	Reductions	Principal Amount Outstanding	Amount due Within One Year
<b>Governmental Funds</b>							
<b>State of Kansas Highway Revenue Bonds:</b>							
Series 1998, Refunding	09/01/14	\$ 189,195	\$ 31,360	\$ -	\$ 19,895	\$ 11,465	\$ -
Series 2002A, Refunding	09/01/11	199,600	33,525	-	21,835	11,690	11,690
Series 2002B, Refunding*	09/01/19	170,005	170,005	-	-	170,005	11,145
Series 2002C, Refunding*	09/01/19	150,000	150,000	-	-	150,000	9,830
Series 2002D, Refunding*	03/01/12	88,110	46,440	-	22,590	23,850	23,850
Series 2003A, Refunding	09/01/13	164,275	164,275	-	-	164,275	50,935
Series 2003B, Refunding	09/01/11	83,915	43,085	-	40,565	2,520	2,520
Series 2004A	03/01/23	250,000	250,000	-	-	250,000	-
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	-
Total before adjustments						1,783,355	109,970
Adjustments							
*Less - Bonds payable on demand						(641,725)	(44,825)
Less - Unamortized Deferred Refunding Difference						(18,480)	-
Net unamortized premium (discount)						36,674	-
Total after adjustments			\$ 1,563,240	\$ 325,000	\$ 104,885	\$ 1,159,824	\$ 65,145
<b>Proprietary Funds</b>							
<b>Transportation Revolving Fund</b>							
Series 2005-TR	10/01/25	\$ 32,690	\$ 26,375	\$ -	\$ 2,085	\$ 24,290	\$ 2,140
Series 2006-TR	12/21/06	24,755	19,890	-	1,765	18,125	1,805
Series 2009-TR	10/01/28	30,950	29,670	-	2,175	27,495	2,280
<b>Communications System Revolving Fund</b>							
Series 2008-CRF	04/01/23	14,200	11,613	-	1,198	10,415	1,253
Total before adjustments						\$ 80,325	
Adjustments							
Net unamortized premium (discount)						910	
Total after adjustments			\$ 87,548	\$ -	\$ 7,223	\$ 81,235	\$ 7,478

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 percent and maturities in fiscal years 2032 through 2036. After deducting the thirty-five percent Federal subsidy of interest, the net interest cost to the Department is 2.99 percent.

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.

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 daily, weekly or 28-day basis depending on their respective individual modes. During the year interest rates ranged 0.03% to 1.00% on the weekly adjustable bonds. There were no daily or 28-day adjustable bonds outstanding during the period.

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 of the bonds (indicated 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 March, 2012 to September, 2014 and require annual commitment fees ranging from .135 percent to .525 percent. However, since there is not a long-term financing option in place at June 30, 2011 for tendered bonds, these bonds have been recorded as obligations 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 percent 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
\$ 766,774	\$ 104,885	\$ 80,692	\$ 185,577	413 %

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.

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
<b>Governmental Funds</b>			
2012	\$ 109,970	\$ 69,590	\$ 179,560
2013	107,385	64,238	171,623
2014	103,235	59,789	163,024
2015	113,110	55,777	168,887
2016	95,545	52,298	147,843
2017 - 2021	489,135	202,432	691,567
2022 - 2026	439,975	86,622	526,597
2027 - 2031	-	48,545	48,545
2032 - 2036	325,000	24,852	349,852
	<u>\$ 1,783,355</u>	<u>\$ 664,143</u>	<u>\$ 2,447,498</u>
<b>Proprietary Funds</b>			
2012	\$ 7,478	\$ 3,153	\$ 10,631
2013	7,605	2,885	10,490
2014	7,471	2,601	10,072
2015	7,164	2,306	9,469
2016	6,925	2,027	8,952
2017 - 2021	25,964	6,321	32,285
2022 - 2026	15,269	2,066	17,335
2027 - 2028	2,449	88	2,537
	<u>\$ 80,325</u>	<u>\$ 21,447</u>	<u>\$ 101,772</u>

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, 2010, 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, 2011 are shown in the following table.

<u>Bond Series</u>	<u>Principal Defeased</u>
1998 Highway Revenue	\$ 55,300
Total	<u>\$ 55,300</u>

As of June 30, 2011, aggregate debt service requirements of the Department's variable rate debt and net receipts/payments on associated hedging derivative instruments are as follows. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary. Refer to Note 9 for information on derivative instruments.

Fiscal Year Ended June 30	Principal	Interest	Hedging Derivative Instruments (Net)	Total
2012	\$ 20,975	\$ 244	\$ 16,508	\$ 37,727
2013	40,295	229	15,592	56,116
2014	45,520	210	14,294	60,024
2015	113,110	170	11,773	125,053
2016	75,100	136	8,794	84,030
2017 - 2021	175,875	439	22,715	199,029
2022 - 2025	147,000	105	4,974	152,079
Total	<u>\$ 617,875</u>	<u>\$ 1,533</u>	<u>\$ 94,650</u>	<u>\$ 714,058</u>

## Note 9. Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2011 financial statements are as follows debit (credit):

	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2011</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
<b>Governmental activities</b>					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ 4,750	Debt	\$ (46,876)	\$ 542,280
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	(4,800)	Investment	(3,775)	98,480
Basis swap	Investment revenue	(1,713)	Investment	6,455	75,000

In June 2008, the GASB issued Statement 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The Department adopted GASB 53 in Fiscal Year 2010. All derivatives are reported on the statement of net assets at fair value, and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net assets as a deferral, or in the statement of activities as investment revenue or loss. Most derivatives are stand-alone instruments. At certain instances as outlined in GASB 53, for those that have an additional embedded instrument, or hybrid instruments, the statement calls for bifurcating and accounting for the transaction as two separate components.

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

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

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

(i) Mitigate the effect of fluctuations in variable interest rates. The primary function of the swaps is 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 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.

Notes to the Financial Statements

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2011.

Associated Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Ratings
*** Series 2002 D	\$86,875	\$23,480	12/17/02	3/1/2012	5.2400% Contractual; 2.9936% GASB 53 At-the-Market	67% of USD-LIBOR	(\$669)	Merrill Lynch Capital Services, Inc	A2/A/A+
** Series 2002 B & C*	\$200,000	\$200,000	10/23/02	9/1/2019	3.164%	67% of USD-LIBOR	(\$16,845)	Goldman Sachs Bank USA	Aa3/A/A+
** Series 2002 B & C*	\$120,005	\$120,005	10/23/02	9/1/2019	3.164%	67% of USD-LIBOR	(\$10,102)	Citigroup Financial Products Inc	A3/A/A+
** Series 2008 A	\$150,275	\$150,275	12/3/03	9/1/2015	3.3590% Contractual; 2.3493% GASB 53 At-the-Market	Lesser of ABR/71% of USD-LIBOR 'til 9/2010; 71% of USD-LIBOR thereafter	(\$11,360)	Merrill Lynch Capital Services, Inc	A2/A/A+
** Series 2004 C	\$147,000	\$72,000	11/23/04	9/1/2024	3.571%	63.5% of USD-LIBOR + 0.29%	(\$8,569)	Goldman Sachs Bank USA	Aa3/A/A+
*** Series 2004 C	\$75,000	\$75,000	7/1/07	9/1/2024	3.571%	62.329% of 10 Year CMS	(\$3,106)	Goldman Sachs Bank USA	Aa3/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	\$6,455	JPMorgan Chase Bank, N.A.	Aa1/AA-/AA-
							Total Fair Value	<u>(\$44,196)</u>	

\* - two counterparties  
\*\* - Considered fair value hedge  
\*\*\* - Considered investment derivative

**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, 2011, 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.

**2002D Swap** - In connection with the issuance of \$86,875 of variable-rate bonds to refund outstanding Series 1993A bonds, on August 27, 2002 the Department competitively bid the sale of an option on a floating-to-fixed 67% of LIBOR interest rate swap. Merrill Lynch provided the winning bid with a swaption premium amount of \$11,905 that was paid to KDOT in two installments of \$6,500 on March 1, 2006 and \$5,405 on March 1, 2007. The swaption allowed KDOT to effect a synthetic forward refunding of the bonds to lock in savings based on then prevailing market conditions. Under U.S. tax law, the Bonds were not eligible for a traditional current refunding until December 1, 2002. The terms of the option were structured to mirror the terms on the optional redemption feature on the Series 1993A Bonds. The swaption generated expected PV savings of \$10,360 (11.92% of the Bonds' par amount). Merrill Lynch has since exercised the option resulting in a floating-to-fixed 67% of LIBOR interest rate swap, whereby KDOT pays a fixed rate of 5.24%.

Under GASB 53, the sold option described is a hybrid instrument that is constituted of a companion instrument or borrowing (intrinsic value), an embedded derivative instrument (time value), and an at-the-market swap with a fixed rate determined on the date the swaption is sold. Governments carry borrowings at historic cost, while derivatives are carried at fair value. The subsequent swap that Merrill Lynch exercised the Department into is also considered a hybrid instrument consisting of an embedded at-the-market swap rate computed at the time the original

option was sold, and a borrowing. At June 30, 2011, a borrowing in the amount of \$527 is recorded as a borrowing 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 KDOT pays Goldman/Citibank a fixed rate of 3.164% and receives 67% of LIBOR. KDOT 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.

**2008A Swap (formerly 2003C Swap)** - In connection with the issuance of \$150,275 of variable-rate Series 2003 C Highway Revenue Refunding Bonds, on November 20, 2003 the KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$150,275 12-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.359% and receives the lesser of the Actual Bond Rate and 71% of 1-mo LIBOR until September 1, 2010, and 71% of LIBOR thereafter. KDOT 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 2003 C Bonds with Series 2008 A 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. At June 30, 2011, a borrowing in the amount of \$2,206 is recorded as a borrowing payable.

**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 KDOT 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 KDOT pays the counterparty a fixed rate of 3.571% and receives 63.5% of LIBOR plus 29 basis points. KDOT 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). KDOT 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 KDOT 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 KDOT 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, KDOT 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, 2011, 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, 2011, were \$655.6 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 2011, the Department's contribution rate is 2.977 percent 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, 2011, the amount of these liabilities included in accounts payable of the government-wide Statement of Net Assets was \$11,452 is the Department's best estimate based on available information. Changes in the reported liability since June 30, 2009, resulted from the following:

Fiscal Year	Beginning Liability	Current Claims and Changes in Estimates	Claims Paid	Ending Liability
2010	\$ 4,786	\$ (1,533)	\$ 561	\$ 2,692
2011	2,692	9,431	671	11,452

**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 percent (or 6 percent 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 2011 was 9.17 percent. 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, 2011, 2010, 2009, were \$10.2 million, \$9.1 million, and \$8.4 million, respectively, and were equal to 100 percent of the required contributions for each year.

### **Note 13. Other Postemployment Healthcare Benefits**

A. Plan description - As a department of the State of Kansas, KDOT 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 dependants as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Policy Authority. 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 KDOT. 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.

The state appropriates funds annually for the costs associated with postemployment benefit and provides funding for the expenditure on a pay-as-you-go basis.

C. Annual OPEB cost and net OPEB obligation - KDOT'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 following table presents the components of KDOT'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)	\$ 1,459
Normal cost (with interest)	1,449
Annual required contribution (ARC) - Annual OPEB Cost	2,908
Interest on Net OPEB Obligation	307
Adjustment to the ARC	(454)
Annual OPEB Cost	2,761
Contributions made	-
Increase in OPEB obligation	2,761
Other post employment benefits obligations at July 1, 2010	7,995
Other post employment benefits obligations at June 30, 2011	<u>\$ 10,756</u>

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

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2008	\$ 2,942	\$ -	0%	\$ 2,942
2009	2,342	-	0%	5,284
2010	2,711	-	0%	7,995
2011	2,761	-	0%	10,756

D. Funded status and funding progress - As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$28,012. KDOT's policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$28,012. The covered payroll (annual payroll of active employees covered by the plan) was \$115,883, and the ratio of the UAAL to the covered payroll was 24 percent.

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. 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, 2011 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent 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 5.00 to 9.25 percent. The UAAL is being amortized over a 30 year open period in level dollar amounts.

**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 KDOT. Charges for their services are reflected as expenditures in the financial statements. The Department also participates in projects with the Kansas Turnpike Authority and works with the Department of Health and Environment, the Department of Agriculture and the State Historical Society to assure that projects comply with statutory and regulatory requirements.

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

**Note 15. Subsequent Events**

In 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 paid \$1,218 in leave and \$150 as one-time lump sum payments to employees accepting the VRIP provisions. The Department is responsible for paying the employer's share of health coverage applicable to 128 former employees.

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## **Required Supplementary Information**

**Kansas Department of Transportation  
Required Supplementary Information  
For the Year Ended June 30, 2011**

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

**Roadways**

The highways in the state are made up of two systems: Interstate Highways and Non-interstate Highways. The condition of these systems is assessed annually using a Pavement Management System that measures the condition of the pavement surface to classify the roads 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.

While the Department has goals to maintain these systems at higher levels, minimum acceptable condition levels have been defined as having at least 80 percent of the interstate miles in PL-1 and at least 75 percent of the non-interstate miles in PL-1 at acceptable condition levels. The following table compares the minimum acceptable condition level with the actual condition for the current and prior years.

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum Acceptable Condition Level*	Actual Condition Level*	Minimum Acceptable Condition Level*	Actual Condition Level*
2009	80	97	75	86
2010	80	97	75	86
2011	80	96	75	84
* - Percent of miles in PL-1				

The Department's goal is to continually 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. To maintain the Interstate Highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$110 million annually. To maintain the Non-interstate Highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$260 million. 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.

Required Supplementary Information

Fiscal Year	Interstate Highways		Non-interstate Highways	
	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Condition Level*	Actual Expenses*	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Condition Level*	Actual Expenses*
2007	110,000	62,935	260,000	384,627
2008	110,000	68,654	260,000	363,582
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
* - amounts in \$1,000				

KDOT is in the process of reviewing and updating the methodology used in estimating required funding and related asset allocation to appropriately maintain its infrastructure assets.

**Bridges**

The condition of the bridge system in the state is assessed annually using the Pontis Bridge Management System. This system evaluates the condition of several elements (decks, girders, floor beams, columns, etc.) 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 which, in turn, are aggregated to establish a health index for the entire system.

The goal of the Department is to maintain the bridge system at a higher level, but has defined an overall state-wide health index of 80 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
2009	80	94
2010	80	94
2011	80	94

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

Required Supplementary Information

state's bridges at or above the stated minimum acceptable health index it is estimated that annual preservation and replacement expenditures must be approximately \$75 million. 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*
2007	75,000	76,536
2008	75,000	72,941
2009	75,000	50,992
2010	75,000	29,219
2011	75,000	69,620
* - amounts in \$1,000		

KDOT is in the process of reviewing and updating the methodology used in estimating required funding and related asset allocation to appropriately maintain its infrastructure assets.

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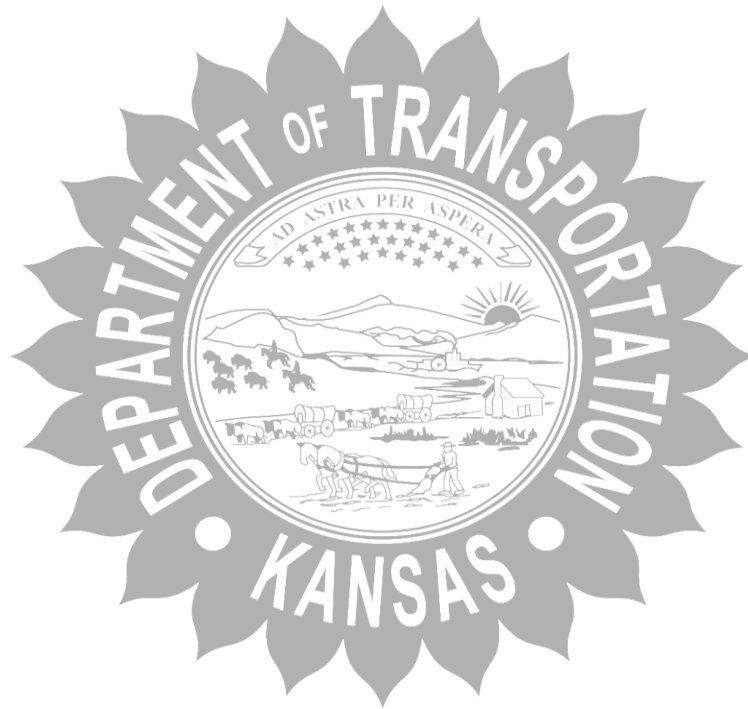
Required Supplementary Information

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)
06/30/09	-	22,092	22,092	0%	117,522	19%
06/30/10	-	26,350	26,350	0%	115,467	23%
06/30/11	-	28,012	28,012	0%	115,882	24%

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## **Combining and Individual Fund Statements and Schedules**

Governmental Funds

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## KANSAS DEPARTMENT OF TRANSPORTATION

### Nonmajor Governmental Funds

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

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

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

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

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

**Other Special Revenue Funds** – This is the combination of 3 funds:

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

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

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

Kansas Department of Transportation  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2011  
(amounts in thousands)

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Rail Service Improvement	Interagency Motor Vehicle Fuel Sales	Traffic Records Enhancement	Public Use General Aviation Airport Development	Other Special Revenue Funds	
<b>ASSETS</b>						
Cash: Unrestricted	\$ 4,505	\$ 217	\$ 1,014	\$ 4,013	\$ 11,069	\$ 20,818
Restricted	0	0	0	0	0	0
Investments, at fair value:						
Unrestricted	0	0	0	0	0	0
Restricted	0	0	0	0	0	0
Receivables:						
Federal Aid	0	0	0	0	67	67
Accrued interest	0	0	0	0	0	0
Loans and other	811	175	0	0	0	986
Materials and supplies	0	0	0	0	0	0
Long-term receivables:						
Loans and other	5,545	0	0	0	0	5,545
Total assets	<u>\$ 10,861</u>	<u>\$ 392</u>	<u>\$ 1,014</u>	<u>\$ 4,013</u>	<u>\$ 11,136</u>	<u>\$ 27,416</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Vouchers payable	\$ 0	\$ 0	\$ 29	\$ 308	\$ 1,174	\$ 1,511
Deferred revenue	0	0	0	0	0	0
Due to state funds	0	0	0	0	0	0
Retainage payable	0	0	0	0	0	0
Bonds payable on demand	0	0	0	0	0	0
Accrued salaries and wages	0	0	3	0	0	3
Due to department funds	0	0	0	0	0	0
Total liabilities	<u>0</u>	<u>0</u>	<u>32</u>	<u>308</u>	<u>1,174</u>	<u>1,514</u>
Fund balances:						
Nonspendable:						
Long-term receivables	5,545	0	0	0	0	5,545
Assigned to:						
Other Purposes	5,316	392	982	3,705	9,962	20,357
Total fund balances	<u>10,861</u>	<u>392</u>	<u>982</u>	<u>3,705</u>	<u>9,962</u>	<u>25,902</u>
Total liabilities and fund balances	<u>\$ 10,861</u>	<u>\$ 392</u>	<u>\$ 1,014</u>	<u>\$ 4,013</u>	<u>\$ 11,136</u>	<u>\$ 27,416</u>

Kansas Department of Transportation  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2011  
(amounts in thousands)

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Rail Service Improvement	Interagency Motor Vehicle Fuel Sales	Traffic Records Enhancement	Public Use General Aviation Airport Development	Other Special Revenue Funds	
<b>Revenues</b>						
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0	0	0
Operating grants	0	0	0	0	5,325	5,325
Capital grants	0	0	0	0	0	0
Sales and use taxes	0	0	0	0	0	0
Investment earnings	138	0	0	0	0	138
Other	0	1,636	450	0	0	2,086
Appropriations from other state funds	0	0	0	1,000	0	1,000
Total revenues	<u>138</u>	<u>1,636</u>	<u>450</u>	<u>1,000</u>	<u>5,325</u>	<u>8,549</u>
<b>Expenditures</b>						
Current operating:						
Maintenance	0	1,481	0	0	0	1,481
Communications system	0	0	0	0	2,107	2,107
Construction	0	0	0	0	0	0
Local support	0	0	302	0	0	302
Rail, air and public transportation	8,121	0	0	2,544	9,017	19,682
Management	0	0	0	0	551	551
Debt service:						
Principal	0	0	0	0	0	0
Interest and fees	0	0	0	0	0	0
Transfers to other state funds	0	0	0	0	0	0
Total expenditures	<u>8,121</u>	<u>1,481</u>	<u>302</u>	<u>2,544</u>	<u>11,675</u>	<u>24,123</u>
Excess (deficiency) of revenues over expenditures	<u>(7,983)</u>	<u>155</u>	<u>148</u>	<u>(1,544)</u>	<u>(6,350)</u>	<u>(15,574)</u>
<b>Other financing sources (uses)</b>						
Transfers-in	4,868	0	0	3,000	6,000	13,868
Transfers-out	0	0	0	(1,000)	0	(1,000)
Total other financing sources (uses)	<u>4,868</u>	<u>0</u>	<u>0</u>	<u>2,000</u>	<u>6,000</u>	<u>12,868</u>
Net changes in fund balances	(3,115)	155	148	456	(350)	(2,706)
Fund balances - beginning of year	13,976	237	834	3,249	10,312	28,608
Fund balances - end of year	<u>\$ 10,861</u>	<u>\$ 392</u>	<u>\$ 982</u>	<u>\$ 3,705</u>	<u>\$ 9,962</u>	<u>\$ 25,902</u>

Kansas Department of Transportation  
Schedule of Revenues, Expenditures and Other Financing Sources (Uses)  
Rail Service Improvement Fund  
Budget and Actual -- Budgetary Basis  
For the Fiscal Year Ended June 30, 2011  
(amounts in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0
Intergovernmental	0	0	0	0
Sales and use taxes	0	0	0	0
Investment earnings	300	207	144	(63)
Other	1,000	782	789	7
Transfers from other state funds	0	0	0	0
Total revenues	<u>1,300</u>	<u>989</u>	<u>933</u>	<u>(56)</u>
<b>Expenditures, with legal limits:</b>				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, with legal limits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenditures, without legal limits:</b>				
Current operating:				
Maintenance	0	0	0	0
Local support	3,000	40,816	37,964	2,852
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, without legal limits	<u>3,000</u>	<u>40,816</u>	<u>37,964</u>	<u>2,852</u>
Total expenditures	<u>3,000</u>	<u>40,816</u>	<u>37,964</u>	<u>2,852</u>
Excess (deficiency) of revenues over expenditures	<u>(1,700)</u>	<u>(39,827)</u>	<u>(37,031)</u>	<u>2,796</u>
<b>Other financing sources (uses):</b>				
Transfers-in	0	35,000	4,868	(30,132)
Transfers-out	0	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>35,000</u>	<u>4,868</u>	<u>(30,132)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (1,700)</u>	<u>\$ (4,827)</u>	<u>(32,163)</u>	<u>\$ (27,336)</u>
<b>Explanation of the differences between Budgetary Basis and GAAP Basis reporting</b>				
Budgetary basis revenues are adjusted to GAAP basis			(795)	
Budgetary basis expenditures adjusted to GAAP basis			2,842	
Expenditures on prior year encumbrances are not reported for budgetary reporting			(3,317)	
Current year encumbrances are reported as expenditures for budgetary reporting purposes			<u>30,318</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis			<u>\$ (3,115)</u>	

Kansas Department of Transportation  
Schedule of Revenues, Expenditures and Other Financing Sources (Uses)  
Interagency Motor Vehicle Fuel Sales Fund  
Budget and Actual -- Budgetary Basis  
For the Fiscal Year Ended June 30, 2011  
(amounts in thousands)

	Budgeted Amounts		Actual	Variance with
	Original	Final		<u>Final Budget</u> Positive (Negative)
<b>Revenues:</b>				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0
Intergovernmental	0	0	0	0
Sales and use taxes	0	0	0	0
Investment earnings	0	0	0	0
Other	1,000	1,000	1,636	636
Transfers from other state funds	0	0	0	0
Total revenues	<u>1,000</u>	<u>1,000</u>	<u>1,636</u>	<u>636</u>
<b>Expenditures, with legal limits</b>				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local Support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, with legal limits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenditures, without legal limits:</b>				
Current operating:				
Maintenance	1,000	1,000	1,477	(477)
Local support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, without legal limits	<u>1,000</u>	<u>1,000</u>	<u>1,477</u>	<u>(477)</u>
Total expenditures	<u>1,000</u>	<u>1,000</u>	<u>1,477</u>	<u>(477)</u>
Excess (deficiency) of revenues over expenditures	<u>0</u>	<u>0</u>	<u>159</u>	<u>159</u>
<b>Other financing sources (uses):</b>				
Transfers-in	0	0	0	0
Transfers-out	0	0	0	0
Total other financing sources (uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 159</u>	<u>\$ 159</u>
<b>Explanation of the differences between Budgetary Basis and GAAP Basis reporting</b>				
Current year encumbrances are reported as expenditures for budgetary reporting purposes			0	
Expenditures on prior year encumbrances are not reported for budgetary reporting			<u>(4)</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis			<u>\$ 155</u>	

Kansas Department of Transportation  
Schedule of Revenues, Expenditures and Other Financing Sources (Uses)  
Traffic Records Enhancement Fund  
Budget and Actual -- Budgetary Basis  
For the Fiscal Year Ended June 30, 2011  
(amounts in thousands)

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Revenues:</b>				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0
Intergovernmental	0	0	0	0
Sales and use taxes	0	0	0	0
Investment earnings	0	0	0	0
Other	510	732	450	(282)
Transfers from other state funds	0	0	0	0
<b>Total revenues</b>	<u>510</u>	<u>732</u>	<u>450</u>	<u>(282)</u>
<b>Expenditures, with legal limits</b>				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local Support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
<b>Total expenditures, with legal limits</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenditures, without legal limits:</b>				
Current operating:				
Maintenance	0	0	0	0
Local support	712	691	403	288
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
<b>Total expenditures, without legal limits</b>	<u>712</u>	<u>691</u>	<u>403</u>	<u>288</u>
<b>Total expenditures</b>	<u>712</u>	<u>691</u>	<u>403</u>	<u>288</u>
Excess (deficiency) of revenues over expenditures	<u>(202)</u>	<u>41</u>	<u>47</u>	<u>6</u>
<b>Other financing sources (uses):</b>				
Transfers-in	0	0	0	0
Transfers-out	0	0	0	0
<b>Total other financing sources (uses)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (202)</u>	<u>\$ 41</u>	<u>47</u>	<u>\$ 6</u>

**Explanation of the differences between Budgetary Basis and GAAP Basis reporting**

Current year encumbrances are reported as expenditures for budgetary reporting purposes	322
Expenditures on prior year encumbrances are not reported for budgetary reporting	(217)
Budgetary expenditures have been adjusted for GAAP basis adjustments	<u>(4)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	<u>\$ 148</u>

Kansas Department of Transportation  
Schedule of Revenues, Expenditures and Other Financing Sources (Uses)  
Public Use General Aviation Airport Development Fund  
Budget and Actual -- Budgetary Basis  
For the Fiscal Year Ended June 30, 2011  
(amounts in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0
Intergovernmental	0	0	0	0
Sales and use taxes	0	0	0	0
Investment earnings	0	0	0	0
Other	0	0	0	0
Transfers from other state funds	0	0	0	0
<b>Total revenues</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenditures, with legal limits:</b>				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
<b>Total expenditures, with legal limits</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenditures, without legal limits:</b>				
Current operating:				
Maintenance	0	0	0	0
Local support	3,000	4,008	4,214	(206)
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
<b>Total expenditures, without legal limits</b>	<u>3,000</u>	<u>4,008</u>	<u>4,214</u>	<u>(206)</u>
<b>Total expenditures</b>	<u>3,000</u>	<u>4,008</u>	<u>4,214</u>	<u>(206)</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(3,000)</u>	<u>(4,008)</u>	<u>(4,214)</u>	<u>(206)</u>
<b>Other financing sources (uses):</b>				
Transfers-in	4,000	4,000	4,000	0
Transfers-out	(1,000)	(1,000)	(1,000)	0
<b>Total other financing sources (uses)</b>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>0</u>
<b>Excess (deficiency) of revenues and other sources over expenditures and other uses</b>	<u>\$ 0</u>	<u>\$ (1,008)</u>	<u>(1,214)</u>	<u>\$ (206)</u>

**Explanation of the differences between Budgetary Basis and GAAP Basis reporting**

Current year encumbrances are reported as expenditures for budgetary reporting purposes	2,678
Expenditures on prior year encumbrances are not reported for budgetary reporting	(1,247)
Budgetary expenditures have been adjusted for GAAP basis adjustments	239
<b>Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis</b>	<u>\$ 456</u>

Kansas Department of Transportation  
Schedule of Revenues, Expenditures and Other Financing Sources (Uses)  
Other Special Revenue Funds  
Budget and Actual -- Budgetary Basis  
For the Fiscal Year Ended June 30, 2011  
(amounts in thousands)

	Budgeted Amounts		Actual	Variance with <u>Final Budget</u>
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations and permits	0	0	0	0
Intergovernmental	2,476	29,588	5,325	(24,263)
Sales and use taxes	0	0	0	0
Investment earnings	0	0	0	0
Other	0	0	0	0
Transfers from other state funds	0	0	0	0
Total revenues	<u>2,476</u>	<u>29,588</u>	<u>5,325</u>	<u>(24,263)</u>
<b>Expenditures, with legal limits</b>				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local Support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, with legal limits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenditures, without legal limits:</b>				
Current operating:				
Maintenance	0	1,836	1,376	460
Local support	8,086	35,376	9,971	25,405
Management	390	735	497	238
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Total expenditures, without legal limits	<u>8,476</u>	<u>37,947</u>	<u>11,844</u>	<u>26,103</u>
Total expenditures	<u>8,476</u>	<u>37,947</u>	<u>11,844</u>	<u>26,103</u>
Excess (deficiency) of revenues over expenditures	<u>(6,000)</u>	<u>(8,359)</u>	<u>(6,519)</u>	<u>1,839</u>
<b>Other financing sources (uses):</b>				
Transfers-in	6,000	7,836	6,000	(1,836)
Transfers-out	0	0	0	0
Total other financing sources (uses)	<u>6,000</u>	<u>7,836</u>	<u>6,000</u>	<u>(1,836)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ 0</u>	<u>\$ (523)</u>	<u>\$ (519)</u>	<u>\$ 3</u>

**Explanation of the differences between Budgetary Basis and GAAP Basis reporting**

Current year encumbrances are reported as expenditures for budgetary reporting purposes	3,847
Expenditures on prior year encumbrances are not reported for budgetary reporting	(4,637)
Budgetary expenditures have been adjusted for GAAP basis adjustments	959
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis	<u>\$ (350)</u>

Kansas Department of Transportation  
Schedule of Revenues, Expenditures and Other Financing Sources (Uses)  
Highway Bond Debt Service Fund  
Budget and Actual -- Budgetary Basis  
For the Fiscal Year Ended June 30, 2011  
(amounts in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
<b>Revenues:</b>				
Motor fuel taxes	\$ 0	\$ 0	\$ 0	\$ 0
Vehicle registrations, fees, and permits	0	0	0	0
Intergovernmental	0	0	0	0
Sales and use taxes	0	0	0	0
Investment earnings	609	518	381	(137)
Other	0	0	0	0
Transfers from other state funds	0	0	0	0
Total revenues	<u>609</u>	<u>518</u>	<u>381</u>	<u>(137)</u>
<b>Expenditures, with legal limits:</b>				
Current operating:				
Maintenance	0	0	0	0
Construction	0	0	0	0
Local support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Transfers to other state funds	0	0	0	0
Expenditures with legal limits	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expenditures, without legal limits:</b>				
Current operating:				
Maintenance	0	0	0	0
Local support	0	0	0	0
Management	0	0	0	0
Capital improvements	0	0	0	0
Principal on debt	104,885	104,885	104,885	0
Interest and fees on debt	73,141	78,714	76,333	2,381
Transfers to other state funds	0	0	0	0
Expenditures without legal limits	<u>178,026</u>	<u>183,599</u>	<u>181,218</u>	<u>2,381</u>
Total expenditures	<u>178,026</u>	<u>183,599</u>	<u>181,218</u>	<u>2,381</u>
Excess (deficiency) of revenues over expenditures	<u>(177,417)</u>	<u>(183,081)</u>	<u>(180,837)</u>	<u>2,244</u>
<b>Other financing sources (uses):</b>				
Transfers-in	179,374	188,142	187,154	(988)
Transfers-out	0	0	0	0
Total other financing sources (uses)	<u>179,374</u>	<u>188,142</u>	<u>187,154</u>	<u>(988)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ 1,957</u>	<u>\$ 5,061</u>	6,317	<u>\$ 1,256</u>
<b>Explanation of the differences between Budgetary Basis and GAAP Basis reporting</b>				
Budgetary basis revenues adjusted to GAAP basis			(53)	
Budgetary expenditures have been adjusted for GAAP basis reporting			0	
Expenditures on prior year encumbrances are not reported for budgetary reporting			(215)	
Current year encumbrances are reported as expenditures for budgetary reporting purposes			<u>1,148</u>	
Excess (deficiency) of revenues and other sources over expenditures and other uses - GAAP basis			<u>\$ 7,197</u>	



## **Combining Fund Statement**

Agency Funds

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## KANSAS DEPARTMENT OF TRANSPORTATION

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

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

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

Kansas Department of Transportation  
Combining Statement of Changes in Assets and Liabilities  
Agency Funds  
For the Fiscal Year ended June 30, 2011  
(amounts in thousands)

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
<b><u>Special City and County Highway Fund</u></b>				
Assets:				
Cash	\$ 36,160	\$ 145,527	\$ (145,883)	\$ 35,804
Receivables	13,750	12,133	(13,750)	12,133
Total assets	<u>\$ 49,910</u>	<u>\$ 157,660</u>	<u>\$ (159,633)</u>	<u>\$ 47,937</u>
Liabilities:				
Due to cities and counties	\$ 49,910	\$ 157,660	\$ (159,633)	\$ 47,937
Total liabilities	<u>\$ 49,910</u>	<u>\$ 157,660</u>	<u>\$ (159,633)</u>	<u>\$ 47,937</u>
<b><u>County Equalization and Adjustment Fund</u></b>				
Assets:				
Cash	\$ 0	\$ 2,500	\$ (2,500)	\$ 0
Total assets	<u>\$ 0</u>	<u>\$ 2,500</u>	<u>\$ (2,500)</u>	<u>\$ 0</u>
Liabilities:				
Due to cities and counties	\$ 0	\$ 2,500	\$ (2,500)	\$ 0
Total liabilities	<u>\$ 0</u>	<u>\$ 2,500</u>	<u>\$ (2,500)</u>	<u>\$ 0</u>
<b><u>Totals</u></b>				
Assets:				
Cash	\$ 36,160	\$ 148,027	\$ (148,383)	\$ 35,804
Receivables	13,750	12,133	(13,750)	12,133
Total assets	<u>\$ 49,910</u>	<u>\$ 160,160</u>	<u>\$ (162,133)</u>	<u>\$ 47,937</u>
Liabilities:				
Due to cities and counties	\$ 49,910	\$ 160,160	\$ (162,133)	\$ 47,937
Total liabilities	<u>\$ 49,910</u>	<u>\$ 160,160</u>	<u>\$ (162,133)</u>	<u>\$ 47,937</u>

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## **STATISTICAL SECTION**

**Comprehensive Annual Financial Report  
For the fiscal year ended June 30, 2011**

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**KANSAS DEPARTMENT OF TRANSPORTATION**

**Statistical Section**

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

**Financial trends**

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

**Revenue capacity**

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

**Debt capacity**

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

**Demographic and Economic Information**

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

**Operating Information**

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

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

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

	For the fiscal year end June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Governmental Activities:</b>										
Invested in capital assets, net of related debt	\$ 7,494,576	\$ 7,720,560	\$ 7,817,163	\$ 7,884,669	\$ 8,144,626	\$ 8,593,451	\$ 8,816,278	\$ 9,425,607	\$ 9,985,914	\$ 9,921,506
Restricted for:										
Debt service	47,184	30,021	31,988	40,027	47,425	44,812	39,199	77,058	76,632	0
Other purposes	13,023	13,361	16,270	0	0	0	0	0	0	0
Unrestricted	900,581	779,378	718,318	832,473	740,321	632,688	663,003	484,299	275,129	640,329
<b>Total governmental activities net assets</b>	<u>\$ 8,455,364</u>	<u>\$ 8,543,320</u>	<u>\$ 8,583,739</u>	<u>\$ 8,757,169</u>	<u>\$ 8,932,372</u>	<u>\$ 9,270,951</u>	<u>\$ 9,518,480</u>	<u>\$ 9,986,964</u>	<u>\$ 10,337,675</u>	<u>\$ 10,561,835</u>
<b>Business-type Activities:</b>										
Invested in capital assets, net of related debt	\$ 0	\$ 0	\$ 0	\$ 65	\$ 108	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Restricted for:										
Debt service	0	0	0	0	16,895	30,977	17,617	19,996	15,279	15,277
Unrestricted	0	0	0	(540)	10,684	(1,114)	15,125	13,632	18,315	44,427
<b>Total business-type activities net assets</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (475)</u>	<u>\$ 27,687</u>	<u>\$ 29,863</u>	<u>\$ 32,742</u>	<u>\$ 33,628</u>	<u>\$ 33,594</u>	<u>\$ 59,704</u>
<b>Primary Government:</b>										
Invested in capital assets, net of related debt	\$ 7,494,576	\$ 7,720,560	\$ 7,817,163	\$ 7,884,734	\$ 8,144,734	\$ 8,593,451	\$ 8,816,278	\$ 9,425,607	\$ 9,985,914	\$ 9,921,506
Restricted for:										
Debt service	47,184	30,021	31,988	40,027	64,319	75,789	56,816	97,054	91,911	15,277
Other purposes	13,023	13,361	16,270	0	0	0	0	0	0	0
Unrestricted	900,581	779,378	718,318	831,933	751,006	631,574	678,128	497,931	293,444	684,756
<b>Total</b>	<u>\$ 8,455,364</u>	<u>\$ 8,543,320</u>	<u>\$ 8,583,739</u>	<u>\$ 8,756,694</u>	<u>\$ 8,960,059</u>	<u>\$ 9,300,814</u>	<u>\$ 9,551,222</u>	<u>\$ 10,020,592</u>	<u>\$ 10,371,269</u>	<u>\$ 10,621,539</u>

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

	For the fiscal year ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Expenses</b>										
<b>Governmental activities:</b>										
Maintenance and preservation	\$ 616,664	\$ 570,935	\$ 526,630	\$ 403,474	\$ 612,346	\$ 352,974	\$ 593,645	\$ 174,670	\$ 223,473	\$ 589,587
Communications system	0	0	0	0	10,534	15,636	18,068	13,848	18,630	13,412
Local support	106,995	103,110	126,922	136,238	136,063	195,097	171,046	172,142	194,261	192,813
General government	99,456	120,529	109,516	151,502	141,032	161,103	157,415	215,773	352,490	331,416
Rail, air and public transportation	12,847	11,262	9,309	8,706	7,542	11,094	11,108	11,388	14,222	19,684
Interest on long-term debt	68,477	56,701	59,031	74,262	78,429	77,644	72,452	79,487	70,165	62,152
<b>Total governmental activities expenses</b>	<b>904,439</b>	<b>862,537</b>	<b>831,408</b>	<b>774,182</b>	<b>985,946</b>	<b>813,548</b>	<b>1,023,734</b>	<b>667,308</b>	<b>873,241</b>	<b>1,209,064</b>
<b>Business-type activities:</b>										
Transportation Revolving Fund	0	0	0	0	1,121	1,878	2,459	2,678	3,109	2,896
Communications system	0	0	0	475	24	99	222	706	1,452	533
<b>Total business-type activities expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>475</b>	<b>1,145</b>	<b>1,977</b>	<b>2,681</b>	<b>3,384</b>	<b>4,561</b>	<b>3,429</b>
<b>Total primary government expenses</b>	<b>\$ 904,439</b>	<b>\$ 862,537</b>	<b>\$ 831,408</b>	<b>\$ 774,657</b>	<b>\$ 987,091</b>	<b>\$ 815,525</b>	<b>\$ 1,026,415</b>	<b>\$ 670,692</b>	<b>\$ 877,802</b>	<b>\$ 1,212,493</b>
<b>Program revenues</b>										
<b>Governmental activities:</b>										
<b>Charges for services:</b>										
<b>General government</b>										
Vehicle registrations and drivers' licenses	\$ 140,632	\$ 152,738	\$ 156,916	\$ 163,760	\$ 165,573	\$ 171,575	\$ 172,353	\$ 170,256	\$ 175,291	\$ 178,492
Other	2,893	4,289	6,826	4,302	5,712	7,008	8,610	5,458	7,654	11,423
Operating grants and contributions	113,593	112,990	128,593	130,121	154,522	184,084	160,475	194,037	212,523	285,940
Capital grants and contributions	259,666	287,825	204,215	252,623	246,473	314,463	341,685	195,942	302,685	386,427
<b>Total governmental activities program revenues</b>	<b>516,784</b>	<b>557,842</b>	<b>496,550</b>	<b>550,806</b>	<b>572,280</b>	<b>677,130</b>	<b>683,123</b>	<b>565,693</b>	<b>698,153</b>	<b>862,282</b>
<b>Business-type activities:</b>										
<b>Charges for services:</b>										
Transportation Revolving Fund	0	0	0	0	617	1,279	1,782	2,459	3,105	3,200
Communications system	0	0	0	0	30	793	45	706	512	526
<b>Total business-type activities program revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>647</b>	<b>2,072</b>	<b>1,827</b>	<b>3,165</b>	<b>3,617</b>	<b>3,726</b>
<b>Total primary government program revenues</b>	<b>\$ 516,784</b>	<b>\$ 557,842</b>	<b>\$ 496,550</b>	<b>\$ 550,806</b>	<b>\$ 572,927</b>	<b>\$ 679,202</b>	<b>\$ 684,950</b>	<b>\$ 568,858</b>	<b>\$ 701,770</b>	<b>\$ 866,008</b>
<b>Net (expense)/revenue</b>										
Governmental activities	\$ (387,655)	\$ (304,695)	\$ (334,858)	\$ (223,377)	\$ (413,667)	\$ (136,418)	\$ (340,611)	\$ (101,615)	\$ (175,088)	\$ (346,782)
Business-type activities	0	0	0	(475)	(498)	95	(854)	(219)	(944)	297
<b>Total primary government net expense</b>	<b>\$ (387,655)</b>	<b>\$ (304,695)</b>	<b>\$ (334,858)</b>	<b>\$ (223,852)</b>	<b>\$ (414,165)</b>	<b>\$ (136,323)</b>	<b>\$ (341,465)</b>	<b>\$ (101,834)</b>	<b>\$ (176,032)</b>	<b>\$ (346,485)</b>
<b>General revenues</b>										
<b>Governmental activities:</b>										
<b>Taxes</b>										
Motor fuels taxes	\$ 234,241	\$ 264,487	\$ 279,460	\$ 281,706	\$ 283,210	\$ 281,439	\$ 283,806	\$ 277,807	\$ 281,314	\$ 284,022
Sales and use taxes	94,941	89,833	88,729	94,653	98,631	162,388	282,150	271,769	258,721	299,263
Investment earnings	70,441	34,983	3,755	16,049	19,668	27,857	22,720	18,934	5,293	9,179
Unrestricted appropriations from other state funds	97,904	3,348	3,333	3,825	214,508	3,313	1,464	1,462	2,597	3,478
Transfers	0	0	0	0	(1,540)	0	(2,000)	127	(5,032)	(25,000)
<b>Total governmental activities general revenues</b>	<b>497,527</b>	<b>392,651</b>	<b>375,277</b>	<b>396,233</b>	<b>614,477</b>	<b>474,997</b>	<b>588,140</b>	<b>570,099</b>	<b>542,893</b>	<b>570,942</b>
<b>Business-type activities:</b>										
Investment earnings	0	0	0	573	1,513	2,081	1,733	1,232	910	813
Transfers	0	0	0	0	1,540	0	2,000	(127)	-	25,000
<b>Total business-type general revenues</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>573</b>	<b>3,053</b>	<b>2,081</b>	<b>3,733</b>	<b>1,105</b>	<b>910</b>	<b>25,813</b>
<b>Total primary government general revenues</b>	<b>\$ 497,527</b>	<b>\$ 392,651</b>	<b>\$ 375,277</b>	<b>\$ 396,806</b>	<b>\$ 617,530</b>	<b>\$ 477,078</b>	<b>\$ 591,873</b>	<b>\$ 571,204</b>	<b>\$ 543,803</b>	<b>\$ 596,755</b>
<b>Change in Net Assets</b>										
Governmental activities	\$ 109,872	\$ 87,956	\$ 40,419	\$ 172,856	\$ 200,810	\$ 338,579	\$ 247,529	\$ 468,484	\$ 367,805	\$ 224,160
Business-type activities	0	0	0	98	2,555	2,176	2,879	886	(34)	26,110
<b>Total primary government</b>	<b>\$ 109,872</b>	<b>\$ 87,956</b>	<b>\$ 40,419</b>	<b>\$ 172,954</b>	<b>\$ 203,365</b>	<b>\$ 340,755</b>	<b>\$ 250,408</b>	<b>\$ 469,370</b>	<b>\$ 367,771</b>	<b>\$ 250,270</b>

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>State Highway Fund*</b>										
Nonspendable										
Materials & supplies	\$ 14,391	\$ 15,620	\$ 15,766	\$ 17,452	\$ 17,601	\$ 17,480	\$ 18,697	\$ 21,445	\$ 24,728	\$ 23,968
Long-term receivable	0	94,609	125,188	125,188	92,689	61,793	30,896	30,896	0	0
Assigned to:										
Transportation	718,114	861,577	870,667	799,474	851,857	897,881	686,337	969,918	756,580	0
Unassigned	183,897	(178,882)	(295,037)	(168,173)	(243,585)	(356,696)	(94,692)	(562,388)	(524,154)	248,808
	<u>\$ 916,402</u>	<u>\$ 792,924</u>	<u>\$ 716,584</u>	<u>\$ 773,941</u>	<u>\$ 718,562</u>	<u>\$ 620,458</u>	<u>\$ 641,238</u>	<u>\$ 459,871</u>	<u>\$ 257,154</u>	<u>\$ 272,776</u>
<b>All Other Governmental Funds</b>										
Nonspendable										
Long-term receivable	\$ 0	\$ 0	\$ 0	\$ 15,427	\$ 5,476	\$ 7,432	\$ 5,128	\$ 3,931	\$ 3,530	\$ 5,545
Assigned to:										
Debt Service	47,184	47,200	48,720	61,146	67,770	64,268	56,137	98,086	98,841	106,038
Other purposes	13,023	13,361	41,305	27,384	17,372	19,314	23,694	25,980	13,841	20,357
Unassigned	(200,000)	(608,115)	(608,115)	(755,115)	(755,115)	(755,115)	(755,115)	(885,715)	(664,315)	(379,464)
Total	<u>\$ (139,793)</u>	<u>\$ (547,554)</u>	<u>\$ (518,090)</u>	<u>\$ (651,158)</u>	<u>\$ (664,497)</u>	<u>\$ (664,101)</u>	<u>\$ (670,156)</u>	<u>\$ (757,718)</u>	<u>\$ (548,103)</u>	<u>\$ (247,524)</u>

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

\* - The Agency's General Fund

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

	For the fiscal year ended June 30									
	2002	2003	2004	2005	2006	2007	2008	2009	2010**	2011
<b>Revenues:</b>										
Motor fuels taxes	\$ 232,411	\$ 263,721	\$ 279,091	\$ 281,142	\$ 282,778	\$ 284,718	\$ 283,974	\$ 277,358	\$ 280,376	\$ 283,981
Sales and use taxes	91,478	88,949	90,664	94,208	99,938	162,525	283,597	268,259	259,899	295,989
Vehicle registration & permits	140,632	152,738	156,916	163,760	165,573	171,575	172,353	170,256	175,291	178,492
Intergovernmental	372,669	405,295	327,267	384,069	404,382	496,905	500,638	393,084	508,465	676,067
Investment earnings	70,441	34,983	3,754	16,622	19,667	27,857	22,720	18,933	4,698	2,664
Other	5,446	8,876	13,055	6,118	13,774	14,946	9,973	6,779	9,615	6,840
Appropriations from other state funds	97,904	3,348	3,333	3,825	214,508	3,313	1,661	1,462	2,598	3,478
<b>Total revenues</b>	<b>1,010,981</b>	<b>957,910</b>	<b>874,080</b>	<b>949,744</b>	<b>1,200,620</b>	<b>1,161,839</b>	<b>1,274,916</b>	<b>1,136,131</b>	<b>1,240,942</b>	<b>1,447,511</b>
<b>Expenditures:</b>										
Maintenance	141,674	138,731	157,525	156,120	157,161	144,108	147,185	142,653	132,535	133,381
Preservation	155,903	152,664	173,346	171,800	172,946	158,582	161,967	156,980	145,846	235,091
Modernization	251,238	246,018	279,346	276,856	278,702	255,554	261,010	252,974	235,031	130,798
Expansion and Enhancement	195,991	191,919	217,919	215,976	217,416	199,358	203,614	197,345	183,348	238,329
Communication system	0	0	0	0	8,200	11,983	13,811	8,786	13,398	9,135
Local support	106,995	103,110	126,922	133,615	134,059	195,097	171,045	172,142	194,199	192,813
Rail, air & public transportation	12,848	11,262	9,310	11,330	9,547	11,094	11,107	11,387	14,198	19,682
Management	53,317	54,940	54,104	60,749	49,063	57,992	63,680	67,932	69,473	63,103
Distributions to other state funds	47,369	64,454	53,711	94,705	92,364	96,520	102,907	150,722	286,447	261,759
<b>Debt service</b>										
Principal	45,095	54,410	28,350	38,460	46,755	53,020	50,330	32,720	78,530	82,295
Interest & fees	69,864	61,675	53,530	67,528	76,126	76,118	73,347	74,833	69,185	75,401
Payment to refunded bonds escrow agent	0	3,385	28,745	0	0	0	0	0	0	0
<b>Total expenditures</b>	<b>1,080,294</b>	<b>1,082,568</b>	<b>1,182,808</b>	<b>1,227,139</b>	<b>1,242,339</b>	<b>1,259,426</b>	<b>1,260,003</b>	<b>1,268,474</b>	<b>1,422,190</b>	<b>1,441,787</b>
Excess of revenues over (under) expenditures	(69,313)	(124,658)	(308,728)	(277,395)	(41,719)	(97,587)	14,913	(132,343)	(181,248)	5,724
<b>Other financing sources (uses):</b>										
Transfers - In	127,656	129,177	406,871	505,103	133,437	134,898	126,615	191,253	200,624	285,332
Transfers - Out	(127,656)	(129,177)	(406,871)	(505,103)	(134,977)	(134,898)	(128,615)	(191,126)	(205,656)	(310,332)
Revenue bonds issued	0	0	259,447	200,000	0	0	0	0	0	325,000
Refunding bonds issued	0	213,404	416,292	0	0	0	150,870	0	201,132	0
Payment to refunded bonds escrow agent	0	(621,213)	(414,036)	0	0	0	(150,275)	0	0	0
Premium on conversion of bonds	0	0	0	0	0	0	0	11,410	0	0
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>(407,809)</b>	<b>261,703</b>	<b>200,000</b>	<b>(1,540)</b>	<b>0</b>	<b>(1,405)</b>	<b>11,537</b>	<b>196,100</b>	<b>300,000</b>
Other changes in fund balances:	(69,313)	(532,467)	(47,025)	(77,395)	(43,259)	(97,587)	13,508	(120,806)	14,852	305,724
Change in reserve for materials and supplies inventory	1,059	1,229	146	1,686	148	(121)	1,217	2,748	3,283	(760)
Cumulative effect of change in accounting principal	27,921	0	0	0	0	0	0	0	0	0
Prior period adjustment	0	0	0	0	0	0	0	(150,870)	0	0
	28,980	1,229	146	1,686	148	(121)	1,217	(148,122)	3,283	(760)
<b>Net change in fund balances</b>	<b>\$ (40,333)</b>	<b>\$ (531,238)</b>	<b>\$ (46,879)</b>	<b>\$ (75,709)</b>	<b>\$ (43,111)</b>	<b>\$ (97,708)</b>	<b>\$ 14,725</b>	<b>\$ (268,928)</b>	<b>\$ 18,135</b>	<b>\$ 304,964</b>
<b>Debt service as a percentage of noncapital expenditures*</b>	<b>12.3%</b>	<b>12.8%</b>	<b>9.4%</b>	<b>13.5%</b>	<b>12.3%</b>	<b>15.5%</b>	<b>11.7%</b>	<b>16.0%</b>	<b>17.9%</b>	<b>12.6%</b>

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

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

Kansas Department of Transportation  
Motor Fuels Taxes - Revenue Base and Rates

		For fiscal years ended June 30									
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Revenue Base Information</b>											
<b>(gallons in thousands)</b>											
Gasoline**	gallons sold	1,294,451	1,359,038	1,336,909	1,157,851	1,282,324	1,173,869	1,229,523	1,147,549	1,338,222	1,241,059
Motor carrier	trip permits	9,615	9,679	9,918	10,083	12,658	18,676	20,264	19,025	22,688	24,450
Diesel	gallons sold	380,114	409,546	406,209	404,184	449,136	482,852	470,361	446,370	432,469	462,188
Liquid petroleum	gallons sold	1,320	1,335	1,189	1,148	1,111	572	905	972	784	671

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

<b>Revenue Rate Information</b>												
Gasoline	Cents per gallon	21	23	24	24	24	24	24	24	24	24	24
E-85	Cents per gallon						(A) 17	17	17	17	17	17
Motor carrier	Per permit	\$ 11.50	\$ 12.50	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00	\$ 13.00
Diesel	Cents per gallon	23	25	26	26	26	26	26	26	26	26	26
Liquid petroleum	Cents per gallon	20	22	23	23	23	23	23	23	23	23	23

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

\*\* - includes gasohol

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

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gasoline	\$ 281,730	\$ 309,681	\$ 318,831	\$ 314,583	\$ 309,832	\$ 314,720	\$ 309,978	\$ 305,807	\$ 310,039	\$ 313,554
E-85	0	0	0	0	0	31	221	253	201	312
Motor carrier stations	109	120	128	131	165	243	263	247	295	318
Diesel (dealers)	92,577	98,985	103,799	102,983	110,066	111,297	115,642	111,613	109,397	115,504
Interstate motor fuel	6,883	8,720	6,000	15,129	13,787	13,382	11,419	8,380	11,998	10,829
Liquid petroleum	294	295	273	260	255	226	214	208	182	157
Total motor fuel tax receipts	381,593	417,801	429,031	433,086	434,105	439,899	437,737	426,508	432,112	440,673
Refunds	6,892	6,183	5,179	6,826	5,939	5,851	6,430	5,237	7,541	4,443
Ethyl Alcohol Incentive Fund	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Net receipts to KDOT	371,201	408,118	420,352	422,760	424,666	430,548	427,807	417,771	421,071	432,730
Distributed to agency funds:										
Special City and County Highway Fund	140,227	141,974	138,865	139,674	140,315	142,293	141,372	137,996	139,106	143,027
County Equalization & Adjustment Fund	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
Net to State Highway Fund*	\$ 228,474	\$ 263,644	\$ 278,987	\$ 280,586	\$ 281,851	\$ 285,755	\$ 283,935	\$ 277,275	\$ 279,465	\$ 287,203

\* - The agency's general fund

Source: Kansas Department of Revenue

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

Kansas Department of Transportation  
Motor Fuels Taxes - Principal Remitters

<u>Remitter</u>	2011			2002*		
	<u>Tax Remitted (thousands)</u>	<u>Rank</u>	<u>Percentage of Total Taxes Remitted</u>	<u>Tax Remitted (thousands)</u>	<u>Rank</u>	<u>Percentage of Total Taxes Remitted</u>
Firm A	\$ 49,115	1	11.70%	\$ 31,979	1	8.41%
Firm B	33,041	2	7.87%	10,718	9	2.82%
Firm H	23,710	3	5.65%			
Firm D	23,243	4	5.54%			
Firm E	15,987	5	3.81%	13,833	5	3.64%
Firm G	15,577	6	3.71%	13,130	6	3.45%
Firm R	13,538	7	3.22%			
Firm T	13,339	8	3.18%			
Firm S	9,642	9	2.30%			
Firm C	9,189	10	2.19%	23,310	2	6.13%
Firm N				16,234	3	4.27%
Firm J				15,127	4	3.98%
Firm O				12,523	7	3.29%
Firm F				11,316	8	2.97%
Firm M				9,545	10	2.51%
Total	<u>\$ 206,381</u>		<u>49.17%</u>	<u>\$ 157,715</u>		<u>41.47%</u>

\* - Earliest information available

Source: Information provided by Kansas Department of Revenue

Kansas Department of Transportation  
 Vehicle Registration Fee Schedule  
 For the Fiscal Year Ended June 30, 2011

<u>Vehicle Category</u>	<u>Lowest</u>		<u>Highest</u>	
	<u>Fee</u>	<u>Weight Class</u>	<u>Fee</u>	<u>Weight Class</u>
Passenger vehicles	\$ 30	0- 4,500 lbs.	\$ 40	4,500 + lbs.
Regular trucks, operated more than 6,000 miles per year	40	0-12,000 lbs.	1,935	80-85,500 lbs.
Regular trucks, operated 6,000 miles or less per year	62	12-16,000 lbs.	1,010	80-85,500 lbs.
Local trucks	62	12-16,000 lbs.	1,010	80-85,500 lbs.
Farm trucks	37	12-16,000 lbs.	610	66,000 + lbs.
Custom harvesting farm trucks	62	12-16,000 lbs.	1,010	80-85,500 lbs.
Trailers, mobile homes	15	0- 8,000 lbs.	35	12,000 + lbs.
		<u>Number of Passengers</u>		<u>Number of Passengers</u>
Buses	\$ 15	8-30	\$ 60	40+
	<u>Flat Fee</u>			
Motorized Bicycles	\$ 10			
Motorcycles	15			
Personalized Plates	40			
Antiques	40			
Special Interest Vehicles	26			

Source: Information derived from Kansas Statutes

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

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

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Fiscal Year	Vehicle Registration Fees*	Driver's License*	Special Vehicle Permits	Total
2002	\$ 132,969	\$ 7,147	\$ 516	\$ 140,632
2003	146,306	5,905	527	152,738
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	163,047	9,153	778	172,978
2008	162,100	7,982	867	170,949
2009	162,655	6,761	840	170,256
2010	166,178	7,490	1,623	175,291
2011	167,386	8,999	2,107	178,492

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

\* - Net of refunds

Source: Kansas Department of Revenue

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

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

Fiscal Year	Total State Tax Rate	Daily Direct Deposit to SHF*		Statutory Transfer Rate	Other Reductions
		Ratio	Per cent		
2002	4.90%	5/98	5.102%	9.500%	Capped at \$121.1 million, and further reduced by \$26.8 million**
2003	5.30%	5/106	4.717%	11.000%	As part of the Legislature's efforts to solve statewide budgetary shortfalls, the transfer was suspended
2004	5.30%	5/106	4.717%	11.250%	As part of the Legislature's efforts to solve statewide budgetary shortfalls, the transfer was suspended
2005	5.30%	5/106	4.717%	--	As part of the Legislature's efforts to solve statewide budgetary shortfalls, the transfer was eliminated
2006	5.30%	5/106	4.717%	--	The statutory transfer was eliminated and replaced with an increase in the daily direct deposit rate beginning in FY 2007.
2007	5.30%	19/265	7.170%	--	--
2008	5.30%	13/106	12.264%	--	--
2009	5.30%	13/106	12.264%	--	--
2010	5.30%	13/106	12.264%	--	--
2011	6.30%	--	11.427%	--	--

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

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

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

\*\* - The 2002 Legislature initially reduced the transfer by \$26.5 million. Subsequent action to reduce overall State General Fund expenditures reduced the transfer an additional \$320.6 thousand.

Note: The Retailers' Sales Tax and Compensating Use Tax rates are equal.

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

Source: Kansas Statutes

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

Fiscal Year	Deposits to State General Fund		Deposits to State Highway Fund (agency's general fund)		
	Sales Tax	Compensating Use Tax	Direct Deposit Sales & Compensating Use Tax	Sales Tax Transfer	Total
2002	\$ 1,470,607	\$ 233,603	\$ 91,586	\$ 94,288	\$ 185,874
2003	1,567,722	225,923	89,228	0	89,228
2004	1,612,067	214,503	90,137	0	90,137
2005	1,647,663	244,755	93,353	0	93,353
2006	1,736,048	269,250	98,914	0	98,914
2007	1,766,768	284,981	158,393	0	158,393
2008	1,711,398	246,277	273,293	0	273,293
2009	1,689,516	235,026	268,740	0	268,740
2010	1,652,037	205,540	259,445	0	259,445
2011	1,965,388	287,730	292,641	0	292,641

Source: Kansas Department of Revenue

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

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

Fiscal Year	Ratios of Outstanding Debt			Debt Margin Information			
	Total Principal Debt Outstanding	Percentage of Personal Income*	Per Capita*	Statutory Limitation	Applicable Debt Issued	Legal Debt Margin	Ratio of Debt Issued
<b>Governmental activities</b>							
2002	\$ 1,378,050	1.74%	\$ 507	\$ 2,162,000	\$ 1,565,000	\$ 597,000	72%
2003	1,309,308	1.63%	481	2,162,000	1,565,000	597,000	72%
2004	1,507,845	1.78%	551	2,162,000	1,815,000	347,000	84%
2005	1,859,557	2.06%	678	2,162,000	2,162,000	none	100%
2006	1,816,817	1.89%	657	2,162,000	2,162,000	none	100%
2007	1,767,199	1.73%	637	2,162,000	2,162,000	none	100%
2008	1,720,268	1.58%	614	2,162,000	2,162,000	none	100%
2009	1,681,176	1.57%	596	2,162,000	2,162,000	none	100%
2010	1,582,620	1.40%	557	2,162,000	2,162,000	none	100%
2011	1,801,549	N/A	N/A	see note below*			

Calculation of Legal Debt Margin for Fiscal Year 2011	
Current State Highway Fund revenues	\$ 1,437,516
Maximum allowable annual Debt Service	18% 258,753
Maximum annual debt service on existing debt	189,123
Additional annual debt service allowed	69,630
Estimated additional debt available to be issued	1,392,598

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

<b>Business-type activities</b>			
2002	\$ -	-	\$ -
2003	-	-	-
2004	-	-	-
2005	-	-	-
2006	33,638	0.04%	12
2007	58,626	0.06%	21
2008	55,013	0.05%	20
2009	94,977	0.09%	34
2010	88,607	0.08%	31
2011	81,235	N/A	N/A

Calculation of Legal Debt Margin for Fiscal Year 2011	
There are no dollar limitations on the debt that can be issued by the Transportation Revolving Fund or the Communications System Revolving Fund.	

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

N/A - Not available

\* - See following demographic and economic schedules for personal income and population data (not yet available for 2011).

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

Fiscal Year	Revenues Available for Debt Service	Bond Service Charges			Coverage
		Principal	Interest	Total	
2002	\$ 636,748	\$ 45,095	\$ 69,543	\$ 114,638	5.55
2003	549,664	54,410	61,695	116,105	4.73
2004	545,638	28,350	53,622	81,972	6.66
2005	563,512	38,460	67,633	106,093	5.31
2006	786,732	46,755	76,295	123,050	6.39
2007	655,626	53,020	76,393	129,413	5.07
2008	770,068	50,330	73,679	124,009	6.21
2009	739,198	52,990	75,314	128,304	5.76
2010	728,725	99,930	74,476	174,406	4.18
2011	766,774	104,885	80,692	185,577	4.13

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

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

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

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

<u>Fiscal Year</u>	<u>Estimated Population as of July 1<sup>(1)</sup></u>	<u>Personal Income (amounts in thousands)</u>	<u>Per capita Personal Income<sup>(2)</sup></u>	<u>Unemploy- ment Rate<sup>(3)</sup></u>
2002	2,715,884	79,143,576	29,141	5.1%
2003	2,723,507	80,466,014	29,545	5.4%
2004	2,735,502	84,808,769	31,003	4.8%
2005	2,744,687	90,431,947	32,948	5.3%
2006	2,764,075	96,032,258	34,743	4.7%
2007	2,775,997	102,067,858	36,768	4.8%
2008	2,802,134	108,778,842	38,820	4.4%
2009	2,818,747	106,875,611	37,916	7.1%
2010	2,841,121	112,897,625	39,737	6.5%
2011	N/A	N/A	N/A	6.7%

N/A - Not Available

Data sources

- (1) U.S. Bureau of the Census
- (2) U.S. Department of Commerce (calendar year data)
- (3) State of Kansas Department of Labor, Kansas Labor Market Information Services

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

<u>Employer</u>	<u>2011</u>			<u>2002</u>		
	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>	<u>Employees</u>	<u>Rank</u>	<u>Percentage of Total Employment</u>
State Government F/P* (excludes Regents	53,383	1	4.04%	-		
KU and KUMC	12,125	2	0.92%	-		
Spirit Aerosystems Inc.	8,000	3	0.61%	-		
Hawker Beechcraft Corp.	7,000	4	0.53%	-		
Cessna aircraft Corporation	6,200	5	0.47%	11,165	3	0.83%
Embarq Corp.	5,600	6	0.43%	-	-	-
Spirit Communications Co. LP	5,000	7	0.38%	20,164	1	1.50%
Royal Caribbean Cruises Ltd.	4,900	8	0.37%	-	-	-
B & V - Baker Guam JV	4,500	9	0.34%	-	-	-
Via Christi Regional Med. Ctr.	4,000	10	0.30%	4,780	9	0.36%
The Boeing Company	-	-	-	17,300	2	1.29%
Raytheon Aircraft Company	-	-	-	9,200	4	0.69%
Kroger Co./Dillon's Stores/Quick Shops	-	-	-	9,137	5	0.68%
Tyson Foods/IBP Inc.	-	-	-	6,280	6	0.47%
Farmland Industries/Foods/National Beef	-	-	-	5,500	7	0.41%
University of Kansas Medical Center	-	-	-	4,954	8	0.37%
Burlington Northern Santa Fe	-	-	-	4,600	10	0.34%
<b>Total</b>	<u>110,708</u>		<u>8.39%</u>	<u>93,080</u>		<u>6.93%</u>

Source: Dun & Bradstreet Corporation, Million Dollar Databases 2010 for current fiscal year and Marketplace Directory for fiscal year 2001.

\* - Full-time/Part-time

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Maintenance and preservation	2,616.0	2,616.0	2,610.0	2,615.0	2,606.0	2,593.0	2,566.5	2,489.5	2,484.5	2,483.5
Local support	57.0	57.0	58.0	57.0	57.0	57.0	58.0	55.0	62.0	63.0
General government	574.5	574.5	579.5	579.5	574.5	570.5	577.0	569.0	567.0	567.0
Total authorized FTE's	<u>3,247.5</u>	<u>3,247.5</u>	<u>3,247.5</u>	<u>3,251.5</u>	<u>3,237.5</u>	<u>3,220.5</u>	<u>3,201.5</u>	<u>3,113.5</u>	<u>3,113.5</u>	<u>3,113.5</u>

Kansas Department of Transportation  
Operating Indicators  
For Calendar Year

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Maintenance and preservation											
Daily vehicle miles traveled											
Total state	78,754,540	78,964,460	79,581,205	80,664,034	81,839,015	83,137,912	83,189,686	81,808,539	80,814,108	N/A	N/A
State Highway System	26,913,269	27,244,234	27,171,081	27,055,426	26,796,714	26,595,464	26,560,255	26,846,213	26,513,549	N/A	N/A
General government											
Accidents (state wide)	78,856	78,312	74,993	74,102	68,675 *	65,460	70,589	65,858	61,165	N/A	N/A
Fatalities (state wide)	494	507	469	459	428	468	416	385	386	N/A	N/A
Rail, air and public transportation											
Activity at Kansas airports with commercial service											
Total enplanements	586,958	690,814	741,718	785,889	773,950	781,385	846,958	851,349	798,388	845,412	N/A
Landings & takeoffs	540,497	545,529	501,626	481,017	484,448	473,523	446,332	447,044	419,913	395,439	N/A
Public transit programs (fiscal year)											
Counties with public transit service available	92	92	92	96	96	96	96	96	93	94	93
Ridership - rural operators	1,794,029	2,152,900	2,344,126	2,534,980	2,637,182	2,609,505	2,605,945	2,784,249	2,891,349	2,912,436	2,796,751

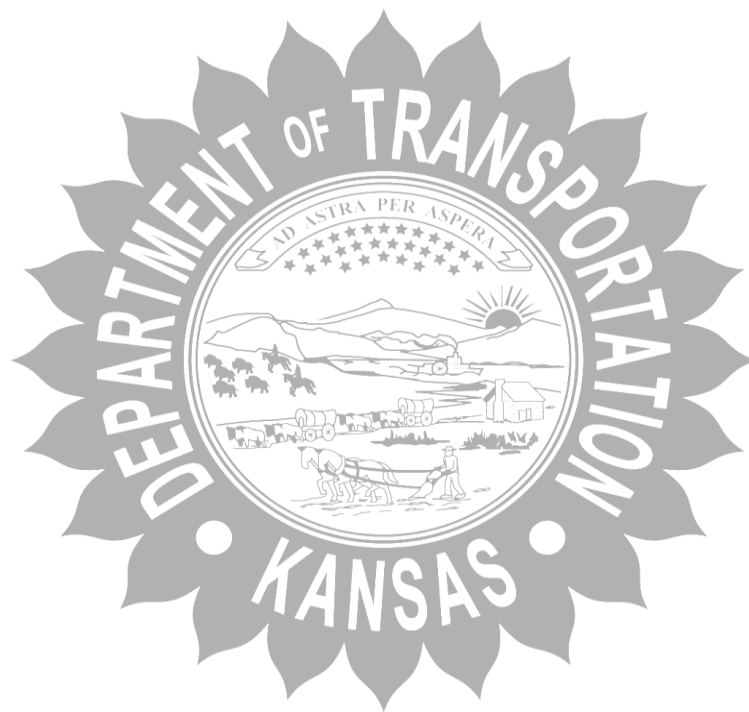
\* - Accident reporting threshold changed from \$500 to \$1,000 effective January 1, 2005

N/A - Not Available

Kansas Department of Transportation  
Capital Asset Statistics  
For Calendar Year

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Maintenance and preservation											
Center lane miles											
Total state	134,724	135,035	135,017	135,019	135,462	140,379	140,270	140,609	140,752	N/A	N/A
State Highway System	9,564	9,565	9,538	9,529	9,525	9,519	9,519	9,496	9,497	N/A	N/A
Bridges											
Total state	25,983	25,981	25,904	25,796	25,827	25,863	25,916	25,938	25,487	25,279	N/A
State Highway System	4,913	4,932	4,932	4,957	4,976	4,987	4,989	5,034	5,036	5,063	N/A
Rail, air and public transportation											
Aircraft based at Kansas airports with commercial service	624	622	664	656	693	679	661	658	658	660	N/A
Public transit programs (fiscal year)											
Vehicles operated at year end	527	566	635	637	666	710	718	770	800	777	782

N/A - Not Available



## **OTHER INFORMATION**

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**Independent Auditors' Report On Internal Control  
Over Financial Reporting And On Compliance And  
Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards**

The Acting Secretary of Transportation  
State of Kansas

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Department of Transportation, State of Kansas (the Department) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Department's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2 to be material weaknesses.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Acting Secretary of Transportation and management is not intended to be and should not be used by anyone other than these specified parties.

*RubinBrown LLP*

Overland Park, Kansas  
January 30, 2012

# KANSAS DEPARTMENT OF TRANSPORTATION

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## SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2011

### **Finding 2011-1 – Material Weakness**

**Condition:** Internal controls over the reconciliation of the pooled cash operating account at the State of Kansas (State) were not properly modified and implemented upon conversion to the new general ledger software package (SMART).

**Cause:** The State converted to SMART at the beginning of the fiscal year. The conversion changed the type and level of detail of the information that was previously provided to perform the reconciliation. The bank reconciliation procedures and related controls were not reviewed and modified timely to allow for bank reconciliations to be performed accurately throughout the year.

**Effect:** At fiscal year-end, the State tried to prepare a bank reconciliation for the entire fiscal year. The State was unable to reconcile cash timely and accurately and had to revisit reporting information produced from their general ledger to determine that the integrity of the information being produced and used for the bank reconciliation had remained intact. This exercise discovered conversion issues that needed to be corrected in order to reconcile properly. This process should have been performed and procedures and controls adjusted as close to the conversion date as possible.

**Recommendation:** We recommend that management formalize the new processes and procedures and perform bank reconciliations for the pooled operating account on a monthly basis going forward.

**Corrective Action Plan (Unaudited):** The Department of Administration and the Office of the State Treasurer agree with this finding. The formal procedures for the reconciliation of the State Treasurer's common cash and investment accounts to the SMART accounting records were not fully developed and implemented prior to July 1, 2010. One result was that it took an extended period of time to pull together the records for the auditor in order to reconcile the SMART cash balances with the State Treasurer's bank balances.

Over the past few months, joint efforts of the Department of Administration and the Office of the State Treasurer have resulted in significant progress in developing the formal reconciliation procedures and processes that will be used on a monthly basis prospectively. We anticipate the procedures will be completed by April 30 and fully implemented by end of fiscal year 2012.

**Completion Date:** June 30, 2012

**Contact Person and Title:** Martin Eckhardt, Director, Office of Management Analysis and Standards

**KANSAS DEPARTMENT OF TRANSPORTATION**  

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**SCHEDULE OF FINDINGS AND RESPONSES (Continued)**  
**June 30, 2011**

**Finding 2011-2 – Material Weakness**

**Condition:** Internal controls related to the reconciliation and review of the proper capitalization of construction in progress, infrastructure and other capital assets were not designed properly to capture all capital assets and the related depreciation at fiscal year end

**Cause:** The Department had one individual responsible for capturing and reporting capital assets and the related depreciation for fiscal year-end reporting in the financial statements. There was not a formal review in place whereby someone reviewed the information this individual compiled for accuracy and completeness.

**Effect:** At fiscal year-end, the Department had to make material adjustments for construction in progress, infrastructure and certain other capital asset categories. In addition, certain adjustments to depreciation expense were proposed but were not posted due to management's assessment of materiality to the financial statements as a whole. A review of the information compiled and reported would have provided the Department with the ability to prevent, or detect and correct these errors before the information was presented to the auditor for testing.

**Recommendation:** We recommend that management review and consider changes to its current processes and controls for capturing capital asset information, reporting the assets in the proper categories and properly depreciating them going forward.

**Corrective Action Plan (Unaudited):** The Department CAFR Accountant position will be moved on the organization chart into the General Accounting Section of Fiscal Services. This organizational change should provide more oversight for the financial statement preparation process. The General Accounting Section of Fiscal Services has also received approval to fill an additional Accountant IV position which can be made available for additional cross-training and verification of financial statement amounts and disclosures.

The current process to capture construction in progress and infrastructure balances has been in effect since the implementation of GASB 34. The Department began reporting these balances on the audited financial statements in 2002. The process will be reviewed by the Department Fiscal Services staff for potential changes and enhancements. Additional information will be added to the existing procedure documentation. The review process will begin once the Department CAFR Accountant and the other General Accounting Accountant IV positions are filled.

**Completion Date:** September 30, 2012

**Contact Person and Title:** Rhonda J. Seitz, Bureau Chief, Fiscal Services