

NEW ISSUE - BOOK-ENTRY ONLY

RATINGS: Moody's: "Aa1"
S&P: "AAA"
Fitch: "AA+"
See "RATINGS" herein

In the opinion of Gilmore & Bell, P.C., Bond Counsel, the Series 2010A Bonds and all income or interest therefrom are exempt from all Kansas taxes. See "TAX MATTERS RELATING TO THE SERIES 2010A BONDS" herein.



\$325,000,000
State of Kansas
Department of Transportation
Taxable Highway Revenue Bonds, Series 2010A
(Build America Bonds—Direct Payment to Issuer)

<u>Dated</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u> ⁽¹⁾	<u>Due</u>
Date of Delivery	4.596%	4.596%	485424-NF8	September 1, 2035

The Taxable Highway Revenue Bonds, Series 2010A (Build America Bonds—Direct Payment to Issuer) to be dated the date of delivery thereof (the "Series 2010A Bonds"), of the State of Kansas (the "State") are being issued by the Secretary of Transportation of the State (the "Secretary") for the purpose of paying a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. In addition, proceeds of the Series 2010A Bonds will be used to pay the costs associated with the issuance thereof. The Series 2010A Bonds are being issued and will be secured on a parity with the Highway Revenue Bonds of several series previously issued and Outstanding as described herein and any Additional Bonds that may be issued in the future.

Interest on the Series 2010A Bonds is payable semiannually on March 1 and September 1 of each year (each an "Interest Payment Date") commencing March 1, 2011. The Series 2010A Bonds are being issued as registered bonds in book-entry form in authorized denominations of \$5,000 and any integral multiple thereof and, when issued, will be initially registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as a securities depository for the Series 2010A Bonds (the "Securities Depository"). Purchases of the Series 2010A Bonds may be made only in book-entry form in authorized denominations by credit to participating broker-dealers and other institutions on the books of DTC as described herein. Purchasers will not receive certificates representing their interest in the Series 2010A Bonds purchased. Principal of and interest on the Series 2010A Bonds are payable by the Treasurer of the State of Kansas, as Paying Agent and Bond Registrar, to the Securities Depository, which will remit such payments in accordance with its normal procedures, as described herein. The Series 2010A Bonds are subject to redemption prior to maturity as described herein.

THE SERIES 2010A BONDS AND THE INTEREST THEREON ARE SPECIAL OBLIGATIONS OF THE STATE AND ARE PAYABLE AND COLLECTIBLE SOLELY FROM THE REVENUES IN THE STATE HIGHWAY FUND AND TRANSFERRED TO THE HIGHWAY BOND DEBT SERVICE FUND. THE OWNERS OF THE SERIES 2010A BONDS MAY NOT LOOK TO ANY GENERAL OR OTHER FUND OF THE STATE FOR PAYMENT AND THE SERIES 2010A BONDS WILL NOT CONSTITUTE AN INDEBTEDNESS OR A DEBT WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION, NOR CAN THEY BE CONSIDERED OR HELD TO BE GENERAL OBLIGATIONS OF THE STATE.

The Series 2010A Bonds are offered when, as and if issued and received by the Underwriters and are subject to the final approving opinion of Gilmore & Bell, P.C., Bond Counsel. Certain legal matters will be passed upon for the Secretary and the Department of Transportation by its Special Counsel, Jonathan P. Small, Chartered, Topeka, Kansas, and for the Underwriters by Kutak Rock LLP. It is expected that the Series 2010A Bonds will be available for delivery to DTC in New York, New York, on or about September 1, 2010.

Barclays Capital

BofA Merrill Lynch

Citi

Fidelity Capital Markets

George K. Baum & Company

J.P. Morgan

Morgan Stanley

Valdés & Moreno

Wells Fargo Securities

The date of this Official Statement is August 17, 2010

⁽¹⁾CUSIP numbers have been assigned to this issue by Standard & Poor's CUSIP Service Bureau, a division of the McGraw-Hill Companies, Inc., and are included solely for the convenience of the Owners of the Series 2010A Bonds. Neither the Secretary nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth above.

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STATE OF KANSAS

Mark Parkinson, Governor

KANSAS DEPARTMENT OF TRANSPORTATION

Deb Miller
Secretary of Transportation

Joseph J. Erskine
Deputy Secretary for Finance
and Administration

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

Marcia Ferrill
Director of Financial Services

Robert Stacks
Director of Administration

Ed Young
Director of Aviation

Rhonda Seitz
Chief of Fiscal Services

Vicky S. Johnson
Chief Counsel

Eugene W. Robben
Inspector General

Reed W. Davis
Manager of Economic Analysis

Ben Cleaves
Chief of Budget

Dan Scherschligt
Director of Engineering and Design

Catherine Patrick
Director of Operations

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Chris Herrick
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Chief of Financial & Investment Management

Special Counsel
Jonathan P. Small, Chartered

Bond Counsel
Gilmore & Bell, P.C.

Independent Auditors
Allen, Gibbs & Houlik, L.C. and Berberich Trahan & Co., P.A.

Financial Advisor
Public Financial Management, Inc.

No dealer, broker, salesperson or other person has been authorized by the State of Kansas (the “State”), the Department of Transportation (the “Department”), the Secretary of Transportation (the “Secretary”) or the Underwriters to give any information or to make any representation in connection with the offering of the Series 2010A Bonds, other than the information and representations contained in this Official Statement and, if given or made, such information or representation must not be relied upon as having been authorized by the State, the Department, the Secretary or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Series 2010A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information, estimates and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the State, the Department or the State Highway Fund since the date hereof. The information set forth herein concerning the State, the Department and the State Highway Fund has been obtained from the Department and is believed to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information and this Official Statement is not to be construed as the promise or guarantee of the Underwriters. This Official Statement does not constitute a contract between the State, the Department, the Secretary or the Underwriters and any one or more of the purchasers or registered owners of the Series 2010A Bonds.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2010A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE SERIES 2010A BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE GUARANTEED OR PASSED UPON THE SAFETY OF THE SERIES 2010A BONDS AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

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

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OFFICIAL STATEMENT

\$325,000,000

State of Kansas

Department of Transportation

Taxable Highway Revenue Bonds

(Build America Bonds—Direct Payment to Issuer)

Series 2010A

INTRODUCTION

This Official Statement, including the cover page and the Appendices, sets forth certain information concerning the \$325,000,000 Taxable Highway Revenue Bonds, Series 2010A (Build America Bonds—Direct Payment to Issuer) to be dated the date of delivery thereof (the “Series 2010A Bonds”), of the State of Kansas (the “State”). The Series 2010A Bonds are being issued by the Secretary of Transportation (the “Secretary”) pursuant to the provisions of Section 68-2314 *et seq.* of the Kansas Statutes Annotated, as amended (the “Act”), and the 1992 Resolution adopted by the Secretary on March 31, 1992 (the “1992 Resolution”), as heretofore supplemented and as supplemented by the Twenty-Fifth Supplemental Resolution authorizing the Series 2010A Bonds (the “Twenty-Fifth Supplemental Resolution”), adopted by the Secretary on August 17, 2010. The Series 2010A Bonds are being issued for the purpose of paying a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. In addition, proceeds of the Series 2010A Bonds will be used to pay the costs associated with the issuance thereof. See “APPLICATION OF PROCEEDS OF THE SERIES 2010A BONDS” herein.

The Secretary will elect to treat the Series 2010A Bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009, Public Law 11-5, signed into law by the President on February 17, 2009 (the “Recovery Act”), and to receive a cash subsidy from the United States Treasury equal to 35% of the interest payable on the Series 2010A Bonds. The Series 2010A Bonds will constitute and are the first Series of Bonds to be designated by the Secretary as Government Interest Subsidy Bonds as such term is defined in the Resolution.

The Series 2010A Bonds will be issued and secured on a parity with the Outstanding principal amount of highway revenue bonds previously issued under the 1992 Resolution and described under “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Outstanding Bonds” herein.

The 1992 Resolution provides for the issuance of additional bonds on a parity with the Series 2010A Bonds and the Outstanding Bonds (“Additional Bonds”) and for the issuance of subordinate bonds (“Subordinate Bonds”). The Series 2010A Bonds, the Outstanding Bonds and any Additional Bonds issued under the terms of the 1992 Resolution are herein collectively referred to as “Parity Bonds” and all Parity Bonds and any Subordinate Bonds issued under the terms of the 1992 Resolution are herein collectively referred to as the “Bonds.”

Transportation Works for Kansas Program

The Transportation Works for Kansas Program (“T-WORKS”) was developed by the Kansas Department of Transportation (the “Department”) as authorized by the Kansas Legislature through the amendments to the Act provided by Senate Substitute for Senate Substitute for House Bill No. 2650, 2010 Kansas Legislature (the “2010 Act Amendments”), effective June 3, 2010, signed by the Governor on May 25, 2010, and effective upon publication in the Kansas Register. The purpose of T-WORKS is to

provide for (1) construction, improvement, reconstruction and maintenance of the state highway system, (2) assistance, including credit and credit enhancements, to cities and counties in meeting their responsibilities for the construction, improvement, reconstruction and maintenance of the roads and bridges not on the state highway system, (3) assistance for the preservation and revitalization of rail service in the State, (4) assistance for the planning, constructing, reconstructing or rehabilitating the facilities of public use general aviation airports, (5) public transit programs to aid elderly persons, persons with disabilities and the general public, (6) assistance for transportation-sensitive economic opportunities on a local or regional basis, (7) analysis of the feasibility of constructing new toll or turnpike projects or designating existing highways or portions thereof as toll or turnpike projects, and (8) expending or committing at least \$8 million for projects in each county of the State.

The expenditures for T-WORKS are estimated to be \$15.7 billion, including construction expenditures estimated to be \$6.4 billion.

The 2010 Act Amendments authorize 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. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Additional Bonds.”

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

Prior Programs

The Comprehensive Transportation Program, a predecessor state highway program, was developed by the Department as authorized by the 1999 Kansas Legislature. The expenditures for the ten-year Comprehensive Transportation Program were \$13.3 billion. The expenditures for construction were \$7.45 billion. All major modification and system enhancement projects were let by the close of Fiscal Year 2009. An original aggregate principal amount of \$1,272,000,000 (new money) of highway revenue bonds was issued by the Secretary to fund a portion of the Comprehensive Transportation Program.

The Comprehensive Highway Program, a predecessor state highway program, was developed by the Department as authorized by the 1989 Kansas Legislature. The expenditures for the eight-year Comprehensive Highway Program were \$5.2 billion. The expenditures for construction were over \$3.1 billion. All major modification projects were let by the close of Fiscal Year 1997. An original aggregate principal amount of \$890,000,000 (new money) of highway revenue bonds was issued by the Secretary to fund a portion of the Comprehensive Highway Program.

Statutory Authorization; Outstanding and Additional Bonds

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

bonds, previously issued and remaining Outstanding are described under “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Outstanding Bonds” herein.

The 2010 Act Amendments permit the Secretary to issue highway revenue bonds without a stated statutory dollar limitation, subject, however, to the condition that the Secretary certify that, as of the date of issuance of any such bonds, the maximum annual debt service on all Outstanding Bonds and on such bonds proposed to be issued will not exceed 18% of Revenues projected for the then-current or any future Fiscal Year. The 1992 Resolution contains conditions with respect to the issuance of Additional Bonds thereunder. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Additional Bonds.”

The 1992 Resolution requires that, as a condition to the issuance of Additional Bonds, an independent accountant certify that the amount of Revenues, hereinafter defined, transferred or deposited into the State Highway Fund in any 12 consecutive months out of the most recent 18 months prior to the issuance of the Additional Bonds was not less than 300% of the maximum annual aggregate Adjusted Debt Service Requirements on all Parity Bonds to be Outstanding after the Additional Bonds are issued. The 1992 Resolution requires an adjustment to the Revenues actually transferred or deposited into the State Highway Fund if State legislation has been enacted that has changed the rate or distribution of any taxes or fees comprising the Revenues or that has changed any of the transactions subject to the fees, excises or license taxes comprising the Revenues at any time subsequent to the beginning of such 12-month period, to reflect the Revenues which would have been transferred or deposited in such 12-month period had the changes been effective for the entire period. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Additional Bonds.”

Source of Payment for the Series 2010A Bonds

The Series 2010A Bonds and the interest thereon are special obligations of the State payable and collectible solely from the Revenues in the State Highway Fund and transferred to the Highway Bond Debt Service Fund. The owners of the Series 2010A Bonds may not look to the general or any other fund of the State for payment and the Series 2010A Bonds will not constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, nor can they be considered or held to be general obligations of the State. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS.”

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

Miscellaneous

This Official Statement contains descriptions of, among other matters, the Series 2010A Bonds, the 1992 Resolution, as supplemented by the Twenty-Fifth Supplemental Resolution, the Department, the Revenues and the State Highway Fund. Such descriptions and information do not purport to be comprehensive or definitive. Summaries of certain provisions of the 1992 Resolution are set forth in Appendix E hereto. Definitions of certain terms used in this Official Statement are set forth in Appendix F hereto. All references herein to the 1992 Resolution and the Twenty-Fifth Supplemental

Resolution are qualified in their entirety by reference to the text of the 1992 Resolution and the Twenty-Fifth Supplemental Resolution and references herein to the Series 2010A Bonds are qualified in their entirety by reference to the forms thereof included in the 1992 Resolution and the Twenty-Fifth Supplemental Resolution. Executed copies of such documents will be available for inspection following the delivery of the Series 2010A Bonds at the office of the Secretary.

THE SERIES 2010A BONDS

General

The Series 2010A Bonds are being issued by the Secretary pursuant to the Act, the 1992 Resolution and the Twenty-Fifth Supplemental Resolution in the original aggregate principal amount of \$325,000,000. The Series 2010A Bonds are dated and bear interest from their date of delivery. Interest on the Series 2010A Bonds is payable on March 1 and September 1 of each year (each an “Interest Payment Date”) commencing March 1, 2011. Interest on the Series 2010A Bonds will be computed on the basis of a 360-day year of twelve 30-day months. The Series 2010A Bonds mature on the date and bear interest at the rate set forth on the cover of this Official Statement.

The Series 2010A Bonds are being issued only in fully registered form in denominations of \$5,000 and integral multiples thereof. The Series 2010A Bonds will be initially offered only in book-entry form, registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York, which will act as Securities Depository of the Series 2010A Bonds. See “BOOK-ENTRY SYSTEM.” For so long as Cede & Co. remains the registered owner of the Series 2010A Bonds, payments of principal and interest on the Series 2010A Bonds will be made by the Paying Agent directly to DTC or Cede & Co. as the nominee of DTC.

Payment of Series 2010A Bonds

The Treasurer of the State of Kansas (the “State Treasurer”) will serve as Paying Agent and Bond Registrar with respect to the Series 2010A Bonds. References herein to the “Paying Agent” or “Bond Registrar” are to the State Treasurer unless a different paying agent or bond registrar has been appointed, in which case, references to the Paying Agent or Bond Registrar shall be to the successor. The office of the State Treasurer is located in Topeka, Kansas, and information concerning the State Treasurer is included in Appendix H hereto.

Redemption Provisions

Optional Redemption with Make-Whole Premium. The Series 2010A Bonds are subject to redemption prior to maturity, at the option of the Secretary, from any source of available funds at any time, in whole or in part on any date, at a redemption price equal to the principal amount of Series 2010A Bonds to be redeemed plus the Make-Whole Premium, if any, plus any unpaid accrued interest to the redemption date.

Extraordinary Optional Redemption. The Series 2010A Bonds are subject to redemption prior to maturity, at the option of the Secretary upon the occurrence of a Tax Law Change, from any source of available funds, in whole or in part on any date, at a redemption price equal to 100% of the principal amount of Series 2010A Bonds to be redeemed plus the Make-Whole Premium, if any, plus any unpaid accrued interest to the date fixed for redemption.

For purposes of an Extraordinary Optional Redemption, a “Tax Law Change” means legislation has been enacted by the Congress of the United States or passed by either House of the Congress, or a

decision has been rendered by a court of the United States, or an order, ruling, regulation (final, temporary or proposed) or official statement has been made by or on behalf of the Treasury Department of the United States, the Internal Revenue Service or other governmental agency of appropriate jurisdiction, the effect of which, as reasonably determined by the Secretary, would be to suspend, reduce or terminate the Subsidy Payments or any similar payments to state or local government issuers generally with respect to obligations of the general character of the Series 2010A Bonds; provided, that such suspension, reduction or termination of the Subsidy Payments is not due to a failure by the Secretary to comply with the requirements under the Internal Revenue Code to receive such Subsidy Payments. “Subsidy Payments” means payments from the United States Treasury with respect to the Series 2010A Bonds pursuant to Sections 54AA and 6431 of the Code in an amount equal to 35% of the interest due thereon on each Interest Payment Date.

Certain Terms. The following are certain terms used in or with application to Optional Redemption with Make-Whole Premium and Extraordinary Optional Redemption.

The “Make-Whole Premium” is the amount calculated by the Calculation Agent equal to the positive difference, if any, between:

- (a) The sum of the present values, calculated as of the date fixed for redemption of:
 - (1) Each interest payment that, but for the redemption, would have been payable on the Series 2010A Bond or portion thereof being redeemed on each regularly scheduled Interest Payment Date occurring after the date fixed for redemption through the maturity date of such Series 2010A Bond (excluding any unpaid accrued interest to the date fixed for redemption); plus
 - (2) The principal amount that, but for such redemption, would have been payable on the maturity date of the Series 2010A Bond or portion thereof being redeemed; minus
- (b) The principal amount of the Series 2010A Bond or portion thereof being redeemed.

The present values of the interest and principal payments referred to in (a) above will be determined by discounting the amount of each such interest and principal payment from the date that each such payment would have been payable but for the redemption to the date fixed for redemption on a semiannual basis (assuming a 360-day year consisting of twelve (12) 30-day months) at a discount rate equal to the Comparable Treasury Yield, plus the Spread.

For purposes of calculating the Make-Whole Premium:

“*Calculation Agent*” means a commercial bank or an investment banking institution of national standing that is a primary dealer of United States government securities (which may be one of the institutions that served as underwriters for the Series 2010A Bonds) designated by the Secretary.

“*Comparable Treasury Issue*” means the United States Treasury security selected by the Calculation Agent as having a maturity comparable to the remaining term to maturity of the Series 2010A Bond being redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term to maturity of the Series 2010A Bond being redeemed.

“*Comparable Treasury Price*” means, with respect to any date on which a Series 2010A Bond or portion thereof is being redeemed, either (a) the average of four Reference Treasury Dealer quotations for the date fixed for redemption, after excluding the highest and lowest such quotations, and (b) if the

Calculation Agent is unable to obtain four such quotations, the average of the quotations that are obtained. The quotations will be the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of principal amount) quoted in writing to the Calculation Agent, at 5:00 p.m. New York City time at least three business days but not more than 45 calendar days preceding the date fixed for redemption.

“Comparable Treasury Yield” means the yield that represents the weekly average yield to maturity for the preceding week appearing in the most recently published statistical release designated “H.15(519) Selected Interest Rates” under the heading “Treasury Constant Maturities,” or any successor publication selected by the Calculation Agent that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity, for the maturity corresponding to the remaining term to maturity of the Series 2010A Bond being redeemed. The Comparable Treasury Yield will be determined at least three business days but not more than 45 calendar days preceding the date fixed for redemption. If the H.15(519) statistical release sets forth a weekly average yield for United States Treasury securities that have a constant maturity that is the same as the remaining term to maturity of the Series 2010A Bond being redeemed, then the Comparable Treasury Yield will be equal to such weekly average yield. In all other cases, the Comparable Treasury Yield will be calculated by interpolation on a straight-line basis, between the weekly average yields on the United States Treasury securities that have a constant maturity (i) closest to and greater than the remaining term to maturity of the Series 2010A Bond being redeemed; and (ii) closest to and less than the remaining term to maturity of the Series 2010A Bond being redeemed. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward. If, and only if, weekly average yields for United States Treasury securities for the preceding week are not available in the H.15(519) statistical release or any successor publication, then the Comparable Treasury Yield will be the rate of interest per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price (each as defined herein) as of the date fixed for redemption.

“Reference Treasury Dealer” means a primary dealer of United States Government securities (which may be one of the institutions that served as underwriters for the Series 2010A Bonds) appointed by the Secretary and reasonably acceptable to the Calculation Agent.

“Spread” means for optional redemptions 0.15% and for extraordinary optional redemptions 0.83%.

Mandatory Sinking Fund Redemption. The Series 2010A Bonds are subject to mandatory redemption, at the redemption price equal to the principal amount thereof, plus accrued interest, if any, in the amounts and on the dates as follows:

<u>September 1</u>	<u>Principal Amount</u>
2031	\$61,175,000
2032	63,030,000
2033	64,945,000
2034	66,910,000
2035 (Final Maturity)	68,940,000

Redemption in \$5,000 Units. The Series 2010A Bonds shall be redeemed only in the principal amount of \$5,000 or any integral multiple thereof and in the case of a partial redemption of Series 2010A Bonds by lot when Series 2010A Bonds of denominations greater than \$5,000 are then Outstanding, then

for all purposes in connection with such redemption each \$5,000 of face value shall be treated as though it were a separate Series 2010A Bond of the denomination of \$5,000. If it is determined that one or more, but not all, of the \$5,000 units of face value represented by any Series 2010A Bond is selected for redemption, then upon notice of intention to redeem such \$5,000 unit or units, the Owner of such Series 2010A Bond or the Owner's duly authorized agent shall forthwith present and surrender such Series 2010A Bond to the Paying Agent, (A) for payment of the redemption price (including the premium, if any, and interest to the date fixed for redemption) of the \$5,000 unit or units of face value called for redemption, and (B) for exchange, without charge to the Owner thereof, for a new Series 2010A Bond of the aggregate principal amount of the unredeemed portion of the principal amount of such Series 2010A Bond. If the Owner of any such Series 2010A Bond of a denomination greater than \$5,000 shall fail to present such Series 2010A Bond to the Paying Agent for payment and exchange as aforesaid, such Series 2010A Bond shall, nevertheless, become due and payable on the redemption date to the extent of the \$5,000 unit or units of face value called for redemption (and to that extent only).

Selection of Series 2010A Bonds for Redemption. If the Series 2010A Bonds are not registered in book-entry only form, any redemption of less than all of a maturity of the Series 2010A Bonds shall be effected by the Bond Registrar among owners on a pro-rata basis subject to minimum Authorized Denominations. The particular Series 2010A Bonds or portions thereof to be redeemed shall be determined by the Bond Registrar, using such method as it shall deem fair and appropriate.

If the Series 2010A Bonds are registered in book-entry only form and so long as DTC, or a successor securities depository, is the sole registered owner of the Series 2010A Bonds and if less than all of the Series 2010A Bonds of a maturity are called for prior redemption, the particular Series 2010A Bonds or portions thereof to be redeemed shall be selected on a "Pro Rata Pass-Through Distribution of Principal" basis in accordance with DTC procedures. However, so long as the Series 2010A Bonds are registered in book-entry form, the selection for redemption of such Series 2010A Bonds shall be made in accordance with the operational arrangements of DTC then in effect.

It is the Secretary's intent that redemption allocations made by DTC, the DTC Participants or such other intermediaries that may exist between the Secretary and the Beneficial Owners be made on a "Pro Rata Pass-Through Distribution of Principal" basis as described above. However, the Secretary can provide no assurance that DTC, the DTC Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such basis. If the DTC operational arrangements do not allow for the redemption of the Series 2010A Bonds on a Pro Rata Pass-Through Distribution of Principal basis as discussed above, then the Series 2010A Bonds will be selected for redemption in accordance with DTC procedures by lot.

Notice of Redemption. Under the terms of the 1992 Resolution, the Bond Registrar is to give notice, in the name of the Secretary, of the redemption of Series 2010A Bonds. Such notice is to be mailed to the owners of the Series 2010A Bonds to be redeemed not less than 30 days nor more than 60 days prior to the redemption date. Notice will be mailed to the owners at their last addresses appearing upon the registration books of the Bond Registrar. Any defect in a notice of redemption or the failure of the Bond Registrar to mail any notice to the Owner of any Series 2010A Bonds which are to be redeemed shall not affect the validity of the proceedings for the redemption of any other Bonds for which notice is properly given. Any notice which is mailed in the manner provided in the 1992 Resolution shall be conclusively presumed to have been duly given, whether or not the Owner received the notice.

The 1992 Resolution also provides that the Bond Registrar is to give further notice of redemption to all registered securities depositories then in the business of holding substantial amounts of obligations such as the Series 2010A Bonds and to the recognized national information services that disseminate notices of redemptions of obligations such as the Series 2010A Bonds. Neither any defect in the notices

described in this paragraph nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption.

Transfer and Exchange of Series 2010A Bonds

The Secretary covenants that, as long as any of the Series 2010A Bonds remain Outstanding, she will cause to be kept, at the office of the Bond Registrar, books for the registration, transfer and exchange of such Series 2010A Bonds.

Upon presentation of the necessary documents described below, the Bond Registrar is to transfer or exchange any Series 2010A Bond for a new Series 2010A Bond in an authorized denomination and for the same aggregate principal amount as the Series 2010A Bond which was presented for transfer or exchange. All Series 2010A Bonds presented for transfer or exchange must be accompanied by a written instrument or instruments of transfer or authorization for exchange, in a form and with guarantee of signature satisfactory to the Bond Registrar, duly executed by the owner thereof or by the owner's duly authorized agent, and the Series 2010A Bonds presented for transfer or exchange shall be surrendered to the Bond Registrar for cancellation. The 1992 Resolution states that the Secretary shall pay, out of the proceeds of the Series 2010A Bonds, the fees of the Bond Registrar for registration and transfer of such Series 2010A Bonds and the cost of printing a reasonable supply of registered bond blanks. Any additional costs or fees that might be incurred in the secondary market, other than fees of the Bond Registrar, shall be the responsibility of the owners.

The Secretary, the Bond Registrar and the Paying Agent may deem and treat the person in whose name any Series 2010A Bond shall be registered as the owner, whether such Series 2010A Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and interest on said Series 2010A Bond and for all other purposes, and all such payments so made to any such owner or upon such owner's order shall be valid and effectual to satisfy and discharge the liability upon such Series 2010A Bond to the extent of the sum or sums so paid, and neither the Secretary, the Bond Registrar nor the Paying Agent shall be affected by any notice to the contrary.

The Bond Registrar shall not be required to register, transfer or exchange Series 2010A Bonds for a period of 15 days next preceding an Interest Payment Date on the Series 2010A Bonds.

BOOK-ENTRY SYSTEM

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

DTC will act as securities depository for the Series 2010A Bonds. The Series 2010A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010A Bond certificate will be issued for each maturity of the Series 2010A Bonds in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money

market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2010A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2010A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2010A Bonds, except in the event that use of the book-entry system for the Series 2010A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2010A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2010A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2010A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all the Series 2010A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2010A Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Department as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct

Participants to whose accounts the Series 2010A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions and dividend payments on the Series 2010A Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Department or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the Department, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments on the Series 2010A Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Department or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2010A Bonds at any time by giving reasonable notice to the Department or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2010A Bond certificates are required to be printed and delivered.

The Department may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2010A Bond certificates will be printed and delivered.

The Department, Bond Counsel, the Paying Agent and the Underwriters cannot and do not give any assurances that the DTC Participants will distribute to the Beneficial Owners of the Series 2010A Bonds: (i) payments of principal of or interest on the Series 2010A Bonds; (ii) certificates representing an ownership interest or other confirmation of Beneficial Ownership interests in the Series 2010A Bonds; or (iii) redemption or other notices sent to DTC or its nominee, as the Registered Owners of the Series 2010A Bonds; or that they will do so on a timely basis or that DTC or its participants will serve and act in the manner described in this official statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

None of the Department, Bond Counsel, the Paying Agent or the Underwriters will have any responsibility or obligation to such DTC Participants (Direct or Indirect) or the persons for whom they act as nominees with respect to: (i) the Series 2010A Bonds; (ii) the accuracy of any records maintained by DTC or any DTC Participant; (iii) the payment by any DTC Participant of any amount due to any Beneficial Owner in respect of the principal amount of or interest on the Series 2010A Bonds; (iv) the delivery by any DTC Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Bond Indenture to be given to Registered Owners; (v) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2010A Bonds; or (vi) any consent given or other action taken by DTC as Registered Owner.

In reading this Official Statement, it should be understood that while the Series 2010A Bonds are in the Book Entry system, references in other sections of this Official Statement to Registered Owner should be read to include the Beneficial Owners of the Series 2010A Bonds, but: (i) all rights of ownership must be exercised through DTC and the Book Entry system; and (ii) notices that are to be given to Registered Owners by the Department or the Paying Agent will be given only to DTC.

APPLICATION OF PROCEEDS OF THE SERIES 2010A BONDS

The following table sets forth the estimated applications of the proceeds of the Series 2010A Bonds. The Highway Bond Proceeds Fund is created by the Act and is in the custody of the State Treasurer.

Principal of Series 2010A Bonds	\$325,000,000.00
Less: Underwriters' Discount	<u>1,673,918.83</u>
Total Sources:	<u>\$323,326,081.17</u>
Deposit to Highway Bond Proceeds Fund	\$322,909,537.17
Payment of Costs of Issuance and Miscellaneous	<u>416,544.00</u>
Total Applications:	<u>\$323,326,081.17</u>

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS

Legal Authority and Current Statutory Bond Authorization

The Series 2010A Bonds will be special obligations of the State and are being issued by the Secretary pursuant to the Act, the 1992 Resolution and the Twenty-Fifth Supplemental Resolution. Under the terms and provisions of the Act, the Secretary is authorized to issue bonds for the payment of costs of construction, reconstruction, maintenance or improvement of highways in the State and expenses incidental thereto, to pay costs of issuance, provide credit enhancement and to pay administrative and other expenses incurred in carrying out the powers granted by the Act.

The Series 2010A Bonds will be issued and secured on a parity with the Outstanding highway revenue bonds previously issued under the 1992 Resolution and described under "Outstanding Bonds" below. The 2010 Act Amendments permit the Secretary to issue highway revenue bonds without a stated statutory dollar limitation, subject, however, to the condition that the Secretary certify that, as of the date of issuance of any such bonds, the maximum annual debt service on all Outstanding Bonds and on such bonds proposed to be issued will not exceed 18% of Revenues projected for the then-current or any future Fiscal Year. The 1992 Resolution contains conditions with respect to the issuance of Additional Bonds thereunder. See the subcaption "Additional Bonds" hereunder.

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Outstanding Bonds

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

Series	Dated Date	Bond Name	Final Scheduled Maturity	Original Principal Amount	Principal Amount Outstanding June 1, 2010
1992	March 15, 1992	Highway Revenue Bonds	N/A	\$250,000,000	\$ 0
1992A	Sept. 15, 1992	Highway Revenue Bonds	N/A	125,000,000	0
1993	May 1, 1993	Highway Revenue Bonds	N/A	250,000,000	0
1993A	May 15, 1993	Highway Revenue Refunding Bonds	N/A	147,405,000	0
1994	Jan. 1, 1994	Highway Revenue Bonds	N/A	125,000,000	0
1994A	Sept. 15, 1994	Highway Revenue Bonds	N/A	50,000,000	0
1994B	Oct. 20, 1994	Adjustable Tender Hwy. Rev. Bonds	N/A	90,000,000	0
1998	March 1, 1998	Highway Revenue Refunding Bonds	9/1/2013	189,195,000	31,360,000
1999	Sept. 1, 1999	Highway Revenue Bonds	N/A	325,000,000	0
2000A	Nov. 1, 2000	Highway Revenue Bonds	N/A	150,000,000	0
2000B	Dec. 5, 2000	Adjustable Tender Hwy. Rev. Bonds	N/A	100,000,000	0
2000C	Dec. 5, 2000	Adjustable Tender Hwy. Rev. Bonds	N/A	100,000,000	0
2002A	Oct. 23, 2002	Highway Revenue Refunding Bonds	9/1/2011	199,600,000	33,525,000
2002B	Oct. 23, 2002	Adj. Tender Hwy. Rev. Ref. Bonds ⁽¹⁾	9/1/2019	170,005,000	170,005,000
2002C	Oct. 23, 2002	Adj. Tender Hwy. Rev. Ref. Bonds ⁽¹⁾	9/1/2019	150,000,000	150,000,000
2002D	Dec. 17, 2002	Adj. Tender Hwy. Rev. Ref. Bonds ⁽¹⁾	3/1/2012	88,110,000	46,440,000
2003A	Dec. 4, 2003	Highway Revenue Refunding Bonds	9/1/2013	164,275,000	164,275,000
2003B	Dec. 4, 2003	Highway Revenue Refunding Bonds	9/1/2011	83,915,000	43,085,000
2003C	Dec. 4, 2003	Auction Rate Hwy. Rev. Ref. Bonds ⁽²⁾	N/A	150,275,000	0
2004A	June 23, 2004	Highway Revenue Bonds	3/1/2023	250,000,000	250,000,000
2004B	Nov. 23, 2004	Highway Revenue Bonds ⁽²⁾	9/1/2024	200,000,000	200,000,000
2004C	Nov. 23, 2004	Adj. Tender Hwy. Rev. Bonds ⁽¹⁾	9/1/2024	147,000,000	147,000,000
2008A	May 13, 2008	Adj. Tender Hwy. Rev. Bonds ⁽¹⁾	9/1/2015	150,870,000	150,870,000
2009A	Nov. 30, 2009	Highway Revenue Refunding Bonds	9/1/2020	176,680,000	176,680,000

⁽¹⁾ The Department has entered into floating-to-fixed interest rate swaps with respect to these adjustable rate issues. See “—Interest Rate Exchange Agreements” below and “REVENUES AND DEBT SERVICE COVERAGE—Projected Annual Debt Service” herein.

⁽²⁾ The Series 2003C Bonds, originally issued in the Auction Mode, were refunded and replaced by the Series 2008A Bonds on May 13, 2008; the Series 2004B Bonds were converted from the Auction Mode to the Fixed Rate Mode on September 4, 2008.

As of the date hereof, the aggregate principal amount of Bonds that are Outstanding (collectively, the “Outstanding Bonds”) is \$1,563,240,000.

Interest Rate Exchange Agreements

The Department has entered into the transactions described below and may enter into additional interest rate exchange agreements or other synthetic financial instruments in the future for the purpose of managing the interest cost of its debt. Interest rate exchanges and other synthetic financial instruments involve risks that could result in an economic loss to the Department. The Department’s obligations, under the transactions described below, to make net payments as a result of fluctuation in hedged interest

rates or fluctuation in the value of any index of payment, are payable from the Revenues. Regularly scheduled payments pursuant to such transactions are secured by a gross pledge of and a lien and charge upon the Revenues on a parity with the lien thereon in favor of the Bonds. The Department's obligations to make payments other than regularly scheduled payments due under each of the transactions described below are secured by a gross pledge of and a lien and charge upon the Revenues on a basis subordinate to the lien thereon with respect to regularly scheduled payments, the lien thereon in favor of regularly scheduled payments due under similar future transactions and the liens described in the Resolution with respect to the Interest Account, the Principal Account and the Debt Service Reserve Account. For a discussion of certain additional details and risks associated with said interest rate exchange agreements, see Note 9 Derivative Instruments in Appendix B hereto.

In connection with the issuance of the Series 2002B and 2002C Bonds and in order to achieve a synthetic fixed rate refunding of certain prior Bonds refunded thereby, the Secretary, pursuant to a competitive bid process, executed interest rate exchange agreements having a combined original notional amount of \$320,005,000 with Salomon Brothers Holding Company Inc. (an affiliate of Citigroup Global Markets, Inc.) and Goldman Sachs Capital Markets, L.P. (an affiliate of Goldman, Sachs & Co.). The interest rate exchange agreements are floating-to-fixed interest rate exchange agreements paying 67% of LIBOR (London Interbank Offered Rate) to the Department and with the Department paying a fixed rate of 3.164%.

In connection with the issuance of the Series 2002D Bonds and in order to achieve a synthetic fixed rate refunding of certain prior Bonds refunded thereby, the Secretary, pursuant to a competitive bid process, executed an interest rate exchange agreement having an original notional amount of \$86,875,000 with Merrill Lynch Capital Services, Inc. (an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated). The interest rate exchange agreement is a floating-to-fixed interest rate exchange agreement paying 67% of LIBOR to the Department and with the Department paying a fixed rate of 5.24% entered into as part of a swaption structure pursuant to which the Department was entitled to receive option payments totaling \$13,642,500, a portion of which was paid in December 2002, with the remainder received in March 2006 and March 2007.

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

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

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

with the Department paying a fixed rate of 3.571%. In June 2007, the Department executed a floating-to-fixed interest rate exchange agreement in the notional amount of \$75,000,000 paying 62.329% of 10-year USD-CMS and a floating-to-fixed interest rate exchange agreement in the notional amount of \$72,000,000 paying 63.5% of LIBOR plus 29 basis points to the Department and with the Department paying a fixed rate of 3.571%.

Special Obligations

The Series 2010A Bonds and the interest thereon are special obligations of the State and are payable and collectible solely from the Revenues in the State Highway Fund and transferred to the Highway Bond Debt Service Fund (the “Debt Service Fund”). The owners of the Series 2010A Bonds may not look to any general or other fund of the State for payment, and the Series 2010A Bonds will not constitute an indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, nor can they be considered or held to be general obligations of the State.

Revenues

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

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

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

Information concerning the State Highway Fund and the current sources of funding for the State Highway Fund are set forth under “THE STATE HIGHWAY FUND” and in Appendix C. Such sources of funding for the State Highway Fund and the level of such funding may be changed from time to time at the discretion of the Kansas Legislature.

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

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

State Sales Tax and Compensating Use Taxes. The current State sales tax and compensating use tax rates, effective July 1, 2010, are 6.30% (increased from the 5.30% tax rates previously in effect and currently scheduled to decrease to 5.70% effective July 1, 2013), a portion of which is credited directly to

the State Highway Fund in accordance with State law. Prior to July 1, 2006, 5/106ths of the 5.30%, the equivalent of a .25% tax rate, was credited directly to the State Highway Fund. The 2004 Legislature changed the statute to 19/265ths of the 5.30% effective July 1, 2006, and 13/106ths of the 5.30% effective July 1, 2007, the equivalent of .38% for Fiscal Year 2007 and .65% for Fiscal Year 2008 and thereafter. The 2010 Legislature amended the statute to credit 11.427% of the revenue collected at the rate of 6.30% to the State Highway Fund effective July 1, 2010, 11.26% of the revenue collected to the State Highway Fund effective July 1, 2011, and 11.233% of the revenue collected to the State Highway Fund effective July 1, 2012, and beginning July 1, 2013, and thereafter, 18.421% of the revenue collected at the rate of 5.70% to the State Highway Fund.

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

See also “Sales and Compensating Use Tax” in Appendix C hereto.

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

Government Interest Subsidy Payments. Payments received by the Secretary from the federal or state government that are made to reduce or off-set debt service payments on any indebtedness, including without limitation any BAB Interest Subsidy Payments, which means payments to be received by the Secretary from the U.S. Department of the Treasury under Code Sections 54AA(g) and 6431 in connection with payments of interest on a Series of Bonds. The Sixth Amendatory Supplemental Resolution being adopted by the Secretary in anticipation of the issuance of the Series 2010A Bonds will amend the 1992 Resolution to add Government Interest Subsidy Payments as a portion of Revenues pledged under the terms of the Resolution.

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

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

Legislative Changes Affecting Revenues

There is no requirement that funds from the Motor Fuels Taxes, Sales Taxes and Compensating Use Taxes or Drivers’ License and Vehicle Registration Fees, described above under “Revenues” or that funds from any other sources currently being deposited into or credited to the State Highway Fund will continue to be required to be deposited or credited thereto or that the amounts or percentages from such sources will not be changed by the Kansas Legislature from time to time. The Kansas Legislature has in the past (most recently in the 2010 Legislative Session) and may in the future amend the laws relating to the Motor Fuels Taxes, Sales Taxes and Compensating Use Taxes, vehicle registration and drivers’ license fees and the State Highway Fund and may amend other laws which otherwise affect the Revenues. However, so long as the Series 2010A Bonds are Outstanding any such amendments would be subject to

the covenants of the State in the 1992 Resolution to maintain the State Highway Fund and to credit or transfer to the State Highway Fund Revenues as described in the following paragraph.

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

Exclusion From Revenues for Certain Purposes

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

The Second Amendatory Supplemental Resolution adopted by the Secretary on August 6, 1999, in anticipation of the sale of the Series 1999 Bonds amended the 1992 Resolution to eliminate the exclusion of reimbursements received from the federal government (but made no change regarding the exclusion of reimbursements received from local government entities) in Revenues for the purposes described in the preceding paragraph; however, this amendment will become effective only after all of the Outstanding Bonds issued prior to the issuance of the Series 1999 Bonds have been retired or defeased and no longer remain Outstanding (as of the date of this Official Statement, only the Series 1998 Bonds remain Outstanding and have a final maturity of September 1, 2013). See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Outstanding Bonds” herein.

See the table on page 25 hereof, including the columns “Federal” and “Locals” under “Intergovernmental Reimbursements” for historical and projected annual amounts of federal and local governmental reimbursements. Also see footnote 2 under the Projected Debt Service Coverage table on page 35 hereof.

Funds and Accounts

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

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

The 1992 Resolution provides a pledge of the Revenues in the State Highway Fund to secure payment of the principal of, premium, if any, and interest on the Bonds. The 1992 Resolution also states that the Revenues shall be held in the State Highway Fund in an express trust by the State Treasurer in the State treasury to be used and expended solely, strictly and expressly as required by the Act and the 1992

Resolution and any Supplemental Resolutions. The 1992 Resolution provides that the Revenues transferred from the State Highway Fund for deposit into the Debt Service Fund will be used first to make deposits to pay interest on, principal of and premium, if any, on the Parity Bonds before deposits are made to make payments on Subordinate Bonds.

The 1992 Resolution states that the Secretary shall direct the State Treasurer to transfer the first moneys available in the State Highway Fund and deposit to the Debt Service Fund amounts sufficient to make appropriate deposits to the credit of all accounts, subaccounts and funds in the Debt Service Fund as may be specified in the 1992 Resolution and Supplemental Resolutions. With respect to the Series 2010A Bonds, the Twenty-Fifth Supplemental Resolution requires monthly transfers to the Debt Service Fund of one-sixth of the interest due on the next Interest Payment Date and one-twelfth of the principal due on the next Principal Payment Date. Monthly transfers with respect to the Debt Service Requirements of the Outstanding Bonds also are required by the 1992 Resolution as previously supplemented by the First through Twenty-Fourth Supplemental Resolutions (the “Existing Supplemental Resolutions”).

Debt Service Fund. The Act establishes, in the State treasury, the Debt Service Fund and the 1992 Resolution creates within such Debt Service Fund (i) a special account designated as the “Highway Bond Sinking Fund Account” which is referred to herein as the “Sinking Fund” and creates within the Sinking Fund an Interest Account, Principal Account and Debt Service Reserve Account and (ii) a Bond Related Costs Account. The 1992 Resolution also provides that within the funds and accounts established in the 1992 Resolution, there shall be created such additional separate accounts, subaccounts and funds as shall be required by Supplemental Resolution, and the Twenty-Fifth Supplemental Resolution creates: within the Interest Account, the Series 2010A Bond Interest Account; within the Principal Account, the Series 2010A Bond Principal Account; and, within the Debt Service Reserve Account, the Series 2010A Bond Debt Service Reserve Account.

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

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

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

Series 2010A Reserve Account. The 1992 Resolution does not require that a debt service reserve fund or account be created for Bonds issued under the 1992 Resolution, but provides that, with respect to any series of Bonds, a debt service reserve fund or account may be created by Supplemental Resolution. The 1992 Resolution creates, in the Sinking Fund, a Debt Service Reserve Account. The Twenty-Fifth

Supplemental Resolution creates therein the Series 2010A Bond Debt Service Reserve Account (the "Series 2010A Reserve Account").

Deposits into the Series 2010A Reserve Account will never be required unless the amount of Revenues (including reimbursements received from the federal government but excluding reimbursements received from local government entities) transferred or deposited into the State Highway Fund for any Fiscal Year is less than 300% of maximum annual aggregate Adjusted Debt Service Requirements on Parity Bonds Outstanding in that Fiscal Year. If in any Fiscal Year the 300% requirement is not met, then, commencing in the first calendar month following the date the Department receives its audited financial statements for the year in which the requirement was not met, and continuing each month until the Reserve Requirement (as described below) is on deposit in the Series 2010A Reserve Account (or, if earlier, the time when the requirement to fund the Series 2010A Reserve Account is discontinued), the State Treasurer is directed to deposit into the Series 2010A Reserve Account an amount equal to one forty-eighth (1/48th) of the Series 2010A Reserve Requirement. Notwithstanding the foregoing, if, after having failed for one or more Fiscal Years to achieve the 300% requirement, the 300% requirement is achieved for two consecutive Fiscal Years (as shown by the audited financial statements of the Department for such years), then all amounts in the Series 2010A Reserve Account will be released from such account and transferred to the State Highway Fund and no further deposits will be required unless a subsequent failure to meet the 300% requirement occurs.

If, at any time, amounts are withdrawn from the Series 2010A Reserve Account to pay debt service on the Series 2010A Bonds, deposits, in approximately equal monthly amounts, are to be made in amounts sufficient to restore, in not more than 24 months, the amount withdrawn. In addition, if, at any time, the Series 2010A Reserve Account is required to be funded, the State Treasurer is required to value such accounts at least monthly and, if the valuation results in the amount in such account being less than the Series 2010A Reserve Requirement (or the portion thereof required to be in such account at such time), the deficiency is to be restored by deposits, in approximately equal monthly amounts, to be made from the State Highway Fund over a period of not more than 24 months.

The Reserve Requirement, with respect to the Series 2010A Bonds, means the least of (a) the maximum amount of principal of and interest due in any Fiscal Year on all such Series 2010A Bonds Outstanding on the day following the day of calculation, (b) 125% of the average annual debt service on the Series 2010A Bonds then Outstanding, or (c) an amount not in excess of 10% of the sale proceeds of the Series 2010A Bonds, calculated in each case by giving effect to each redemption of Outstanding Series 2010A Bonds.

The Existing Supplemental Resolutions each provided for the creation of debt service reserve accounts for the Outstanding Bonds, with substantively identical funding and restoration requirements as those established by the Twenty-Fifth Supplemental Resolution for the Series 2010A Bonds, except that the amount of Revenues used in calculating the 300% requirement for each such other Series of Bonds issued prior to the issuance of the Series 1999 Bonds, excludes both reimbursements received from the federal government and from local government entities.

Highway Bond Proceeds Fund. The Act states that proceeds from the sale of bonds issued thereunder are deemed to be trust funds and shall be deposited in the custody of the State Treasurer in the Highway Bond Proceeds Fund which is established by the Act. Proceeds of the Series 2010A Bonds will be deposited into the Highway Bond Proceeds Fund. Moneys in the Highway Bond Proceeds Fund are to be withdrawn only upon vouchers or transfers signed by the Secretary. The 1992 Resolution provides that upon the occurrence of an Event of Default under the 1992 Resolution, any moneys in the Highway Bond Proceeds Fund shall be transferred by the Secretary to the Debt Service Fund and applied as described above with respect to such Fund.

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

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

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

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

The PMIB, established pursuant to K.S.A. 75-4221a, is charged with the management of different State pooled moneys. In addition, the PMIB is named as the investing arm of the State for various special portfolios, such as the State Highway Fund, which are authorized by specific statutes. The PMIB consists of the State Treasurer and four gubernatorial appointees who serve staggered terms. One of the five is appointed as chairperson by the governor. The PMIB is, in turn, authorized to appoint officers, analysts and other employees to fulfill its directives. As of May 2010, the PMIB was actively involved in the management of State investments totaling approximately \$2.9 billion.

Additional Bonds

The 1992 Resolution provides for the issuance of Bonds thereunder. Such Bonds may be Parity Bonds or Subordinate Bonds. In this Official Statement, all Bonds referred to as “Additional Bonds” are Parity Bonds. The tests for the issuance of Additional Bonds set forth below do not need to be met prior to the issuance of Subordinate Bonds. See “Legal Authority and Current Statutory Bond Authorization” hereinabove.

Prior to the issuance of Additional Bonds, the Department must obtain a report of an Independent Certified Public Accountant stating that the sum of:

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

(b) the amount of any other moneys received by the State Treasurer during the period described in (a) and which constitute Revenues

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

Refunding Bonds

Refunding Bonds may be issued as Additional Bonds, i.e., Parity Bonds, upon satisfaction of the test set forth immediately above. Refunding Bonds may be issued on a junior and subordinate basis, i.e., Subordinate Bonds, for refunding purposes without meeting the test set forth immediately above upon the delivery of a certificate of the Secretary setting forth either:

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

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

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

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

Covenant to Maintain and Fund State Highway Fund

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

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

(b) that Revenues in each Fiscal Year shall be not less than 300% of the amount sufficient to pay debt service on all Parity Bonds Outstanding during such Fiscal Year. If, in any Fiscal Year, the 300% requirement (including in Revenues reimbursements received from the federal government but excluding reimbursements received from local government entities) is not achieved, the Twenty-Fifth Supplemental Resolution requires that moneys from the State Highway Fund be used, over a period of 48 months (or until the 300% deposit requirement is achieved for two consecutive years if sooner), to fund the Series 2010A Reserve Account. The Existing Supplemental Resolutions each provided for the creation of debt service reserve accounts for the Outstanding Bonds with substantively identical funding and restoration requirements as those established by the Twenty-Fifth Supplemental Resolution for the Series 2010A Bonds, except that the amount of Revenues used in calculating the 300% requirement for each such other Series of Bonds issued prior to the issuance of the Series 1999 Bonds excludes both reimbursements received from the federal government and from local government entities. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Funds and Accounts-Series 2010A Reserve Account.”

THE STATE HIGHWAY FUND

General

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

Basis of Projections

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

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

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

The Consensus Estimating Group's estimates are as of April 16, 2010. The Highway Revenue Estimating Group's estimates as of November 10, 2009, are incorporated into the Department's projections for Motor Fuels Taxes and Vehicle Registration Fees.

The Department also obtains Global Insight, Inc.'s "Review of the U.S. Economy" on a regular basis and reviews, as needed, that firm's forecasts for growth in the consumer price index to determine whether the Department's projections are still in line with nationwide projections.

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

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

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

FY 2002 Loan to State General Fund

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

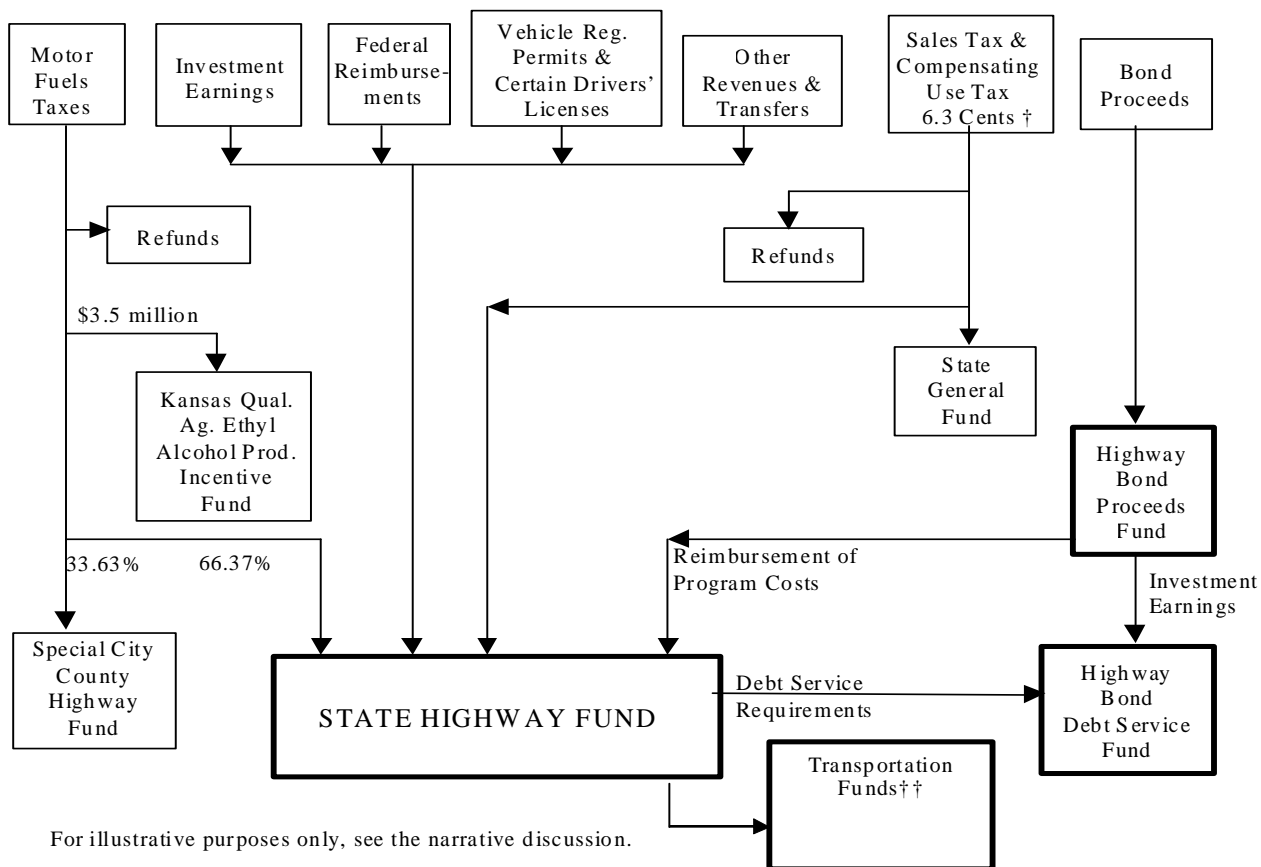
FY 2010 and 2011 Transfers to State General Fund

The State budgets for Fiscal Years 2010 and 2011 provided for transfers from the State Highway Fund to the State General Fund in the amounts of \$253,316,210 and \$257,574,852, respectively. These transfers were made after the transfers to the Debt Service Fund.

Sources of Funds in State Highway Fund

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

Flow of Revenues and Bond Proceeds



† Under current statutes, starting July 1, 2010, 2011 and 2012, 11.427%, 11.26% and 11.233% of the revenue collected at the rate of 6.30% is credited to the State Highway Fund. Starting July 1, 2013 and thereafter, 18.421% of the revenue collected at the rate of 5.70% is credited to the State Highway Fund.

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

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

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The moneys currently credited to or transferred to the State Highway Fund are derived primarily from the following sources: (a) the Motor Fuels Taxes, (b) vehicle registration, drivers' license fees and vehicle permits, (c) a portion of the State Sales Tax and Compensating Use Tax receipts, (d) investment income on the State Highway Fund, (e) intergovernmental transfers consisting primarily of federal grant funds in reimbursement of expenditures made by the Department and reimbursements from local governments, (f) transfers-in to the State Highway Fund from other Department funds and (g) miscellaneous other sources. The following table sets forth, by category, the major sources of funds credited to or transferred to the State Highway Fund and the amount of such funds in each of the Fiscal Years 2000 through 2009 and the amount of such funds estimated by the Department for each of the Fiscal Years 2010 through 2015. Each of the sources is described in the paragraphs following the table. More detail with respect to the primary current sources is set forth in Appendix C to this Official Statement. A description of the basis of the Department's estimates is set forth hereinafter under "Basis of Projections" and additional information with respect to the estimates for certain categories is contained in Appendix C.

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State of Kansas, Department of Transportation

State Highway Fund

Sources of Funds, Excluding Bond Proceeds

For the Fiscal Year Ended June 30

(Amounts in Thousands)

Fiscal Year	Motor Fuel Taxes	Direct Credit Sales Tax	Sales Tax Transfer	Other Transfers	Registration, Licenses And Permits	Intergovernmental Reimbursements		Investment Earnings††	Other	Subtotal	Operating Transfers-in From Other Departmental Funds‡	Total
						Federal†	Locals†					
2000	212,039	87,880	62,240	3,623	141,872	307,307	20,919	33,736	5,032	874,648	4	874,652
2001	212,235	89,959	51,709	3,769	140,798	279,052	20,536	79,578	3,811	881,447	0	881,447
2002	232,411	91,478	94,288	3,616	140,632	353,798	18,862	69,291	5,032	1,009,408	0	1,009,408
2003	263,721	88,949	0	3,348	152,738	381,486	23,775	34,287	6,621	954,925	0	954,925
2004	279,091	90,664	0	3,333	156,916	309,550	17,718	3,206	12,427	872,905	0	872,905
2005	281,142	94,208	0	3,825	163,760	354,261	29,807	15,093	5,483	947,579	0	947,579
2006	282,778	99,938	0	214,508 ±	165,573	373,461	25,543	17,783	6,151	1,185,735	0	1,185,735
2007	284,718	162,525	0	3,313	171,575	456,820	37,310	25,076	8,419	1,149,756	0	1,149,756
2008	283,974	283,597	0	1,464	172,353	462,574	32,506	20,564	8,116	1,265,148	0	1,265,148
2009	277,358	268,259	0	1,462	170,256	332,386	53,419	17,043	4,820	1,125,003	0	1,125,003
2010	277,169	258,040	0	4,196	172,101	366,525	55,448	10,158	5,195	1,148,832	0	1,148,832
2011	281,417	289,524	0	4,483	176,761	512,259	54,093	12,940	5,195	1,336,672	0	1,336,672
2012	285,665	298,918	0	3,483	180,261	443,566	32,820	8,192	3,857	1,256,762	0	1,256,762
2013	289,912	308,640	0	3,483	189,697	327,489	38,307	7,692	3,857	1,169,077	0	1,169,077
2014	294,160	473,190	0	3,483	207,466	293,605	27,360	8,098	3,857	1,311,219	0	1,311,219
2015	298,408	497,644	0	3,483	219,400	333,608	24,670	10,659	3,857	1,391,729	0	1,391,729

Note: Fiscal Years (FY) 2000 through 2009 are derived from audited information. FY 2010 through 2015 are estimates based on current statutory transfer provisions.

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

††Investment earnings peak in FY 2001 and then decline as balances are expended.

±See discussion on page 22 regarding partial repayment of \$94.6 million loan and \$30.6 million transfer to State General Fund for the State Highway Patrol.

\$210 million of proceeds of revenue bonds issued by KDFA were deposited in the State Highway Fund; such bonds are an obligation of the State General Fund and are not payable from Revenues under the 1992 Resolution.

‡Intradepartmental transfers, excluding bond proceeds.

Totals may not agree due to rounding.

Motor Fuels Taxes

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

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

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

For Fiscal Year 2007 revenues derived from Motor Fuels Taxes were \$284,718,000 which constituted approximately 25% of the total revenues of \$1,149,756,000 credited to the State Highway Fund. For Fiscal Year 2008 revenues derived from Motor Fuels Taxes were \$283,974,000 which constituted approximately 22% of the total revenues of \$1,265,148,000 credited to the State Highway Fund. For Fiscal Year 2009 revenues derived from Motor Fuels Taxes were \$277,358,000 which constituted approximately 25% of the total revenues of \$1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues (unaudited and presented on a cash basis) derived from Motor Fuels Taxes were \$279,465,000 which constituted approximately 23% of the total revenues (unaudited and presented on a cash basis) of \$1,228,723,000 credited to the State Highway Fund. More detailed information concerning the Motor Fuels Taxes is included in Appendix C to this Official Statement.

Vehicle Registration, Drivers' Licenses and Vehicle Permits

The Kansas Constitution, at Article 11, Section 10, specifically and additionally provides that the State shall have the power to levy special taxes on motor vehicles for road and highway purposes. The Kansas statutes currently require that vehicles be registered, based on vehicle type and weight or use, by the State before they may legally be operated on the Kansas highways and require that drivers be licensed. Kansas law also requires permits for oversize or overweight vehicles. The 2002 Legislature increased the registration fee for automobiles and pickups by \$10 and the registration fee for trucks from \$2 to \$10 based on the vehicle weight classification. The total increase in registration fees was approximately 8.5%. The 2010 Legislature increased the registration fee for trucks with a gross weight of more than 16,000 pounds with a fee increase of \$50 effective January 1, 2013, and a second \$50 fee increase effective January 1, 2014. Beginning January 1, 2013, the \$4 surcharge on registrations collected and

remitted to the Department of Revenue for the purpose of integration and modernization of the Vehicle Information Processing System will be credited to the State Highway Fund.

For Fiscal Year 2007 revenues derived from Vehicle Registrations and Permits were \$171,575,000 which constituted approximately 15% of the total revenues of \$1,149,756,000 credited to the State Highway Fund. For Fiscal Year 2008 revenues derived from Vehicle Registrations and Permits were \$172,353,000 which constituted approximately 14% of the total revenues of \$1,265,148,000 credited to the State Highway Fund. For Fiscal Year 2009 revenues derived from Vehicle Registrations and Permits were \$170,256,000 which constituted approximately 15% of the total revenues of \$1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues (unaudited and presented on a cash basis) derived from Vehicle Registrations and Permits were \$175,291,000 which constituted approximately 14% of the total revenues (unaudited and presented on a cash basis) of \$1,228,723,000 credited to the State Highway Fund. More detailed information concerning the vehicle registration, drivers' license and vehicle permit fees is included in Appendix C.

Sales Taxes and Compensating Use Taxes

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

Kansas law imposes a retail sales tax (the "Sales Tax") for the privilege of engaging in the business of selling tangible personal property at retail in the State or rendering or furnishing certain services which are taxed under the provisions of the sales tax act. The current Sales Tax rate, effective July 1, 2010, is 6.30%, increased from the 5.30% tax rate previously in effect, and currently is scheduled to decrease to 5.70% effective July 1, 2013.

Kansas law also imposes a tax (the "Compensating Use Tax") for the privilege of using, storing or consuming tangible personal property in the State if the property would have been subject to the Sales Tax if the transaction had been wholly within the State. The current State Compensating Use Tax rate, effective July 1, 2010, is 6.30%, increased from the 5.30% tax rate previously in effect, and currently is scheduled to decrease to 5.70% effective July 1, 2013.

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

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

For Fiscal Year 2007 revenues derived from Sales Taxes and Compensating Use Taxes directly credited to the State Highway Fund were \$162,525,000 which constituted approximately 14% of the total revenues of \$1,149,756,000 credited to the State Highway Fund. For Fiscal Year 2008 revenues derived from Sales Taxes and Compensating Use Taxes directly credited to the State Highway Fund were

\$283,597,000 which constituted approximately 22% of the total revenues of \$1,265,148,000 credited to the State Highway Fund. For Fiscal Year 2009 revenues derived from Sales Taxes and Compensating Use Taxes directly credited to the State Highway Fund were \$268,259,000 which constituted approximately 24% of the total revenues of \$1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues (unaudited and presented on a cash basis) derived from Sales Taxes and Compensating Use Taxes directly credited to the State Highway Fund were \$259,581,000 which constituted approximately 21% of the total revenues (unaudited and presented on a cash basis) of \$1,228,723,000 credited to the State Highway Fund.

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

Investment Income

The Department has been granted authority by statute to deposit the earnings on investments in the State Highway Fund into the State Highway Fund. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Investment of Funds and Accounts” herein for a discussion of investment policy. For Fiscal Year 2007 revenues derived from Investment Earnings were \$25,076,000 which constituted approximately 2% of the total revenues of \$1,149,756,000 credited to the State Highway Fund. For Fiscal Year 2008 revenues derived from Investment Earnings were \$20,564,000 which constituted approximately 2% of the total revenues of \$1,265,148,000 credited to the State Highway Fund. For Fiscal Year 2009 revenues derived from Investment Earnings were \$17,043,000 which constituted approximately 2% of the total revenues of \$1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues (unaudited and presented on a cash basis) derived from Investment Earnings were \$5,283,000 which constituted less than 1% of the total revenues (unaudited and presented on a cash basis) of \$1,228,723,000 credited to the State Highway Fund.

Intergovernmental Reimbursements

A significant source of funds to the Department is provided by the Federal Highway Trust Fund and from other federal grant funds in the form of reimbursement for qualified expenditures as well as some matching funds from local units of government for shared projects. The amount of funds available is primarily a function of federal law, the annual appropriations of Congress and the Department’s qualifying construction expenditures. Once the federal moneys are received in reimbursement for Department expenditures, the moneys become available to be expended for any valid Department purpose. For Fiscal Year 2007 revenues derived from Intergovernmental Reimbursements were \$494,130,000 which constituted approximately 43% of the total revenues of \$1,149,756,000 credited to the State Highway Fund. For Fiscal Year 2008 revenues derived from Intergovernmental Reimbursements were \$495,080,000 which constituted approximately 40% of the total revenues of \$1,265,148,000 credited to the State Highway Fund. For Fiscal Year 2009 revenues derived from Intergovernmental Reimbursements were \$385,805,000 which constituted approximately 34% of the total revenues of \$1,125,003,000 credited to the State Highway Fund. For Fiscal Year 2010 revenues (unaudited and presented on a cash basis) derived from Intergovernmental Reimbursements were \$494,589,000 which constituted approximately 40% of the total revenues (unaudited and presented on a cash basis) of \$1,228,723,000 credited to the State Highway Fund.

Other Revenues

Although the Department’s primary revenue sources are Motor Fuels Taxes, vehicle registration and drivers’ license fees, Sales Tax and Compensating Use Tax receipts, intergovernmental reimbursements, interest on the State Highway Fund and operating transfers-in, the Department also

receives revenue from other sources which include: publications, usable surplus equipment, the sale of land and/or buildings, insurance reimbursements and other miscellaneous revenue.

Expenditures

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

Maintenance. Routine maintenance consists of maintenance activities which are performed primarily by Department staff using the Department’s own equipment and materials. The Department currently projects that routine maintenance will remain at the current level during T-WORKS. The expenditures for routine maintenance normally occur in the year for which the expenditures were budgeted. The Department assumes that expenditures related to routine maintenance, primarily performed by Department staff, will grow at approximately 2.50% to 3.50% per year. For Fiscal Year 2007 expenditures for Maintenance were \$142,696,000 which constituted approximately 13% of the total expenditures of \$1,112,955,000 charged to the State Highway Fund. For Fiscal Year 2008 expenditures for Maintenance were \$144,860,000 which constituted approximately 13% of the total expenditures of \$1,118,361,000 charged to the State Highway Fund. For Fiscal Year 2009 expenditures for Maintenance were \$137,056,000 which constituted approximately 12% of the total expenditures of \$1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures (unaudited and presented on a cash basis) for Maintenance were \$132,573,000 which constituted approximately 11% of the total expenditures (unaudited and presented on a cash basis) of \$1,218,552,000 charged to the State Highway Fund.

Construction. Construction expenditures include the contract costs for highway and bridge construction projects, expenditures for salaries and operating expenses for preliminary and construction engineering, consulting contracts for engineering services, right-of-way acquisition, utility adjustments and building improvements. In preparing projections, the level of expenditure for each component and the related cash flow are projected independently. The Bureau of Program and Project Management is responsible for developing the construction program. Future highway and bridge construction projects are identified as part of the construction program. The anticipated year of letting and the expected contract cost in nominal dollars are estimated for each project during the program development. The Department currently assumes an inflation rate for construction contracts of 3.50% to 4.50% per year. Once a construction contract is let, it can take up to 36 months for the contract to be completed and the final payment made. The Department assumes that expenditures for salary and operating costs related to preliminary and construction engineering will grow at approximately 2.50% to 3.50% per year and are assumed to be paid in the year budgeted. Since passage of the Comprehensive Transportation Program in May 1999, the Department has been granted authority to hire an additional 136 employees, almost all of whom will be engaged in construction related activities, to accommodate the increased activity associated with the Comprehensive Transportation Program, but otherwise does not anticipate needing to hire a significant number of additional employees. The Department has requested the authority to hire an additional 60 employees under T-WORKS. For Fiscal Year 2007 expenditures for Construction were \$620,780,000 which constituted approximately 56% of the total expenditures of \$1,112,955,000 charged to the State Highway Fund. For Fiscal Year 2008 expenditures for Construction were \$636,675,000 which constituted approximately 56% of the total expenditures of \$1,118,361,000 charged to the State Highway Fund. For Fiscal Year 2009 expenditures for Construction were \$616,193,000 which constituted approximately 54% of the total expenditures of \$1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures (unaudited and presented on a cash basis) for Construction were

\$555,050,000 which constituted approximately 46% of the total expenditures (unaudited and presented on a cash basis) of \$1,218,552,000 charged to the State Highway Fund.

Local Support. Local support consists of operations that are intended to provide support for local grant programs and categorical grants. The Department expects that the operations portion of local support expenditures will grow at an average inflation rate of 2.50% to 3.50% per year. The categorical grants consist primarily of pass-through from the federal government and state aid. For Fiscal Year 2007 expenditures for Local Support were \$195,097,000 which constituted approximately 18% of the total expenditures of \$1,112,955,000 charged to the State Highway Fund. For Fiscal Year 2008 expenditures for Local Support were \$170,491,000 which constituted approximately 15% of the total expenditures of \$1,118,361,000 charged to the State Highway Fund. For Fiscal Year 2009 expenditures for Local Support were \$171,034,000 which constituted approximately 15% of the total expenditures of \$1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures (unaudited and presented on a cash basis) for Local Support were \$191,316,000 which constituted approximately 16% of the total expenditures (unaudited and presented on a cash basis) of \$1,218,552,000 charged to the State Highway Fund.

Management. The Department expenditures of salary and operating costs for management are assumed by the Department to be paid in the year budgeted and are developed from the budget. The cost of these activities is assumed by the Department to grow at approximately 2.50% to 3.50% per year. For Fiscal Year 2007 expenditures for Management were \$57,862,000 which constituted approximately 5% of the total expenditures of \$1,112,955,000 charged to the State Highway Fund. For Fiscal Year 2008 expenditures for Management were \$63,428,000 which constituted approximately 6% of the total expenditures of \$1,118,361,000 charged to the State Highway Fund. For Fiscal Year 2009 expenditures for Management were \$66,444,000 which constituted approximately 6% of the total expenditures of \$1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures (unaudited and presented on a cash basis) for Management were \$81,825,000 which constituted approximately 7% of the total expenditures (unaudited and presented on a cash basis) of \$1,218,552,000 charged to the State Highway Fund.

Transfers-Out. The transfers-out are disbursements from the State Highway Fund for the operation of other state agencies. The amount of the transfers are established by appropriations each year and are expended in the year budgeted. The Department expects transfers-out to grow with inflation at 2.50% to 3.50% per year. For Fiscal Year 2007 expenditures for Transfers-Out were \$96,520,000 which constituted approximately 9% of the total expenditures of \$1,112,955,000 charged to the State Highway Fund. For Fiscal Year 2008 expenditures for Transfers-Out were \$102,907,000 which constituted approximately 9% of the total expenditures of \$1,118,361,000 charged to the State Highway Fund. For Fiscal Year 2009 expenditures for Transfers-Out were \$150,662,000 which constituted approximately 13% of the total expenditures of \$1,141,389,000 charged to the State Highway Fund. For Fiscal Year 2010 expenditures (unaudited and presented on a cash basis) for Transfers-Out were \$257,788,000 which constituted approximately 21% of the total expenditures (unaudited and presented on a cash basis) of \$1,218,552,000 charged to the State Highway Fund.

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

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

Statement of Revenues and Expenditures

Set forth in the following table is the Statement of Revenues, Expenditures and Changes in Fund Balances of the State Highway Fund for each of the last five Fiscal Years (2005-2009) for which audited financial statements of the Department are available. The term "revenues," as used in the following table, is an accounting term and is not intended to refer to "Revenues" as defined in the 1992 Resolution. See Appendix B hereto for Fiscal Year 2009 Basic Financial Statements.

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

	2009	2008	2007	2006	2005
REVENUES:					
Motor Fuels Taxes	\$ 277,358	\$ 283,974	\$ 284,718	\$ 282,778	\$ 281,142
Vehicle Registrations and Permits	170,256	172,353	171,575	165,573	163,760
Intergovernmental Reimbursements					
Federal	332,386	462,574	456,820	373,461	354,261
Locals	53,419	32,506	37,310	25,543	29,808
Sales Taxes and Compensating Use Taxes ¹	268,259	283,597	162,525	99,938	94,208
Investment Earnings	17,043	20,564	25,076	17,783	15,093
Other	4,820	8,116	8,419	6,151	5,483
Appropriations From Other State Funds	<u>1,462</u>	<u>1,464</u>	<u>3,313</u>	<u>214,508</u> ³	<u>3,825</u>
Total Revenues	<u>1,125,003</u>	<u>1,265,148</u>	<u>1,149,756</u>	<u>1,185,735</u>	<u>947,580</u>
EXPENDITURES:					
Current Operating					
Maintenance ⁴	137,056	144,860	142,696	135,609	125,844
Construction ⁴	616,193	636,675	620,780	695,226	694,359
Local Support	171,034	170,491	195,097	134,059	133,615
Management	66,444	63,428	57,862	49,063	60,749
Transfers to Other State Funds	<u>150,662</u>	<u>102,907</u>	<u>96,520</u>	<u>92,364</u>	<u>94,693</u>
Total Expenditures	<u>1,141,389</u>	<u>1,118,361</u>	<u>1,112,955</u>	<u>1,106,321</u>	<u>1,109,260</u>
Excess (Deficiency) of Revenues					
Over Expenditures	<u>(16,386)</u>	<u>146,787</u>	<u>36,801</u>	<u>79,414</u>	<u>(161,680)</u>
OTHER FINANCING SOURCES (USES):					
Operating Transfers-in	1,127	398	57	18	360,319 ²
Operating Transfers-out	<u>(168,856)</u>	<u>(127,622)</u>	<u>(134,841)</u>	<u>(134,959)</u>	<u>(142,968)</u>
Total Other Financing					
Sources (Uses)	<u>(167,729)</u>	<u>(127,224)</u>	<u>(134,784)</u>	<u>(134,941)</u>	<u>217,351</u>
Excess (Deficiency) of Revenues					
and Other Sources Over					
Expenditures and Other Uses	<u>(184,115)</u>	<u>19,563</u>	<u>(97,983)</u>	<u>(55,527)</u>	<u>55,671</u>
FUND BALANCE, BEGINNING OF YEAR	641,238	620,458	718,562	773,941	716,584
Changes in Inventory Reserve	<u>2,748</u>	<u>1,217</u>	<u>(121)</u>	<u>148</u>	<u>1,686</u>
FUND BALANCE, END OF YEAR	<u>\$ 459,871</u>	<u>\$ 641,238</u>	<u>\$ 620,458</u>	<u>\$ 718,562</u>	<u>\$ 773,941</u>

Source: Derived from the Department's audited financial statements.

¹Direct Credit to the State Highway Fund

²Includes transfers from Bond Proceeds Funds for reimbursement of qualified expenditures; all bond proceeds expended.

³Includes \$210 million of proceeds of revenue bonds issued by KDFA deposited in the State Highway Fund; such bonds are an obligation of the State General Fund and are not payable from Revenues under the 1992 Resolution.

⁴Amounts in prior years are reclassified to conform to current year presentation.

State Highway Fund
Cash Basis Statement of Revenues and Expenditures
Fiscal Years Ended June 30
(Amounts in Thousands)
(Unaudited)

	2010	2009
REVENUES:		
Motor Fuels Taxes	\$ 279,465	\$ 277,275
Vehicle Registrations and Permits	175,291	170,256
Operating Grants	190,787	174,779
Capital Grants	303,802	318,432
Sales Taxes and Compensating Use Taxes	259,581	268,877
Investment Earnings	5,283	17,217
Other	12,926	4,820
Appropriations From Other State Funds	<u>1,588</u>	<u>1,462</u>
Total Revenues	<u>1,228,723</u>	<u>1,233,118</u>
EXPENDITURES:		
Current Operating		
Maintenance	132,573	130,121
Preservation	122,027	157,412
Modernization	257,208	305,931
Expansion & Enhancement	168,141	156,131
Communication System	7,674	4,922
Local Support	191,316	175,668
Management	81,825	71,699
Distributions to Other State Funds	<u>257,788</u>	<u>118,782</u>
Total Expenditures	<u>1,218,552</u>	<u>1,120,666</u>
Excess (Deficiency) of Revenues		
Over Expenditures	<u>10,171</u>	<u>112,452</u>
OTHER SOURCES (USES) OF CASH:		
Transfers-in	6	3,127
Transfers-out	<u>(182,118)</u>	<u>(164,235)</u>
Total Other Sources		
(Uses) of Cash	<u>(182,112)</u>	<u>(161,108)</u>
Net Change Cash and Near Cash Items	(171,941)	(48,655)
Cash & Investment Balance – Beginning of Year	421,676	475,773
Changes in Investment and Cutoff Items	<u>0</u>	<u>(5,442)</u>
CASH BALANCES — END OF YEAR	<u>\$ 249,735</u>	<u>\$ 421,676</u>

REVENUES AND DEBT SERVICE COVERAGE

State Highway Fund Revenues

The Series 2010A Bonds are payable from Revenues in the State Highway Fund transferred to the Debt Service Fund. The Revenues may vary as to source and the amount of Revenues attributable to various sources as the Kansas Legislature may determine from time to time. The current sources of Revenues deposited into the State Highway Fund as well as historical information and future estimates concerning receipt of Revenues are described under “THE STATE HIGHWAY FUND.”

Estimated Revenues

The Department has prepared estimates of amounts to be credited to or transferred to the State Highway Fund in each of the Fiscal Years ending June 30, 2010 through 2015. Such estimates are set forth in the table appearing earlier in this Official Statement entitled “State of Kansas, Department of Transportation State Highway Fund Sources of Funds, Excluding Bond Proceeds.” A description of the basis for such estimates is set forth above under “THE STATE HIGHWAY FUND—Basis of Projections.” THE ACTUAL REVENUES THAT WILL BE DEPOSITED IN THE STATE HIGHWAY FUND MAY VARY FROM THE ESTIMATES BECAUSE OF FLUCTUATING ECONOMIC CONDITIONS, CHANGES IN LAW AND OTHER VARIABLES AFFECTING REVENUE SOURCES AND GROWTH. SUCH VARIATIONS COULD BE MATERIAL.

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Annual Debt Service

The annual debt service payments for the Series 2010A Bonds and the annual debt service payments (calculated as described in footnote †† below) on the Outstanding Bonds (described in the table on page 12 hereof) are set forth in the following table.

Annual Debt Service				
(Columns may not add due to rounding)				
Fiscal Year Ending June 30	Series 2010A Principal	Series 2010A Interest†	Debt Service on Outstanding Bonds††	Total Debt Service
2011		\$ 7,468,500	\$ 177,635,955	\$ 185,104,455
2012		14,937,000	177,566,570	192,503,570
2013		14,937,000	169,083,074	184,020,074
2014		14,937,000	159,952,249	174,889,249
2015		14,937,000	164,822,951	179,759,951
2016		14,937,000	142,603,136	157,540,136
2017		14,937,000	142,786,221	157,723,221
2018		14,937,000	143,019,544	157,956,544
2019		14,937,000	143,290,106	158,227,106
2020		14,937,000	143,585,202	158,522,202
2021		14,937,000	84,069,586	99,006,586
2022		14,937,000	151,672,789	166,609,789
2023		14,937,000	139,411,434	154,348,434
2024		14,937,000	91,520,277	106,457,277
2025		14,937,000	99,380,585	114,317,585
2026		14,937,000	--	14,937,000
2027		14,937,000	--	14,937,000
2028		14,937,000	--	14,937,000
2029		14,937,000	--	14,937,000
2030		14,937,000	--	14,937,000
2031		14,937,000	--	14,937,000
2032	\$ 61,175,000	13,531,199	--	74,706,199
2033	63,030,000	10,676,968	--	73,706,968
2034	64,945,000	7,736,102	--	72,681,102
2035	66,910,000	4,706,074	--	71,616,074
2036	<u>68,940,000</u>	<u>1,584,241</u>	<u>--</u>	<u>70,524,241</u>
Total	<u>\$325,000,000</u>	<u>\$344,443,084</u>	<u>\$2,130,399,679</u>	<u>\$2,799,842,763</u>

†Gross interest on Series 2010A Bonds, i.e., does not include reductions for expected receipts of Government Interest Subsidy Payments.

††Currently Outstanding (i) Series 2002B and Series 2002C adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a floating-to-fixed interest rate swap and liquidity and remarketing fees and basis risk) of approximately 4.404% per annum, (ii) Series 2002D hedged adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a floating-to-fixed interest rate swap and liquidity and remarketing fees and basis risk) of approximately 5.975% per annum and the Series 2002D unhedged adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a five calendar year SIFMA rate average and liquidity and remarketing fees and basis risk) of approximately 3.664% per annum, (iii) Series 2004C adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a floating-to-fixed interest rate swap, and liquidity and remarketing fees and basis risk) of approximately 4.811% per annum, and (iv) Series 2008A hedged adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a floating-to-fixed interest rate swap, and liquidity and remarketing fees and basis risk) of approximately 4.599% per annum and the Series 2008A unhedged adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a five calendar year SIFMA rate average and liquidity and remarketing fees and basis risk) of approximately 4.169% per annum. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Interest Rate Exchange Agreements” herein.

Projected Debt Service Coverage

On the basis of the annual debt service payments on the Outstanding Bonds, including the annual debt service payments for the Series 2010A Bonds, as set forth under “Annual Debt Service” above, payable from the State Highway Fund during Fiscal Years 2011 through 2015 and the Department’s estimates of Revenues deposited in or transferred to the State Highway Fund (see “THE STATE HIGHWAY FUND” herein and Appendix C hereto), the following has been prepared and shows the Department’s projected debt service coverage:

PROJECTED DEBT SERVICE COVERAGE

Fiscal Year	<u>Unaudited and Estimated Revenues</u>		<u>Annual Debt Service</u> ⁽³⁾	<u>Projected Debt Service Coverage</u> ⁽³⁾	
	With Federal Reimbursements ⁽¹⁾			With Federal Reimbursements ⁽¹⁾	
	<u>Excluded</u>	<u>Included</u> ⁽²⁾		<u>Excluded</u>	<u>Included</u> ⁽²⁾
2011	\$ 772,933,975	\$1,276,192,975	\$185,104,455	4.18x	6.89x
2012	785,603,950	1,220,169,950	192,503,570	4.08	6.34
2013	808,508,950	1,126,997,950	184,020,074	4.39	6.12
2014	995,481,950	1,280,086,950	174,889,249	5.69	7.32
2015	1,038,678,950	1,363,286,950	179,759,951	5.78	7.58

⁽¹⁾ See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Exclusion From Revenues for Certain Purposes” herein. See also the table on page 25 herein including the column “Intergovernmental Reimbursements-Federal.” Both “Excluded” and “Included” columns under Unaudited and Estimated Revenues and under Projected Debt Service Coverage above include the expected receipt of Government Interest Subsidy Payments with respect to the interest payable on the Series 2010A Bonds.

⁽²⁾ In calculating the Federal Reimbursements shown as “Included” and available for annual debt service payments, the Department has not included federal reimbursements for funds expended off the State Highway System, resulting in approximately \$9.0 million annually being subtracted from the amounts shown in the column “Intergovernmental Reimbursements-Federal” in the table on page 25 herein.

⁽³⁾ Annual debt service based upon the assumptions stated with respect to the Outstanding Bonds. Annual debt service payments do not include any projected annual debt service payments for future issues of Parity Bonds.

See “THE STATE HIGHWAY FUND—Basis of Projections” herein.

KANSAS DEPARTMENT OF TRANSPORTATION

Purpose of Department

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

Highway Advisory Commission

The Highway Advisory Commission (the “Commission”) was also established by statute in 1975. The Commission serves in an advisory capacity to the Secretary. The Commission has twelve members,

two from each of the six transportation districts within the State. Members are appointed by the Governor to four-year terms.

The Commission is responsible for reviewing the status of the State's highways in order to propose and recommend to the Secretary plans for improvement of the entire system of roads and highways. Since 1985, the Secretary has delegated to the Commission the authority to evaluate and select Economic Development and City Connecting Link Geometric Improvements, for which applications are solicited from local entities. The Commission has authority, by a vote of two-thirds of its members, to disapprove any determination by the Secretary as to location of any highway or any authorization by the Secretary for the construction or reconstruction of any highway. The Commission has no authority to limit the Secretary's ability to administer and supervise the internal operations and management of the Department.

Responsibilities of Department

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

The Department provides funding for three distinct categories of roads: State highways, other federal-aid eligible routes and, to a limited extent, local roads. Total public road mileage in Kansas is slightly more than 134,000 miles. Kansas is near the middle range of all states in miles under state jurisdiction, but has the fourth largest system of public roads in the nation. Kansas ranks third among all states in the total number of bridges with 25,981 public road bridges in the state.

State Highway System. The first group of roads comprises the State Highway System, including the Interstate system and other "U.S." and "K" numbered routes. The Department is responsible for administering the 9,497 miles of (rural only) State Highway System. By law, the State Highway System cannot exceed 10,000 miles. There are over 5,000 bridges on the State Highway System. In 2009, there were over 26.5 million daily vehicle miles traveled on the State Highway System. This represents approximately 33% of all of the daily vehicle miles driven in Kansas, even though the State Highway System comprises less than 7% of the State's public road miles. The Department also has certain responsibilities for city connecting links of the State Highway System and can expend State funds for maintenance and improvements on those routes. In 2009, there were over 15.3 million daily vehicle miles traveled on the city connecting links, including urban interstates, of the State Highway System. This represents approximately 19% of all of the daily vehicle miles driven in Kansas.

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

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

Transportation Revolving Fund. As part of the Comprehensive Transportation Program, the Secretary was authorized by the 1999 Kansas Legislature to establish a Transportation Revolving Fund to provide loans and other assistance to local units of government for local road projects and to facilitate the pooling of local road project debt by KDFA. The Secretary established the Transportation Revolving

Fund in Fiscal Year 2004 by transferring \$25,000,000 from the State Highway Fund to the Transportation Revolving Fund. Rules and Regulations for the Transportation Revolving Fund were approved and published in the Kansas Register in October 2003. Pursuant to such authorization, KDFA has issued \$32,690,000 of Transportation Revolving Fund Revenue Bonds, Series 2005-TR, \$24,755,000 of Transportation Revolving Fund Revenue Bonds, Series 2006-TR, and \$30,950,000 of Transportation Revolving Fund Revenue Bonds, Series 2009-TR. Such bonds as have been and may be issued by KDFA pursuant to such legislative authorization, and the interest thereon, are and will be payable from a separate trust estate established therefor and such bonds do not and will not constitute Bonds secured by or payable from the Revenues pledged under the Resolution. Any obligations of the Secretary incurred in connection with the Transportation Revolving Fund, including obligations of the Secretary with respect to any revenue bonds issued by KDFA relating to the Transportation Revolving Fund, will be separate from the Secretary's obligations with respect to the Bonds described herein. Although the Secretary may transfer additional amounts from the State Highway Fund to the Transportation Revolving Fund, it is not anticipated that the Secretary will do so. The Revenues pledged to the payment of the Bonds and deposited in the State Highway Fund are subject to a first lien in favor of the Bonds. Any transfer of funds from the State Highway Fund to the Transportation Revolving Fund is subject to the compliance by the Secretary with the debt service coverage requirements of the 1992 Resolution with respect to all Bonds Outstanding. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Covenant to Maintain and Fund State Highway Fund" herein.

Radio Tower Statewide Communication Infrastructure. The 2004 Kansas Legislature authorized the Department to lease access to the Department's 800 MHz radio communication towers and to purchase and lease communications equipment to public safety, governmental and nongovernmental entities. KDFA was authorized to issue special revenue bonds as necessary to finance the acquisition of such communication equipment and the Kansas Communication System Revolving Fund was established for this purpose on July 1, 2004. It is impossible to determine the amount of or the need for these bonds at this time, but the potential issuance thereof is an optional funding source. Debt service for any such bonds would be paid primarily from lease revenues received by the Kansas Communication System Revolving Fund and not from the Revenues in the State Highway Fund. During October 2008, KDFA issued \$14,200,000 Communication System Revenue Bonds, Series 2008G, to further the purposes of the Communication System Revolving Fund. The Secretary does not expect to transfer any amounts from the State Highway Fund to the Kansas Communication System Revolving Fund during the next 12 months. The Revenues pledged to the payment of the Bonds and deposited in the State Highway Fund are subject to a first lien in favor of the Bonds. Any transfer of funds from the State Highway Fund to the Kansas Communication System Revolving Fund is subject to the compliance by the Secretary with the debt service coverage requirements of the 1992 Resolution with respect to all Bonds Outstanding. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS—Covenant to Maintain and Fund State Highway Fund" herein.

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

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

Aviation. The Department provides support service to the aviation industry and promotes aviation. Support services include coordination of activities with the federal government, the publication of the Kansas airport directory and development of aviation charts. The aviation program will be

enhanced through the Transportation Works for Kansas Program. Annually, \$3 million of state funds will be transferred to the Public Use General Aviation Airport Development Fund for planning, constructing, reconstructing or rehabilitating the facilities of public use general aviation airports, and such amount will increase to \$5 million annually beginning July 1, 2013, and thereafter.

Railroads. The Department has an active role assuring rail service in Kansas. The question of railroad line abandonments is of primary concern. The Department is the lead agency for the Rail Working Group and has undertaken an extensive analysis of lines affected by potential rail abandonment. The rail program will be enhanced through the Transportation Works for Kansas Program. Annual transfers of \$3 million of State funds to the Rail Service Improvement Fund (a revolving loan fund) were made over an eight-year period that ended in Fiscal Year 2009 to make loans or grants to short-line railroads. Annually, beginning July 1, 2014, and thereafter, \$5 million of state funds will be transferred to the Rail Service Improvement Fund. The Secretary does expect to transfer \$35 million from the State Highway Fund to the Rail Service Improvement Fund during Fiscal Year 2011.

Public Transit. The Department administers both the federal and state funding of transit projects for elderly persons, persons with disabilities and the general public. The Comprehensive Transportation Program increased the transfer of state funds to the Coordinated Public Transportation Assistance Fund from \$1 million to \$6 million annually for these programs. The public transit program will be further enhanced through the Transportation Works for Kansas Program. Annually, beginning July 1, 2013, and thereafter, \$11 million of state funds will be transferred to the Coordinated Public Transportation Assistance Fund.

Organization of Department

The Secretary serves as the Chief Executive Officer of the Department. The Secretary is appointed by the Governor and confirmed by the Senate. The Deputy Secretary for Engineering, who also serves as State Transportation Engineer, is the Department's chief engineering officer. The Deputy Secretary for Finance and Administration is the Department's Chief Financial Officer and has oversight of General Counsel. The Department is organized into seven divisions: the Divisions of Financial Services, Administration, Operations, Engineering and Design, Planning and Development, Aviation and Public Affairs.

Division of Financial Services. The Division of Financial Services is responsible for the fiscal, budget, bonds and investment for the Department. Bureau of Fiscal Services includes accounting and certain procurement activities. The Office of Budget provides budget policy. The Office of Financial and Investment Management is responsible for the Department's bonds and investment activity.

Division of Administration. The Division of Administration is responsible for the human resource, information systems and support service operations for the Department of Transportation. Human resource management includes personnel administration, training and equal employment opportunities. Information system management includes system and technology planning, software development and maintenance, operation of certain hardware and various communication support activities. Support services include multimedia design, photographic services, printing and facilities management.

Division of Operations. This Division is the largest of all organizational units in the Department with approximately 80% of the Department's positions. This Division's employees are stationed in all but four of the State's 105 counties. The Division is responsible for all of the construction inspection of projects on the State Highway System and for administrative oversight of city and county road projects that are federally funded. Actual construction is done by private contractors. The Division is also

responsible for the maintenance of the State Highway System. While some maintenance activities are contracted, most maintenance is performed by Department personnel. In addition, the Division is responsible for materials testing and research to ensure that the materials used in construction and maintenance projects meet the applicable standards. These responsibilities include both developing the specifications and performing compliance testing. Finally, this Division is responsible for traffic engineering activities to determine the appropriate traffic signing and speed limits for projects under the Department's jurisdiction.

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

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

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

Division of Public Affairs. This Division keeps the public informed and aware of the Department's policies, projects, programs and procedures through interaction with the news media, concerned citizens and various transportation-related groups. It oversees the operations of the toll-free Kansas 511 travel information system which provides fully automated, near real-time, route specific weather, road condition and construction detour information, as well as the toll-free *KDOT Connection* customer information hotline. The Division is responsible for implementing and guiding the Department's Public Involvement Program. This Program fosters two-way communication, facilitates citizen participation and helps the Department and its customers work together to provide a safe and efficient transportation system.

Additional Units

Additional organizational units within the Department include: the Office of Chief Counsel, the Department's legal section; and the Office of Inspector General, which is responsible for internal auditing.

Multi-Year Construction Plan

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

As required by legislative directive, the Department's priority systems and Pavement Management System are used in the selection of projects. Specific formulas are used to prioritize projects within the Major Modification, Interstate and Non-Interstate, and Priority Bridge categories. A special procedure was developed for System Enhancement projects during the 1990-1997 Comprehensive Highway Program. With the passage of the Comprehensive Transportation Program, major road and bridge construction projects were identified for the ten-year program. A map and project list of the Major Modification, Interstate and Non-Interstate, and Priority Bridge projects to be completed over the life of the Comprehensive Transportation Program were published at the time of enacting legislation. All of these projects were selected based on the Department's priority formulas. Projects other than Major Modification, Interstate and Non-Interstate, and Priority Bridge (e.g., Substantial Maintenance, Major Modification set-aside projects, Modal, and Local Support) are not available for inclusion in a long-range plan due to one to three-year planning horizons. However, these projects were selected based on established priority systems. System Enhancement projects were selected using the same approach successfully used for the 1990-1997 Comprehensive Highway Program. Specific project information about all projects planned and completed through the Comprehensive Transportation Program is published in the Department's Annual Report to the Governor and Legislature.

The 2010 Act Amendments prohibit the Department from selecting any expansion or economic development opportunity projects until after February 1, 2011, except for projects funded by Build America Bonds. Preservations projects which involve taking care of roads and bridges that currently exist are expected to be selected based exclusively upon engineering data. Modernization projects which improve the existing roadway are expected to be selected based upon engineering data and the local consultation process. Expansion projects which add more lanes or interchanges are expected to be selected based upon a combination of engineering data, the local consultation process, and the economic impact of the project. Highway and bridge projects will be spread across the State. The 2010 Act Amendments require that a minimum of \$8 million dollars be spent in each county over the next ten years.

Agency Review

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

FEDERAL TRANSPORTATION LEGISLATION

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

Authorizing/Reauthorizing Legislation

The 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. In March 2010, after numerous short-term extensions of SAFETEA-LU, Congress passed the Hiring Incentives to Restore Employment bill, known simply as the HIRE Act. Among its many provisions, the HIRE Act extended SAFETEA-LU through December 2010.

The funding provided by the HIRE Act for FFY 2010 is at the FFY 2009 level without the reduction for rescissions which had been previously enacted. Because special funding categories were ended with the official expiration of SAFETEA-LU in September 2009, funds that would otherwise have been made available to states for earmark projects were instead distributed proportionately among the core highway programs. This additional funding resulted in Kansas receiving nearly \$40 million more in federal funding for FFY 2010 than the State received in FFY 2009.

It is not anticipated that there will be much Congressional action to authorize new surface transportation legislation until possibly December when the current extension of SAFETEA-LU expires. In June 2009, the U.S. House Transportation and Infrastructure Committee introduced a six-year authorization bill at the cost of \$500 billion. The House Committee's bill has not seen floor action. To date the Senate has not yet introduced transportation authorization legislation.

Highway Trust Fund Shortfall

Another concern that has and will continue to impact Kansas and the nation is the decreasing amount of available funding in the Highway Trust Fund (HTF). In less than a year's time Congress transferred money twice from the General Fund to the Highway Trust Fund, in September 2008 and July 2009, in the amount of \$8 billion and \$7.8 billion, respectively, to insure that states would be reimbursed for their incurred project expenses.

Despite these relatively recent rescues of the HTF, it was well known that the crisis was not over with an even more significant shortfall anticipated in FFY 2010. Taking an opportunity to address the anticipated shortfall at the same time as extending SAFETEA-LU, in the HIRE Act Congress 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 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 measure also allows the HTF to collect interest on its invested balances in the future.

While these actions have preserved the Highway Trust Fund for the immediate future, without additional revenues or transfers in the near future, the HTF will certainly continue to face a shortfall.

Rescissions of Obligation Limitation

Since the passage of SAFETEA-LU there have been numerous rescissions of federal funding resulting from Congressional action in annual transportation appropriations bills and other federal legislation. These rescissions require states to deduct a set amount of unobligated funds which accumulate because states are not permitted to spend the entire amount of appropriations they receive due to a required obligation limitation. To date in FFY 2010, the State was required (pursuant to the provisions of the Education Jobs and Medicaid Assistance Act signed into law on August 10, 2010) to rescind \$20.7 million of unobligated balances. In prior years the amounts of unobligated balances rescinded for the State were: \$29.6 million in FFY 2009; \$30.1 million in FFY 2008; \$47.4 million in FFY 2007; and \$45.4 in FFY 2006. Because these rescinded funds are taken from unobligated limitation, there has not been a direct impact on programs or projects. However, in the future, and perhaps in the near future, there will not be the balances of unobligated funds that Kansas and all states have relied on as a cushion to meet the requirements of the rescissions.

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. The Department received \$348 million in highway funding, \$38 million of which was designated for the Kansas City and Wichita metropolitan areas. The Department has moved quickly to award projects and obligate the stimulus funds. As of July 2010, 143 ARRA highway projects were under contract and work had begun on 129 of them.

It should be noted that the HIRE Act did not contain funding for stimulus projects and the Department is unable to predict the likelihood or extent of any additional stimulus legislation providing funding for transportation projects that Congress might propose in the future.

Conclusion

SAFETEA-LU has been extended until December 2010. The problems on the Federal level with the timeliness of authorization and appropriations processes can result in risk and uncertainty for the Department. Federal funding is clearly important to the State as is reimbursement of the Department's expenditures, and reliability in receiving funds is imperative for future planning purposes.

LITIGATION

There is no litigation or administrative action pending in any court or, to the best knowledge of the Secretary, threatened, which would restrain or enjoin the issuance of the Series 2010A Bonds or in any way contest or affect the validity of the Series 2010A Bonds, or which concerns the proceedings of the Secretary taken in connection with the issuance of the Series 2010A Bonds, the adoption of the Twenty-Fifth Supplemental Resolution or the collection, pledge or application of the Revenues, or which contests the powers of the State, including the Secretary and the Department, with respect to the foregoing.

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

individually or in the aggregate, in a final judgment against the State, the Secretary or the Department which would materially and adversely affect the continued operations or financial position of the Department or the State Highway Fund.

INDEPENDENT AUDITORS

The Basic Financial Statements of the Department as of and for the year ended June 30, 2009, included in this Official Statement as Appendix B, have been audited by Allen, Gibbs & Houlik, L.C. and Berberich Trahan & Co., P.A., independent auditors, as set forth in their report in Appendix B. The auditors have not expressed and will not express any opinion as to any information contained in this Official Statement other than that contained in Appendix B. The inclusion of the financial statements and report in Appendix B does not imply that there has been no change in the financial position of the Department since the date thereof.

LEGAL INVESTMENT

The Series 2010A Bonds are securities in which all public officers and public bodies of the State and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, savings and loan associations, executors, administrators, trustees and other fiduciaries subject to Kansas law may properly and legally invest funds, including capital in their control or belonging to them. The Series 2010A Bonds are securities which may properly and legally be deposited with and received by any State of Kansas or Kansas municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may be hereafter authorized by law.

REMEDIES OF BONDOWNERS

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

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

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

The 1992 Resolution also provides a covenant that, if an Event of Default has occurred and is continuing, the Secretary will promptly appoint a bank or trust company to act as trustee for the purpose of exercising remedies provided under the 1992 Resolution for the benefit of the owners of the Bonds. If an Event of Default has occurred and a trustee has been appointed and has accepted the appointment, then no owner of a Bond shall have any right to institute any suit, action or proceeding in equity or at law to exercise any remedy or otherwise take action to enforce the terms of the 1992 Resolution unless the owners of at least 25% of the Parity Bonds then Outstanding have requested the trustee to act, and have

afforded the trustee adequate security or indemnity against the trustee's costs, expenses and liabilities and the trustee shall not have complied with such request within a reasonable time. If a trustee is appointed and accepts the appointment, the funds and accounts described herein will, nevertheless, under the terms of the Act as it currently exists, continue to be held by the State Treasurer. For the complete provisions relating to the appointment of a trustee and the trustee's powers, see the Summary of the 1992 Resolution included in Appendix E to this Official Statement.

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

TAX MATTERS RELATING TO THE SERIES 2010A BONDS

The following is a summary of the material Federal and State of Kansas income tax consequences of holding and disposing of the Series 2010A Bonds. This summary is based upon laws, regulations, rulings and judicial decisions now in effect, all of which are subject to change (possibly on a retroactive basis). This summary does not discuss all aspects of Federal income taxation that may be relevant to investors in light of their personal investment circumstances or describe the tax consequences to certain types of owners subject to special treatment under the Federal income tax laws (for example, dealers in securities or other persons who do not hold the Series 2010A Bonds as a capital asset, tax-exempt organizations, individual retirement accounts and other tax deferred accounts, and foreign taxpayers), and, except for the income tax laws of the State of Kansas, does not discuss the consequences to an owner under any state, local or foreign tax laws. The summary does not deal with the tax treatment of persons who purchase the Series 2010A Bonds in the secondary market at a premium or a discount. Prospective investors are advised to consult their own tax advisors regarding Federal, state, local and other tax considerations of holding and disposing of the Series 2010A Bonds.

Federal Income Tax Consequences to Owners of the Series 2010A Bonds

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, OWNERS OF THE SERIES 2010A BONDS (THE "TAXABLE BONDS") ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFICIAL STATEMENT RELATING TO THE TAXABLE BONDS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY OWNERS OF THE TAXABLE BONDS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THOSE OWNERS UNDER THE INTERNAL REVENUE CODE; (B) THE DISCUSSION OF FEDERAL TAX ISSUES IN THIS OFFICIAL STATEMENT RELATING TO THE TAXABLE BONDS WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THOSE TAXABLE BONDS; AND (C) OWNERS OF THE TAXABLE BONDS SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR BASED ON THEIR PARTICULAR CIRCUMSTANCES.

Opinion of Bond Counsel Regarding the Series 2010A Bonds

Kansas Tax Exemption. In the opinion of Bond Counsel, the Series 2010A Bonds and all income or interest therefrom are exempt from all Kansas taxes.

Federal Tax Status of Series 2010A Bonds as Build America Bonds; Interest Taxable

Election. The Secretary will elect to treat the Series 2010A Bonds as qualified “build America bonds” under Section 54AA of the Code and will elect to receive a direct payment from the U.S. Treasury equal to a portion of the interest payable on the Series 2010A Bonds.

Series 2010A Bond Interest Taxable. The interest on the Series 2010A Bonds will be included in gross income for Federal income tax purposes in accordance with the owner’s normal method of accounting.

No Opinion. Bond Counsel is not rendering any opinion to owners of the Series 2010A Bonds regarding the qualification of the Series 2010A Bonds as Build America Bonds or the treatment of interest on the Series 2010A Bonds for federal income taxation. Purchasers of Series 2010A Bonds should consult their tax advisors as to the applicability of these tax consequences and other federal income tax consequences of the purchase, ownership and disposition of the Series 2010A Bonds, including the possible application of state, local, foreign and other tax laws.

Other Federal Income Tax Consequences Applicable to Owners of Series 2010A Bonds

Sale or Exchange. Upon the sale, exchange or retirement (including redemption) of a Series 2010A Bond, an owner of the Series 2010A Bond generally will recognize gain or loss in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale, exchange or retirement of the Series 2010A Bond (other than in respect of accrued and unpaid interest) and the owner’s adjusted tax basis in the Series 2010A Bond. To the extent the Series 2010A Bonds are held as a capital asset, the gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Series 2010A Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Information Reporting and Backup Withholding. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the Series 2010A Bonds, and to the proceeds paid on the sale of Series 2010A Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to these payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner’s Federal income tax liability.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 2010A Bonds and with regard to the tax-exempt status of the interest on the Series 2010A Bonds are subject to the approving legal opinion of Gilmore & Bell, P.C., Bond Counsel. See “TAX MATTERS RELATING TO THE SERIES 2010A BONDS” herein. The opinion of Bond Counsel to be delivered by Gilmore & Bell, P.C., is expected to be delivered in substantially the form included as Appendix G to this Official Statement. Certain legal matters will be passed upon for the Secretary and the Department by Jonathan P. Small, Chartered, Topeka, Kansas, as Special Counsel to the Department, and for the Underwriters by Kutak Rock LLP, as Counsel to the Underwriters.

Bond Counsel has participated in the preparation, and has reviewed those portions, of this Official Statement pertaining to the Series 2010A Bonds, the tax status of interest on the Series 2010A Bonds, the provisions of the 1992 Resolution, the Twenty-Fifth Supplemental Resolution and the matters of law

contained under “THE SERIES 2010A BONDS,” “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS,” “LEGAL INVESTMENT,” “TAX MATTERS RELATING TO THE SERIES 2010A BONDS” and “UNDERTAKING TO PROVIDE ONGOING DISCLOSURE” and in “Appendix E—Summary of 1992 Resolution,” “Appendix F—Definitions of Certain Terms” and “Appendix G—Proposed Form of Opinion of Bond Counsel.” Bond Counsel has not been retained to pass upon, and will not express any opinion upon, any other information contained in this Official Statement.

RATINGS

Moody’s Investors Service (“Moody’s”), Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc. (“S&P”), and Fitch, Inc. (“Fitch”), have assigned ratings to the Series 2010A Bonds of “Aa1” by Moody’s, “AAA” by S&P and “AA+” by Fitch.

Such ratings reflect only the views of such organizations at the time such ratings are given, and the Department makes no representation as to the appropriateness of such ratings. An explanation of the significance of such ratings may be obtained only from such rating agencies. No such rating constitutes a recommendation to buy, sell, or hold any bonds, including the Series 2010A Bonds, or as to the market price or suitability thereof for a particular investor. The Department furnished such ratings agencies with certain information and materials relating to the Series 2010A Bonds that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing such rating, circumstances so warrant. The Department has not undertaken any responsibility to bring to the attention of the owners of the Series 2010A Bonds any proposed revision or withdrawal of a rating of the Series 2010A Bonds or to oppose any such proposed revision or withdrawal. Any such revision or withdrawal of such a rating could have an adverse effect on the market price and marketability of the Series 2010A Bonds.

UNDERWRITING

The Series 2010A Bonds are being purchased for reoffering by the underwriters identified on the cover page hereof, for whom Barclays Capital Inc. is acting as representative (the “Underwriters”), at an aggregate price of \$323,326,081.17 (which represents the principal amount of the Series 2010A Bonds less an underwriting discount of \$1,673,918.83). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2010A Bonds if any are purchased. The obligation of the Underwriters to accept delivery of the Series 2010A Bonds is subject to various conditions contained in the Bond Purchase Agreement.

The Underwriters intend to offer the Series 2010A Bonds to the public initially at the offering price set forth on the cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2010A Bonds to the public. The Underwriters may offer and sell Series 2010A Bonds to certain dealers at prices lower than the public offering price. In connection with this offering, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of the Series 2010A Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

J.P. Morgan Securities Inc. (“JPMSI”), one of the Underwriters of the Series 2010A Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of UBS Financial Services Inc. (“UBSFS”) and Charles Schwab & Co., Inc. (“CS&Co”) for the retail distribution of certain

securities offerings, including the Series 2010A Bonds, at the original issue prices. Pursuant to each Dealer Agreement (if applicable to this transaction), each of UBSFS and CS&Co will purchase Series 2010A Bonds from JPMSI at the original issue price less a negotiated portion of the selling concession applicable to any Series 2010A Bonds that such firm sells.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated, each an underwriter of the Series 2010A Bonds, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Series 2010A Bonds.

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association.

FINANCIAL ADVISOR

Public Financial Management, Inc. is serving as financial advisor to the Department with respect to the issuance of the Series 2010A Bonds. The financial advisor has assisted the Department in the preparation of this Official Statement and in other matters relating to the issuance of the Series 2010A Bonds and provided other financial advice regarding the Department's financial plan. Public Financial Management, Inc. is a financial and investment advisory and consulting organization and is not engaged in the underwriting, marketing or trading of municipal securities or other negotiable instruments.

UNDERTAKING TO PROVIDE ONGOING DISCLOSURE

For the purpose of complying with Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12, 17 C.F.R. Part 240, § 240.15c2-12 (the "Rule"), the Secretary, pursuant to the terms contained in the Twenty-Fifth Supplemental Resolution, will execute and deliver a Continuing Disclosure Certificate for the benefit of Bondowners and Beneficial Owners of the Series 2010A Bonds and to assist the Underwriters in complying with the requirements of the Rule. The proposed form of the Continuing Disclosure Certificate is attached hereto as Appendix D. The Secretary has not failed to comply in any material respect with any previous continuing disclosure undertaking made by her in accordance with the Rule.

MISCELLANEOUS

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

Copies of the 1992 Resolution and the Twenty-Fifth Supplemental Resolution summarized herein and information with respect to the State, the Secretary and the Department may be obtained from the Office of the Secretary of the Department of Transportation, in Topeka, Kansas, (785) 296-3640. This information can be made available in alternative accessible formats upon request. To obtain an alternative format, contact the Kansas Department of Transportation, Office of Transportation Information, Dwight D Eisenhower State Office Building, 700 S.W. Harrison Street, Topeka, Kansas 66603-3745 or phone (785) 296-3585 (Voice)/(TTY). Prior to the delivery of the Series 2010A Bonds,

information with respect to the State and the Department may be obtained from the above and also upon request, from the Financial Advisor by contacting Public Financial Management, Inc., at 2600 Grand Avenue, Suite 214, Des Moines, Iowa 50312, (515) 243-2600.

This Official Statement is submitted in connection with the issuance of the Series 2010A Bonds and may not be reproduced or used, as a whole or in part, for any other purpose. This Official Statement has been duly authorized and approved by the State and duly executed and delivered on its behalf by the Secretary.

All statements in this Official Statement involving matters of opinion, estimates, forecasts, projections, or the like, whether or not expressly so stated, are intended as such and not as representations of fact. No representation is made that any of such statements will be realized. The agreements of the Secretary are fully set forth in the 1992 Resolution and the Twenty-Fifth Supplemental Resolution in accordance with the Act. This Official Statement is not to be construed as a contract or agreement between the Secretary or the State and the purchasers or owners of any of the Series 2010A Bonds.

STATE OF KANSAS

By /s/ Deb Miller
Secretary of Transportation

Selected Information on the State of Kansas

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

The Governor's Economic and Demographic Report, issued in January of each year, is prepared by the Kansas Division of the Budget, a state agency, with contributions from the Hugo Wall School of Urban and Public Affairs, Wichita State University. This document is one of the sources of historical information in this Appendix A. Kansas Tax Facts, 2009 Supplement to the Seventh Edition, December 2009 published by Kansas Legislative Research Department, is the source of tax information in this Appendix A. Other sources used are noted in the text, charts and graphs.

Overview

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

Kansas State Government

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

Education

The most recent education information available for Kansas is from the 2000 U.S. Census. This data reflects that for individuals 25 years or older, 87.7 percent were at least high school graduates, up from 81.3 percent in 1990. In comparison, the 2000 U.S. Census data reflected that the U.S. average is 81.6 percent. Additionally, 26.9 percent of individuals in Kansas have a bachelor's degree compared with 22.1 percent for the United States.

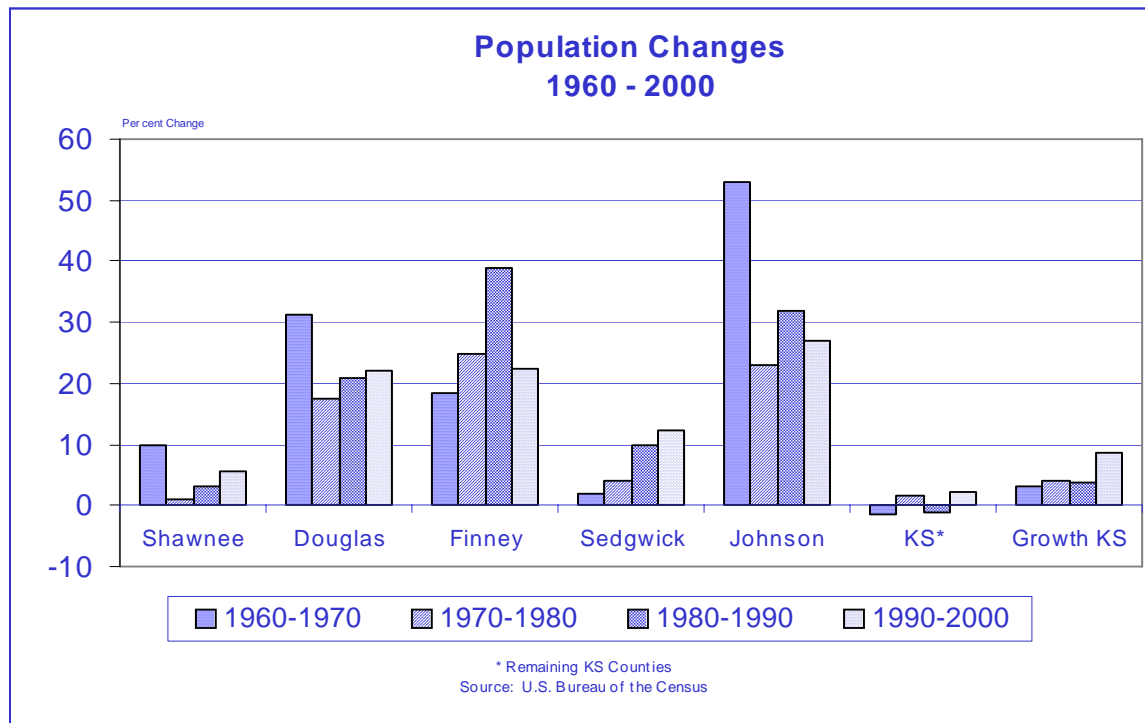
Population

The state's resident population increased from 2,477,588 in 1990 to 2,688,418 in 2000 according to figures from the 2000 U.S. Census. This was an increase of 8.5 percent. Although Kansas' percentage growth was about two-thirds the nationwide increase of 13.1 percent, it was about the same growth rate as any of the surrounding states, except Colorado, and was greater than 14 other states in the nation. Kansas is part of the Kansas City Region, which also includes Arkansas, Iowa, Minnesota, Missouri, and Oklahoma.

POPULATION (000)						
	Kansas		Region		United States	
Year	Population	% Change	Population	% Change	Population	% Change
1950	1,905		14,061		151,326	
1960	2,179	14.4	15,394	9.5	179,323	18.5
1970	2,249	3.2	16,327	6.1	203,302	13.4
1980	2,364	5.1	17,183	5.2	226,546	11.4
1990	2,477	4.8	17,660	2.8	248,710	9.8
2000	2,688	8.5	19,238	8.9	281,422	13.1
Source: U.S. Bureau of the Census						

During the 1990s, 57 of the state's 105 counties lost population. Overall, counties in northwest and southeast Kansas showed population losses, while northeast and southwest counties gained population. During the decade, eight counties had population growth at or above 10 percent. Sedgwick County, which is located in south central Kansas, is the most populated county in Kansas with a 2000 population of 452,869, and Greeley County, the least populated with 1,534 residents.

The following chart illustrates the percent change of population (1960-2000) in selected counties. During the 1960s, Johnson County in northeast Kansas had the largest increase of all counties, 53.0 percent. During the 1970s, Jefferson County (not shown), also in the northeast quadrant of the State, had a 27.3 percent increase. During the 1980s, Finney County in southwest Kansas had the largest increase, 38.8 percent. During the 1990s, Johnson County had the largest increase of all counties, 27.0 percent. The chart also shows the rate of growth for the remaining counties in Kansas and growth for all counties in Kansas during the same period.



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The Kansas Economy

Overall, the Kansas economy experienced a significant downturn in 2009, following the broader U.S. and global economies. Gross state product (GSP) is forecasted to increase by 2.6 percent, and personal income is expected to increase by 0.7 percent in 2010. The average monthly unemployment rate for Kansas was 7 percent in 2009 and is projected to be 7.3 percent through 2010. The following table summarizes employment statistics for the State of Kansas for October 2008 and October 2009. This table was compiled by the Kansas Department of Human Resources, Labor Market Information Services.

KANSAS EMPLOYMENT, OCTOBER 2008 - OCTOBER 2009

			Percent Change 2008-2009		2008	2009	Percent Change 2008-2009
Place of Residence Data							
Civilian Labor Force	1,499,141	1,523,961	1.7%	Transportation & Warehouse	46,400	44,300	-4.5%
Employment	1,433,933	1,426,344	-0.5%	Truck Transportation	17,900	17,800	-0.6%
Unemployment	65,208	97,617	49.7%	Information	37,500	36,400	-2.9%
Unemployment Rate	4.3	6.4	48.8%	Telecommunications	23,800	22,300	-6.3%
				Finance	72,800	71,800	-1.4%
				Finance & Insurance	57,900	57,100	-1.4%
Place of Work Data				Credit Intermediaries	27,700	27,600	-0.4%
All Industries	1,404,300	1,346,600	-4.1%	Insurance Carriers	24,500	24,300	-0.8%
Goods Producing Industries	263,300	231,000	-12.3%	Real Estate	14,900	14,700	-1.3%
Natural Resources	10,200	10,200	0.0%	Prof. & Tech. Serv.	149,100	135,400	-9.2%
Construction	65,300	58,500	-10.4%	Professional & Science	60,300	54,900	-9.0%
Manufacturing	187,800	162,300	-13.6%	Mgmt. Communications	13,100	12,600	-3.8%
Durable Goods	122,400	98,600	-19.4%	Administrative	75,700	67,900	-10.3%
Machinery	18,700	17,900	-4.3%	Education & Health Services	178,500	180,300	1.0%
Electrical Equipment	4,100	3,900	-4.9%	Health Care & Services	160,200	161,300	0.7%
Transportation Equip.	53,600	47,300	-11.8%	Hospitals	43,100	43,800	1.6%
Aerospace Products	44,600	37,600	-15.7%	Leisure & Hospitality	116,400	114,200	-1.9%
Non-Durable Goods	65,400	63,700	-2.6%	Arts & Entertainment	13,800	13,800	0.0%
Food Manufacturing	30,900	30,300	-1.9%	Amuse., Gambling	10,500	10,600	1.0%
Animal Slaughter	18,000	18,100	0.6%	Accommodations	102,600	100,400	-2.1%
Service Producing	1,141,000	1,115,600	-2.2%	Food Services	92,200	90,600	-1.7%
Trade & Transportation	263,100	254,600	-3.2%	Other Services	54,000	55,200	2.2%
Wholesale Trade	61,900	61,100	-1.3%	Government	269,600	267,700	-0.7%
Retail Trade	147,200	141,700	-3.7%	Federal	25,500	26,300	3.1%
Motor vehicles	18,200	17,500	-3.8%	State	56,200	55,300	-1.6%
Grocery Stores	22,600	22,100	-2.2%	Local	187,900	186,100	-1.0%
General merchandise	32,800	32,200	-1.8%	Farm Employment	64,900	61,200	-5.7%
Trans., Warehouse	54,000	51,800	-4.1%				
Utilities	7,600	7,500	-1.3%				
Electric Power Transmission	5,500	5,500	0.0%				

Source: The Governor's Economic and Demographic Report, 2010

Manufacturing

Employment in durable goods manufacturing decreased by 19.4 percent in 2009 and was consistently below last year's levels. The dynamics of aircraft and parts manufacturing employment in the Wichita metropolitan area are of particular interest when analyzing the Kansas economy. Employment in aerospace products manufacturing dropped by 15.7 percent in 2009.

Natural Resources & Mining

The natural resources and mining super-sector is made up of two parts: the agriculture, forestry, fishing, and hunting sector and the mining sector. Growth in this sector slowed significantly during 2009 but remained unchanged from 2008 levels.

Construction

Construction employment decreased 10.4 percent in 2009. Monthly construction levels began the year below 2008 levels and remained below these levels for the duration of 2009. This industry sector is affected greatly

by the seasons and the weather. For this reason when analyzing construction employment changes, the inherent seasonal nature of the industry should be considered.

Trade, Transportation, and Utilities

Employment in trade, transportation, and utilities decreased 3.2 percent in 2009. Monthly employment began the year slightly below 2008 levels but drifted further below these levels as the year progressed.

Wholesale and Retail Trade

Monthly wholesale trade employment was near 2008 levels at the beginning of the year but drifted below these levels throughout 2009. Wholesale trade employment decreased 1.3 percent between 2008 and 2009. Retail trade employment also began the year near 2008 levels and drifted lower throughout 2009. Retail trade employment decreased 3.7 percent between 2008 and 2009.

Information

Information employment in October 2009 was 2.9 percent below that in October 2008. Specifically within that category, telecommunications employment decreased by 6.3 percent over that same time.

Financial Activities

Financial activities employment decreased 1.4 percent during 2009. Within this category insurance employment decreased 1.4 percent, credit intermediation employment decreased 0.4 percent, and real estate employment decreased 1.3 percent.

Services

Employment within the category professional and business services decreased 9.2 percent in 2009. Educational and health services employment increased 1.0 percent. In 2009, employment in leisure and hospitality services increased 1.9 percent. Employment in amusement and gambling increased 1.0 percent in 2009 while employment in arts and entertainment remained unchanged. Employment in other services increased 2.2 percent in 2009.

Government

Total government employment in Kansas decreased 0.7 percent. Federal government employment in the state grew by 3.1 percent in 2009, while state government employment decreased by 1.6 percent and local government decreased by 1.0 percent.

Agriculture

Although this sector of the Kansas economy does not now employ many people, the importance of agriculture to the State and national economies is evidenced by Kansas' ranking among all states in the production of crops and livestock. Following is a discussion of data pertaining to Kansas agriculture production and how it compares to other states. The data cited in this section is taken from the 2009 edition of Kansas Farm Facts published by the Kansas Department of Agriculture which contains data for 2008. Kansas Farm Facts is published annually in July.

Kansas has a strong agricultural tradition that predates its statehood, and agriculture continues to be a significant contributor to the state's economic well-being. In 2008, cash receipts from farm marketing totaled more than \$13.9 billion, and exports of agricultural products were valued at more than \$5.9 billion.

On average, Kansas ranks first in wheat produced in the nation and ranks first in the nation in flour milling and wheat stored. Kansas also ranks first in grain sorghum produced, second in cropland, and third in land in farms and sunflowers produced.

Kansas ranks third in beef production, with more than 18 percent of all beef originating from Kansas beef processing facilities. The state ranks third in cattle and calves on farms and third in cattle and calves on grain feed and tenth in hogs on farms.

Pricewise, 2008 was a respectable year for Kansas Agriculture. Wheat, corn, all hay, alfalfa, and other hay set new record highs for marketing year average price per bushel on farm value. Soybean production set new records for both volumes produced and acres harvested in 2008. The value of hay production was up 16 percent

from 2007. Cash receipts for all cattle and calves on farms and ranches were third highest on record while total cash receipts for all hogs was up 3 percent from 2007 and set a new record high. The value of all farmland and buildings continued their trend and was up 4 percent from 2007 levels.

Economic Forecast for Kansas

This economic forecast was taken from a report issued by the Consensus Estimating Group to Governor Mark Parkinson on November 12, 2009; the Consensus Estimating Group met on November 5, 2009, and provided revised economic estimates that are included in the Governor's Economic and Demographic Report issued in January 2010. The Consensus Estimating Group is composed of representatives of the Legislative Research Department, Division of Budget, Department of Revenue, and three consulting economists from state universities. This estimate is the base from which the Governor and the Legislature build the annual budget.

Although positive growth during the third quarter of 2009 may have signaled the end of the national economic downturn, there still remains a great deal of uncertainty for the Kansas economy which is underlined by little projected growth in income and the expectation that unemployment will continue to increase in 2010. A recent Federal Reserve study indicates that Kansas since 1956 has exited every recession later than the nation-as-a-whole. Although some weak economic indicators prompt concern of a double-dip recession, the assumptions are that modest growth will occur in national and state economies during 2010 and 2011. Current forecasts call for nominal Kansas Gross State Product to grow by 2.6 percent in 2010 and 3.0 percent in 2011. Nevertheless, concerns still remain for many of the state's key sectors, including aviation manufacturing and agriculture.

Kansas Personal Income

Growth in Kansas Personal Income is expected to decelerate significantly for 2009. Personal income is forecasted to decline by 2.7 percent in 2009; grow by 0.7 percent in 2010; and grow by 2.7 percent in 2011. Overall US Personal Income growth is not expected to differ significantly from the pattern in Kansas, with national estimates currently at negative 2.1 percent, 1.5 percent, and 3.8 percent for the same three years, respectively.

Employment

Data obtained from the Kansas Department of Labor indicate that employment has weakened considerably since fall of 2008. The most recent monthly data show that total Kansas (non-farm) employment from September 2008 to September 2009 had decreased by 4.3 percent. All sectors experienced losses with the most significant occurring in the manufacturing sector. Current unemployment estimates by the Department call for the overall Kansas jobless rate, which was 4.4 percent in CY 2008, to climb to 6.9 percent in CY 2009; 7.3 percent in CY 2010; and fall to 6.75 percent for CY 2011. These trends are comparable to national unemployment forecasts which suggest that the national rate will continue to increase throughout much of 2010, reaching a high of 10.2 percent.

Agriculture

Although net farm income in 2008 was significantly higher than 2007, the outlook for 2010 is much more uncertain as a result of higher input prices, especially energy and fertilizer costs, and the recent collapse in commodity prices tied to problems with the national economy. The All Farm Products Index of Prices received by Kansas farmers was 117 in September of 2009, down from 160 a year earlier. Although the combined total production of the four major grain crops is expected to be 9 percent above the 2008 level, the overall value of production for those crops is forecast to be down by 19 percent. Additionally, livestock prices remained lower in the fall of 2009 than they were in 2008.

Oil and Gas

After historic levels of volatility in the price of oil throughout 2008 and early 2009, the price thus far in FY 2010, which began June 30, 2009, has remained much higher than the price estimated in the April forecast. The estimated average price per taxable barrel of Kansas crude has been revised to \$70 per barrel for FY 2010 which is considerably higher than the previous forecast of \$45. As always, significant political tensions in the Middle East and elsewhere provide a great deal of uncertainty about forecasting the price of this commodity. Gross oil production in Kansas, which had been declining steadily for more than a decade until FY 2000, has recently reversed that trend and been increasing slightly since FY 2005. The current forecast of 40 million barrels for FY 2009 represents a level not seen since FY 1997. Approximately half of all Kansas oil produced is not subject to severance taxation because of various exemptions in that law.

The price of natural gas is expected to average \$3.75 per million cubic feet (mcf) for FY 2010 before increasing to \$5.25 per mcf for FY 2011, based on an industry source's analysis of futures markets. Factors considered for these estimates included the relationship between crude oil and gas prices, the current relatively high storage levels for gas, weakening of the economy, and the impact of enhanced production from shale formations elsewhere in the United States. Kansas natural gas production in FY 2009 of 376 mcf represented a significant decrease from the modern era peak of 730 mcf in FY 1996 (largely as a result of depletion of reserves in the Hugoton Field). Production is expected to continue to decrease to 360 mcf for FY 2010; and 345 mcf for FY 2011.

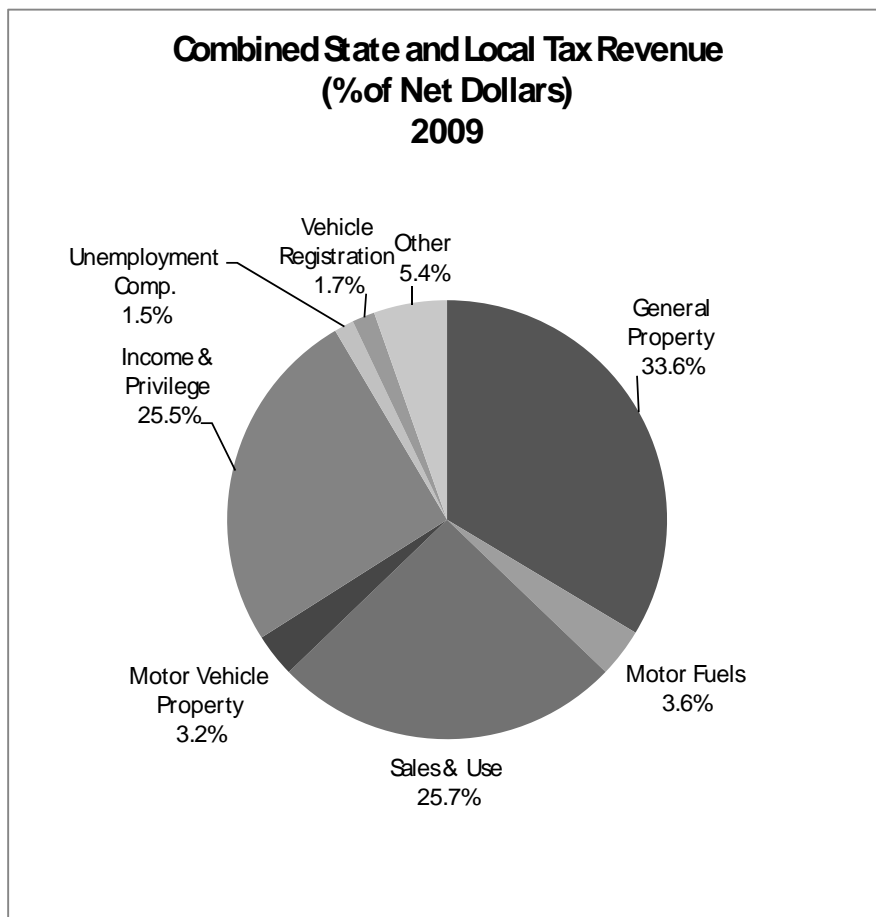
The following table provides selected economic trends for the State of Kansas in the years 2009 and 2010.

Major Kansas Economic Trends 2009 and 2010		
	2009	2010
Gross State Product Growth	(1.3) %	2.6 %
Personal Income Growth	(2.7)	0.7
Employment Growth (Place of Work)	(3.1)	(1.6)
Unemployment (Monthly Average)	7.0	7.3
Source: The Governor's Economic and Demographic Report		

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Taxes

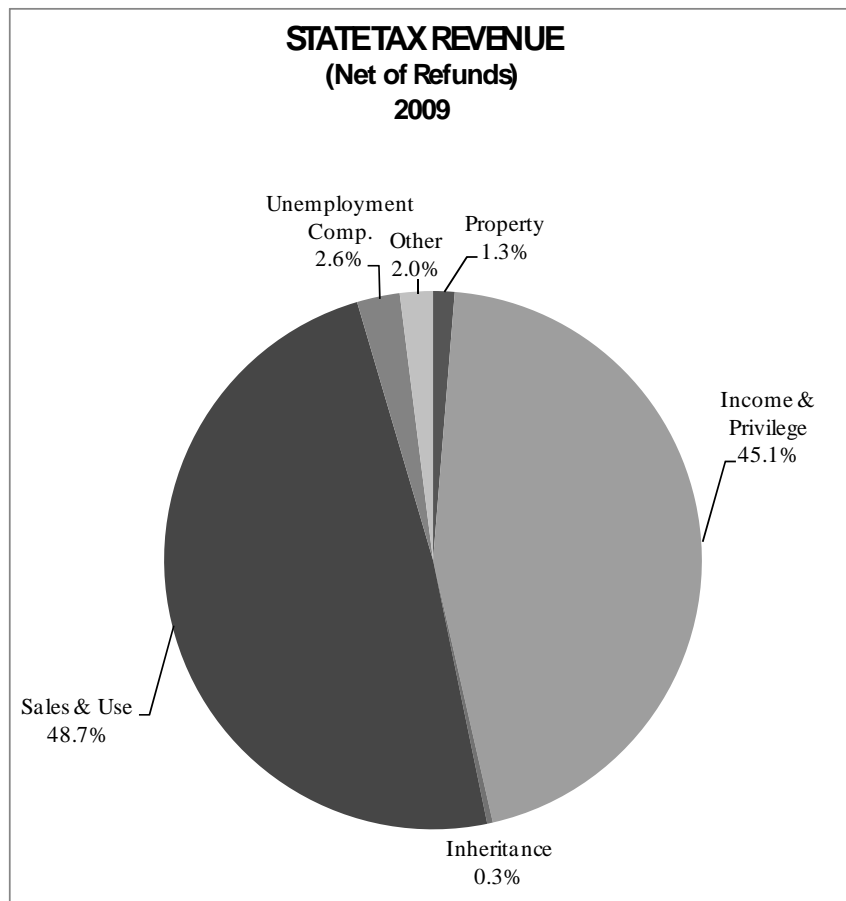
Kansas Tax Facts, 2009 Supplement to the Seventh Edition, December 2009 published by Kansas Legislative Research Department provides the most current information available about taxes collected in Kansas. This is the source for data used in this section. Combined state and local tax revenues from all sources for Fiscal Year 2009 are illustrated in the accompanying pie chart on the following page. Motor fuel taxes accounted for approximately 3.6 percent of tax revenue and vehicle registration fees accounted for 1.7 percent.



Sales and use tax revenue has been increasing as part of the state-local tax mix for decades. It has risen from 16 percent of the total in 1970 to just under 26 percent in 2009. The spread of local sales taxes has contributed significantly to the growth of sales tax revenue since 1970.

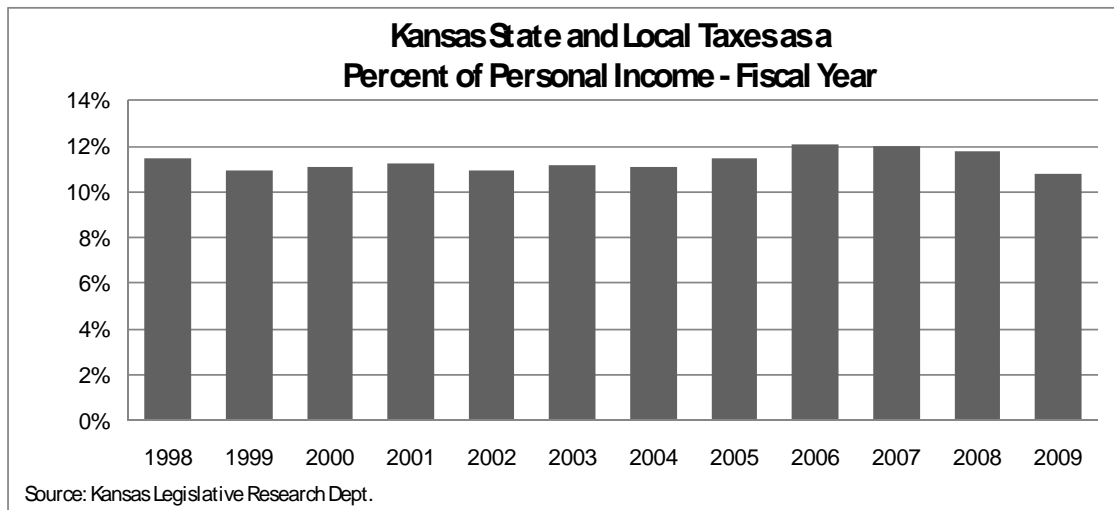
General property tax is still the most important single revenue producer; however, its proportion of total state and local taxes has steadily declined over the decades. It was 82 percent in Fiscal Year 1930, 56 percent in Fiscal Year 1960, and 33.6 percent in Fiscal Year 2009. The trend has reversed itself recently, since in FY1998 the general property tax was only about 27 percent of the tax burden.

The pie chart illustrates the revenue for Fiscal Year 2009 collected by state sources only. The largest two categories are sales and use tax and income & privilege tax, which constitute 49% and 45%, respectively.



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The accompanying chart reflects the relationship between state and local taxes collected and Kansas personal income. As the chart indicates, the percent of income paid in taxes has been relatively stable during the 1990s through 2009.



The table below shows state tax revenue for the Fiscal Years 2003– 2009.

STATE TAX REVENUE NET OF REFUNDS
(In Millions)

	2004	2005	2006	2007	2008	2009
Property	84	68	73	82	84	85
Income & Privilege	2,066	2,328	2,782	3,218	3,410	2,998
Inheritance	48	52	52	56	44	23
Sales & Use	2,861	2,972	3,136	3,250	3,305	3,232
Other	128	128	134	136	139	132
Unemployment Comp.	283	340	345	273	223	171
Total	5,470	5,889	6,521	7,015	7,205	6,641

Source: Kansas Legislative Research Dept.

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APPENDIX B:

Basic Financial Statements of the Kansas Department of Transportation As of June 30, 2009 And for the Year Then Ended And the Report of the Independent Auditors

The Department was the first of only four state departments of transportation to receive the Government Finance Officers Association Certificate of Achievement of Excellence in Financial Reporting. The Department received this award for its Comprehensive Annual Financial Report for the Fiscal Years ended June 30, 1988 through 2009, inclusive.

Kansas Department of Transportation
Basic Financial Statements
For the Fiscal Year Ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To Ms. Deb Miller
Secretary of Transportation:

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, 2009 which collectively comprise the Department's basic financial statements as listed in the 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. 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 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, 2009, 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, 2009, 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.

The Management's Discussion and Analysis on pages 3 through 14 and the Required Supplementary Information on pages 51 through 53 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.

Allen, Gibbs & Houlik, L.C.
Wichita, Kansas
December 15, 2009

Berberich Trahan & Co., P.A.
Topeka, Kansas

**Kansas Department of Transportation
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2009
(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, 2009, the Department's assets exceeded its liabilities by \$10,020,592. Of this amount \$512,897 is unrestricted and is available to use to meet future obligations to citizens and creditors.
- The Department's net assets increased by \$469,370 during the year.
- At the end of the fiscal year the combined ending fund balances of the Department's governmental funds was a deficit of \$297,847.
- The ending fund balances of governmental funds decreased by \$118,059.

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 transportation revolving fund and operation of the communication system.

Fund financial statements

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

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	
	6/30/2009	6/30/2008	6/30/2009	6/30/2008	6/30/2009	6/30/2008
Current and other assets	\$ 699,746	\$ 846,268	\$ 136,510	\$ 95,231	\$ 836,256	\$ 941,499
Capital assets	11,101,889	10,531,955	-	-	11,101,889	10,531,955
Total assets	11,801,635	11,378,223	136,510	95,231	11,938,145	11,473,454
Less liabilities:						
Other liabilities	1,091,022	943,249	14,115	11,221	1,105,137	954,470
Long-term liabilities	723,649	916,494	88,767	51,268	812,416	967,762
Total liabilities	1,814,671	1,859,743	102,882	62,489	1,917,553	1,922,232
Net assets:						
Invested in capital assets,						
net of related debt	9,425,607	8,816,278	-	-	9,425,607	8,816,278
Restricted	77,058	39,199	5,030	17,617	82,088	56,816
Unrestricted	484,299	663,003	28,598	15,125	512,897	678,128
Total net assets	\$ 9,986,964	\$ 9,518,480	\$ 33,628	\$ 32,742	\$ 10,020,592	\$ 9,551,222

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 \$10,020,592, an increase of \$469,370.

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 increase in net assets invested in capital assets, net of related debt reflects both the activities of constructing new highways as authorized in the CTP and the reduction of long-term liabilities as bonds issued in prior years mature. Unrestricted net assets decreased as a result of a larger increase in other liabilities greater than the decrease in current and other assets.

Changes in Net Assets

The following table summarizes and compares governmental and business-type activities for the years ended June 30, 2009 and 2008.

Changes in Net Assets						
	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues						
Capital grants	\$ 195,942	\$ 341,685	\$ -	\$ -	\$ 195,942	\$ 341,685
Operating grants	194,037	160,475	-	-	194,037	160,475
Vehicle registrations and drivers' licenses	170,256	172,353	-	-	170,256	172,353
Charges for service & other	5,458	8,610	3,165	1,827	8,623	10,437
General revenues						
Motor fuels tax	277,807	283,806	-	-	277,807	283,806
Sales and use taxes	271,769	282,150	-	-	271,769	282,150
Investment earnings	18,934	22,720	1,232	1,733	20,166	24,453
Unrestricted appropriations from other state funds	1,462	1,464	-	-	1,462	1,464
Total revenue	<u>1,135,665</u>	<u>1,273,263</u>	<u>4,397</u>	<u>3,560</u>	<u>1,140,062</u>	<u>1,276,823</u>
Expenses						
Maintenance and preservation	174,670	593,645	-	-	174,670	593,645
Communications system	13,848	18,068	706	222	14,554	18,290
Local support	172,142	171,046	-	-	172,142	171,046
General government	215,773	157,415	-	-	215,773	157,415
Rail, air and public transportation	11,388	11,108	-	-	11,388	11,108
Interest	79,487	72,452	-	-	79,487	72,452
Transportation revolving fund	-	-	2,678	2,459	2,678	2,459
Total expenses	<u>667,308</u>	<u>1,023,734</u>	<u>3,384</u>	<u>2,681</u>	<u>670,692</u>	<u>1,026,415</u>
Increase in net assets before transfers	<u>468,357</u>	<u>249,529</u>	<u>1,013</u>	<u>879</u>	<u>469,370</u>	<u>250,408</u>
Transfers	127	(2,000)	(127)	2,000	-	-
Increase in net assets	<u>468,484</u>	<u>247,529</u>	<u>886</u>	<u>2,879</u>	<u>469,370</u>	<u>250,408</u>
Net assets - beginning	<u>9,518,480</u>	<u>9,270,951</u>	<u>32,742</u>	<u>29,863</u>	<u>9,551,222</u>	<u>9,300,814</u>
Net assets - ending	<u>\$ 9,986,964</u>	<u>\$ 9,518,480</u>	<u>\$ 33,628</u>	<u>\$ 32,742</u>	<u>\$ 10,020,592</u>	<u>\$ 9,551,222</u>

As a result of the activities of the Department during the past year net assets increased \$469,370. Overall revenues decreased by 11 percent and expenses decreased by 35 percent.

Governmental activities

Revenues for the year decreased \$137,598 or about 11 percent. This decrease was due primarily to a decrease in intergovernmental revenues received as partial reimbursement of the

Department's maintenance and preservation activities. In addition, the Department's share of the states sales and use tax revenues decreased by \$10,381 and motor fuels tax revenue decreased by \$5,999. Other sources of revenue available to the Department's governmental funds remained static or fluctuated only slightly.

Expenses for the year decreased \$356,426 or about 35 percent. The most significant decrease was for maintenance and preservation activities. Expenditures for the types of projects that are considered capital additions increased in 2009 compared to 2008 causing the remaining expenses for maintenance and preservation to reflect a decrease. This is a reversal of the trend noted in the prior year. The decrease is somewhat offset by an increase in expenses for general government caused largely by an increase of distributions to other state agencies mandated by the legislature.

Business-type activities

Business-type activities reflect the activities in the Transportation Revolving Fund (TRF) and the Communications System Revolving Fund (CRF). Total revenues for these funds increased \$837 or about 24 percent. An increase in program revenues was partially offset with a decrease in general revenues. The increase in program revenues is due to an increase in interest collected on loans in the TRF and a increase in service charges in the CRF. The decrease in general revenues was a decrease in earnings on investments in the TRF.

Expenses increased in both the TRF and the CRF for a total of \$704, or about 26 percent. The increased expenses in the TRF were primarily in interest expenses and arbitrage rebates due. The increase in interest is due to the fact that additional bonds were issued during the year.

INDIVIDUAL FUND ANALYSIS

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

Governmental funds

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

The following table summarizes and compares the balance sheets of the governmental funds at June 30, 2009 and June 30, 2008.

Comparative Summary of Governmental Funds' Balance Sheets				
	<u>6/30/2009</u>	<u>6/30/2008*</u>	<u>Change</u>	<u>% Change</u>
Assets				
Cash and investments	\$ 550,899	\$ 554,051	\$ (3,152)	(1)
Receivables	87,708	232,906	(145,198)	(62)
Inventories	21,445	18,697	2,748	15
Long-term receivable	34,827	42,645	(7,818)	(18)
Total assets	<u>\$ 694,879</u>	<u>\$ 848,299</u>	<u>\$ (153,420)</u>	(18)
Liabilities				
Current liabilities	\$ 60,854	\$ 72,478	\$ (11,624)	(16)
Bonds payable on demand	885,715	905,985	(20,270)	(2)
Deferred revenue	46,157	49,624	(3,467)	(7)
Total liabilities	<u>992,726</u>	<u>1,028,087</u>	<u>(35,361)</u>	(3)
Fund balances				
Reserved				
Encumbrances	985,421	697,912	287,509	41
Other	56,272	54,721	1,551	3
Unreserved				
General fund	(562,388)	(94,692)	(467,696)	494
Other	(777,152)	(837,729)	60,577	(7)
Total fund balances	<u>(297,847)</u>	<u>(179,788)</u>	<u>(118,059)</u>	66
Total liabilities and fund balances	<u>\$ 694,879</u>	<u>\$ 848,299</u>	<u>\$ (153,420)</u>	(18)

* - restated for prior period adjustment

Total fund balances for all governmental funds decreased by \$118,059 during the year.

This decrease is the result of assets decreasing more than liabilities decreasing. The decrease in assets is primarily the result of the following: receivables decreased due to a significant Federal aid receipt received shortly after the beginning of the year that was recorded as revenue of the prior year and the reclassification of a receivable from the State General Fund to a distribution to other state funds, and long-term receivables decreased primarily as the result of collecting an amount that was classified as long-term in the prior year.

The decrease in liabilities is the result of the following: vouchers payable (included in current liabilities) decreased due to the level of activity as the ten-year CTP draws to a close, and bonds payable on demand reduced due to a scheduled principal reduction.

The decrease in the unreserved General Fund fund balance is the result of the increase in the fund balance reserved for encumbrances. The significant negative balance in the other unreserved fund balances is a result of the required GAAP reporting of the bonds payable on demand issued in prior years. Since the bonds are payable on demand, they are required to be reported as a current liability in the capital projects fund.

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

Comparative Statement of Governmental Funds Revenues, Expenditures and Other Financing Sources (Uses)					
	FYE 6/30/2009	FYE 6/30/2008*	Change	% Change	
Revenues					
Motor fuel taxes	\$ 277,358	\$ 283,974	\$ (6,616)	(2)	
Vehicle registrations and permits	170,256	172,353	(2,097)	(1)	
Operating grants	182,534	161,957	20,577	13	
Capital grants	210,550	338,681	(128,131)	(38)	
Sales and use taxes	268,259	283,597	(15,338)	(5)	
Investment earnings	18,933	22,720	(3,787)	(17)	
Other	6,779	9,973	(3,194)	(32)	
Appropriations from other state funds	1,462	1,661	(199)	(12)	
Total revenues	<u>1,136,131</u>	<u>1,274,916</u>	<u>(138,785)</u>	(11)	
Expenditures					
Current operating:					
Maintenance	291,172	297,573	(6,401)	(2)	
Communications system	8,786	13,811	(5,025)	(36)	
Construction	458,781	476,203	(17,422)	(4)	
Local support	172,142	171,045	1,097	1	
Rail, air and public transportation	11,387	11,107	280	3	
Management	67,932	63,680	4,252	7	
Distributions to other state funds	150,722	102,907	47,815	46	
Debt Service:					
Principal	32,720	50,330	(17,610)	(35)	
Interest and fees	74,833	73,347	1,486	2	
Total expenditures	<u>1,268,475</u>	<u>1,260,003</u>	<u>8,472</u>	1	
Excess (deficiency) of revenues over expenditures	<u>(132,344)</u>	<u>14,913</u>	<u>(147,257)</u>	(987)	
Other financing sources (uses)					
Transfers-in	191,253	126,615	64,638	51	
Transfers-out	(191,126)	(128,615)	(62,511)	49	
Payment to Refunded Bonds Escrow Agent	-	(150,275)	150,275	(100)	
Bond premium on conversion to fixed rate bonds	<u>11,410</u>	<u>-</u>	<u>11,410</u>		
Total other financing sources (uses)	<u>11,537</u>	<u>(152,275)</u>	<u>163,812</u>	(108)	
Net change in fund balances	<u>\$ (120,807)</u>	<u>\$ (137,362)</u>	<u>\$ 16,555</u>	(12)	

* - restated for prior period adjustment

Revenues for the year decreased by \$138,785 or eleven percent and expenditures increased by \$8,472, about one percent. See the discussion of variances above to explain significant fluctuations.

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 level 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 2008 legislature) projected a budgetary deficit of \$571,917. The final budget (adopted by the 2009 legislature) projected a budgetary deficit of \$315,271. These budgetary deficits are covered by beginning reserves held by the Fund.

Significant differences between the original and final budget include:

- Estimated transfers from other state funds were reduced to recognize the delay in repayment of a loan to the State General Fund as authorized by the legislature.
- The budgets for maintenance and construction with legal limits and for construction without legal limits were reduced to more accurately reflect the level of activity being accomplished by the Department.

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:

- The collection of motor fuels taxes, vehicle registrations and permits and sales and use taxes did not meet projections.
- 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. This budget was lowered from the original to the final budget. Actual end-of-year results exceeded the final budget, but were less than the initial budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2009, the total investment in capital assets was \$11,101,889. The following table summarizes those assets.

Management's Discussion and Analysis

Summary of Capital Assets (net of depreciation)		
	Governmental Activities	
	<u>6/30/2009</u>	<u>6/30/2008</u>
Land (excluding right of way)	\$ 4,944	\$ 4,643
Right of way	158,288	144,480
Total land	163,232	149,123
Roadways	7,980,742	7,621,775
Bridges	1,829,509	1,736,629
Construction in progress	900,553	795,507
Total infrastructure and related construction in progress	10,710,804	10,153,911
Buildings	44,964	44,531
Machinery and equipment	182,889	184,390
Total buildings and equipment	227,853	228,921
Total capital assets	<u>\$ 11,101,889</u>	<u>\$ 10,531,955</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, the Department had bonds outstanding of \$1,780,248. This includes \$855,715 of bonds payable on demand and \$84,740 par value of bonds due in the next fiscal year. The Department has issued all its authorized highway revenue bonds.

During the year the Kansas Development Finance Authority issued \$14,200 Communication System Lease Program Revenue Bonds and \$30,950 Revolving Loan Fund Revenue Bonds. These bonds were issued to finance the activities of the Department's proprietary funds which loan money to local units of government for transportation related projects and lease equipment to public safety organizations to complete a statewide interoperable communications system.

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. During 1998 and again in 2006 Standard & Poor's Rating Service upgraded their rating of the highway revenue bonds, including the previously issued debt. 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	Aa2	VMIG 1
Standard & Poor's Rating Services	AAA	A-1+
Fitch Ratings	AA	F1+

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

THE MODIFIED APPROACH TO REPORTING INFRASTRUCTURE ASSETS

Typically capital assets are capitalized and subsequently depreciated, thereby spreading their costs to governmental activities over the estimated useful lives of the assets. When reporting infrastructure assets, an alternative to the recording of depreciation has been developed and is recognized as GAAP. This "modified approach" assumes that infrastructure assets have an indefinite life if they are properly maintained and preserved. When this approach is employed, the assets are not depreciated; however, 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. These measurements were made in the Spring of 2009. 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 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.

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. 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.

ECONOMIC AND OTHER FACTORS

Fiscal year 2009 was the final year of the authorized 10-year Comprehensive Transportation Program. The intent of the 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 of public use general aviation airports, and
- Public transit programs to aid elderly persons, persons with disabilities and the general public.

In order to pay for this program, the 1999 legislation provided for: a phased-in increase in the motor fuels taxes, increased transfers to the State Highway Fund from sales and compensating use tax receipts in the State General Fund, and an increase in the authority of the Department to issue bonds.

In order to solve liquidity challenges in the State General Fund subsequent legislative adjustments to this financing plan have been implemented. These changes include:

- The phased-in motor fuels tax increases were extended,
- Vehicle registration and permits were increased,
- The sales and compensating use tax transfers were eliminated after fiscal year 2002,
- The direct sales tax credit was increased to offset this decrease, and
- Bonding authority was again increased.

With the completion of the CTP, the Department's activities are focused primarily on preservation of the existing Transportation system. Public feedback has stated overwhelmingly that preserving the current system should be the Department's top priority. As such the construction program for fiscal years 2010 through 2012 will include major preservation projects such as bridge replacement or pavement reconstruction and rehabilitation. Maintenance projects during this timeframe will be designed to extend the infrastructure's serviceable life by performing preservation actions such as pavement resurfacing or bridge painting.

Management's Discussion and Analysis

Due to declining state and federal funding, the agency will spend considerably less on construction during the FY 2010 through FT 2012 period than was spent during the CTP. Despite the preservation focus, the level of funding currently available to the agency is insufficient to maintain highway conditions at an acceptable level in the long-term. Highway conditions are expected to deteriorate unless funding for construction projects is increased. Additionally, the agency is unable to address in a timely fashion known or emerging transportation improvement needs across the state.

REQUESTS FOR INFORMATION

This Comprehensive Annual Financial Report is intended to provide the reader a general overview of the finances of the Kansas Department of Transportation. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the Office of Transportation Information, Dwight D. Eisenhower State Office Building, Topeka, Kansas 66603-3754. Their phone number is (785) 296-3585 (Hearing Impaired – 711).

Kansas Department of Transportation
Statement of Net Assets
June 30, 2009
(amounts in thousands)

	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash:			
Unrestricted	\$ 221,763	\$ 11,330	\$ 233,093
Restricted	102,991	17,568	120,559
Investments, at fair value	226,146	15,277	241,423
Receivables	87,680	9,066	96,746
Materials and supplies	21,445	775	22,220
Deferred charges	4,894	917	5,811
Long-term receivable from State General Fund	30,896	0	30,896
Other long-term receivables	3,931	81,577	85,508
Capital assets:			
Land, including right of way	163,232	0	163,232
Infrastructure (including construction in progress)	10,710,804	0	10,710,804
Buildings and improvements (net of accumulated depreciation)	44,964	0	44,964
Road, office and shop equipment (net of accumulated depreciation)	182,889	0	182,889
Total assets	<u>11,801,635</u>	<u>136,510</u>	<u>11,938,145</u>
LIABILITIES			
Accounts payable and other current liabilities	86,670	3,509	90,179
Bonds payable on demand	885,715	0	885,715
Unearned revenues and other credits	32,765	4,067	36,832
Internal balances	(29)	29	0
Compensated absences:			
Due within one year	7,371	0	7,371
Due in more than one year	1,434	0	1,434
Bonds payable:			
Due within one year	78,530	6,210	84,740
Due in more than one year	716,931	88,767	805,698
Arbitrage rebate liability	0	300	300
Other post employment benefits obligation	5,284	0	5,284
Total liabilities	<u>1,814,671</u>	<u>102,882</u>	<u>1,917,553</u>
NET ASSETS			
Invested in capital assets, net of related debt	9,425,607	0	9,425,607
Restricted for:			
Debt service	77,058	19,996	97,054
Unrestricted	484,299	13,632	497,931
Total net assets	<u>\$ 9,986,964</u>	<u>\$ 33,628</u>	<u>\$ 10,020,592</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, 2009
(amounts in thousands)

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services				Governmental Activities	Business- type Activities	Total
		Vehicle Registrations and Drivers' Licenses	Other	Operating Grants and Contributions	Capital Grants and Contributions			
Governmental activities								
Maintenance and preservation	\$ 174,670	\$ 0	\$ 0	\$ 71,492	\$ 195,942	\$ 92,764	\$ 0	\$ 92,764
Communications system	13,848	0	0	0	0	(13,848)	0	(13,848)
Local support	172,142	0	0	113,035	0	(59,107)	0	(59,107)
General government	215,773	170,256	5,458	9,510	0	(30,550)	0	(30,550)
Rail, air and public transportation	11,388	0	0	0	0	(11,388)	0	(11,388)
Interest on long-term debt	79,487	0	0	0	0	(79,487)	0	(79,487)
Total governmental activities	667,308	170,256	5,458	194,037	195,942	(101,615)	0	(101,615)
Business-type activities								
Transportation revolving fund	2,678	0	2,459	0	0	0	(219)	(219)
Communications system	706	0	706	0	0	0	0	0
Total business-type activities	3,384	0	3,165	0	0	0	(219)	(219)
Total	<u>\$ 670,692</u>	<u>\$ 170,256</u>	<u>\$ 8,622</u>	<u>\$ 194,037</u>	<u>\$ 195,942</u>	<u>(101,615)</u>	<u>(219)</u>	<u>(101,834)</u>
General revenues								
Motor fuel taxes						277,807	0	277,807
Sales and use taxes						271,769	0	271,769
Investment earnings						18,934	1,232	20,166
Unrestricted appropriations from other state funds						1,462	0	1,462
Transfers						127	(127)	0
Total general revenues						570,099	1,105	571,204
Change in net assets						468,484	886	469,370
Net assets - beginning of year						9,518,480	32,742	9,551,222
Net assets - ending						<u>\$ 9,986,964</u>	<u>\$ 33,628</u>	<u>\$ 10,020,592</u>

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

Kansas Department of Transportation
Balance Sheet
Governmental Funds
June 30, 2009
(amounts in thousands)

	State Highway Fund (agency's general fund)	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash:					
Unrestricted	\$ 195,530	\$ 0	\$ 0	\$ 26,231	\$ 221,761
Restricted	5,000	97,992	0	0	102,992
Investments, at fair value	226,146	0	0	0	226,146
Receivables:					
Federal aid	20,805	0	0	0	20,805
Accrued taxes	51,984	0	0	0	51,984
Local governments	11,251	0	0	0	11,251
Accrued interest	2,505	94	0	11	2,610
Other KDOT funds	29	0	0	0	29
Loans and other	109	0	0	920	1,029
Materials and supplies	21,445	0	0	0	21,445
Long-term receivable:					
State General Fund	30,896	0	0	0	30,896
Loans and other	0	0	0	3,931	3,931
Total assets	<u>\$ 565,700</u>	<u>\$ 98,086</u>	<u>\$ 0</u>	<u>\$ 31,093</u>	<u>\$ 694,879</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Vouchers payable	\$ 49,748	\$ 0	\$ 0	\$ 1,181	\$ 50,929
Retainage payable	2,570	0	0	0	2,570
Accrued salaries and wages	7,354	0	0	1	7,355
Bonds payable on demand	0	0	885,715	0	885,715
Deferred revenue	46,157	0	0	0	46,157
Total liabilities	<u>105,829</u>	<u>0</u>	<u>885,715</u>	<u>1,182</u>	<u>992,726</u>
Fund Balances:					
Reserved for:					
Encumbrances	969,918	1,109	0	14,394	985,421
Materials & supplies	21,445	0	0	0	21,445
Long-term receivable	30,896	0	0	3,931	34,827
Unreserved, reported in:					
General Fund	(562,388)	0	0	0	(562,388)
Special Revenue Funds	0	0	0	11,586	11,586
Debt Service Fund	0	96,977	0	0	96,977
Capital Projects Fund	0	0	(885,715)	0	(885,715)
Total fund balances	<u>459,871</u>	<u>98,086</u>	<u>(885,715)</u>	<u>29,911</u>	<u>(297,847)</u>
Total liabilities and fund balances	<u>\$ 565,700</u>	<u>\$ 98,086</u>	<u>\$ 0</u>	<u>\$ 31,093</u>	<u>\$ 694,879</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, 2009
(amounts in thousands)

Total fund balances - Governmental Funds	\$	(297,847)
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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	\$ 163,232	
Infrastructure (including construction in progress)	10,710,804	
Other capital assets net of depreciation	227,853	11,101,889

Some liabilities are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable (including unamortized premiums and accrued interest)	\$ (811,595)	
Claims	(4,786)	
Compensated absences	(8,805)	
Other post employment benefits obligation	(5,284)	(830,470)

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

13,392

Net assets of Governmental Activities

\$ 9,986,964

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, 2009
(amounts in thousands)

	State Highway Fund (agency's general fund)	Debt Service Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Motor fuel taxes	\$ 277,358	\$ 0	\$ 0	\$ 0	\$ 277,358
Vehicle registrations and permits	170,256	0	0	0	170,256
Operating grants	175,255	0	0	7,279	182,534
Capital grants	210,550	0	0	0	210,550
Sales and use taxes	268,259	0	0	0	268,259
Investment earnings	17,043	1,506	0	384	18,933
Other	4,820	0	0	1,959	6,779
Appropriations from other state funds	1,462	0	0	0	1,462
Total revenues	<u>1,125,003</u>	<u>1,506</u>	<u>0</u>	<u>9,622</u>	<u>1,136,131</u>
Expenditures					
Current Operating:					
Maintenance	289,648	0	0	1,524	291,172
Communication system	4,820	0	0	3,966	8,786
Construction	458,781	0	0	0	458,781
Local Support	171,034	0	0	1,108	172,142
Rail, air and public transportation	0	0	0	11,387	11,387
Management	66,444	0	0	1,488	67,932
Distributions to other state funds	150,662	0	0	60	150,722
Debt Service:					
Principal	0	32,720	0	0	32,720
Interest and fees	0	74,833	0	0	74,833
Total expenditures	<u>1,141,389</u>	<u>107,553</u>	<u>0</u>	<u>19,533</u>	<u>1,268,475</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(16,386)</u>	<u>(106,047)</u>	<u>0</u>	<u>(9,911)</u>	<u>(132,344)</u>
Other financing sources (uses)					
Transfers-in	1,127	156,856	20,270	13,000	191,253
Transfers-out	(168,856)	(20,270)	0	(2,000)	(191,126)
Bond premium on conversion to fixed rate bonds	<u>0</u>	<u>11,410</u>	<u>0</u>	<u>0</u>	<u>11,410</u>
Total other financing sources (uses)	<u>(167,729)</u>	<u>147,996</u>	<u>20,270</u>	<u>11,000</u>	<u>11,537</u>
Net change in fund balances	<u>(184,115)</u>	<u>41,949</u>	<u>20,270</u>	<u>1,089</u>	<u>(120,807)</u>
Fund balances - beginning of year as previously stated	641,238	56,137	(755,115)	28,822	(28,918)
Prior period adjustment	<u>0</u>	<u>0</u>	<u>(150,870)</u>	<u>-</u>	<u>(150,870)</u>
Fund balances - beginning of year as restated	641,238	56,137	(905,985)	28,822	(179,788)
Change in reserve for materials and supplies	<u>2,748</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,748</u>
Fund balances - end of year	<u>\$ 459,871</u>	<u>\$ 98,086</u>	<u>\$ (885,715)</u>	<u>\$ 29,911</u>	<u>\$ (297,847)</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, 2009
(amounts in thousands)

Net change in fund balances - governmental funds \$ (120,807)

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	\$ 556,893		
Cost of acquisition or construction of other capital assets	39,261		
Depreciation expense	<u>(24,389)</u>		571,765

In governmental funds, the proceeds of the sale of capital assets are reported
as an increase in financial resources (revenue), but in the statement of
activities, only the gain on the sale of those assets is reported. The
difference is the book value of the assets sold or otherwise replaced. (1,833)

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:

Bond principal payments	\$ 32,720		
Amortization of deferred charges and other bond related costs	<u>(6,599)</u>		26,121

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. (7,616)

Revenues recorded on the Statement of Activities that do not provide current
financial resources are not recorded in governmental funds. 854

Change in net assets of governmental activities \$ 468,484

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, 2009
(amounts in thousands)

	Budgeted Amounts		Actual & Encum- brances	Variance with <u>Final Budget</u> Positive (Negative)
	Original	Final		
Revenues:				
Motor fuel taxes	\$ 292,561	\$ 292,561	\$ 277,140	\$ (15,421)
Vehicle registrations and permits	177,484	177,484	170,701	(6,783)
Intergovernmental	405,973	405,973	492,858	86,885
Sales and use taxes	278,842	278,842	268,877	(9,965)
Investment earnings	10,678	10,678	13,325	2,647
Other	6,476	6,476	4,510	(1,966)
Transfers from other state funds	40,043	9,147	5,019	(4,128)
Total revenues	<u>1,212,057</u>	<u>1,181,161</u>	<u>1,232,430</u>	<u>51,269</u>
Expenditures, with legal limits:				
Current operating:				
Maintenance	147,020	141,706	132,836	8,870
Construction	57,635	54,639	53,837	802
Local support	7,796	7,844	6,975	869
Management	61,792	59,990	56,957	3,033
Capital improvements	14,457	14,407	11,117	3,290
Transfers to other state funds	123,179	122,055	119,715	2,340
Expenditures with legal limits	<u>411,879</u>	<u>400,641</u>	<u>381,437</u>	<u>19,204</u>
Expenditures, without legal limits:				
Current operating:				
Maintenance	192,410	192,410	155,093	37,317
Local support	23,056	23,106	16,897	6,209
Management	6,635	6,581	6,289	292
Capital improvements	973,091	696,791	849,506	(152,715)
Transfers to other state funds	1,889	1,889	2,087	(198)
Expenditures without legal limits	<u>1,197,081</u>	<u>920,777</u>	<u>1,029,872</u>	<u>(109,095)</u>
Total expenditures	<u>1,608,960</u>	<u>1,321,418</u>	<u>1,411,309</u>	<u>(89,891)</u>
Excess (deficiency) of revenues over expenditures	<u>(396,903)</u>	<u>(140,257)</u>	<u>(178,879)</u>	<u>(38,622)</u>
Other financing sources (uses):				
Transfers-in	0	0	0	0
Transfers-out	<u>(175,014)</u>	<u>(175,014)</u>	<u>(168,956)</u>	<u>6,058</u>
Total other financing sources (uses)	<u>(175,014)</u>	<u>(175,014)</u>	<u>(168,956)</u>	<u>6,058</u>
Excess (deficiency) of revenues and other sources over expenditures and other	<u>\$ (571,917)</u>	<u>\$ (315,271)</u>	<u>\$ (347,835)</u>	<u>\$ (32,564)</u>

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, 2008
(amounts in thousands)

Excess (deficiency) of revenues and other sources over expenditures and other uses - Budgetary Basis	\$ (347,835)
Budgetary basis revenues and transfers from other state funds are adjusted to GAAP basis	(106,299)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	787,371
Expenditures on prior year encumbrances are not reported for budgetary reporting	(502,584)
Budgetary expenditures and transfers to other state funds have been adjusted for GAAP basis	<u>(14,768)</u>
Net Change in Fund Balance as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u><u>\$ (184,115)</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, 2009
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
ASSETS			
Current Assets:			
Cash:			
Unrestricted	\$ 5,981	\$ 5,350	\$ 11,331
Restricted	17,442	126	17,568
Interest and other receivables	1,363	5	1,368
Current portion of loans and leases receivable	5,847	1,850	7,697
Inventory	0	775	775
Total current assets	<u>30,633</u>	<u>8,106</u>	<u>38,739</u>
Noncurrent assets			
Loans and leases receivable	66,649	14,928	81,577
Investments	15,277	0	15,277
Deferred charges	821	96	917
Total noncurrent assets	<u>82,747</u>	<u>15,024</u>	<u>97,771</u>
Total assets	<u>113,380</u>	<u>23,130</u>	<u>136,510</u>
LIABILITIES			
Current liabilities:			
Vouchers payable	2	2,405	2,407
Interest payable	955	147	1,102
Due to other KDOT funds	0	29	29
Current portion of bonds payable	5,065	1,145	6,210
Total current liabilities	<u>6,022</u>	<u>3,726</u>	<u>9,748</u>
Noncurrent liabilities			
Bonds payable	77,154	11,613	88,767
Arbitrage rebate liability	300	0	300
Deferred lease revenue	0	4,067	4,067
Total noncurrent liabilities	<u>77,454</u>	<u>15,680</u>	<u>93,134</u>
Total liabilities	<u>83,476</u>	<u>19,406</u>	<u>102,882</u>
NET ASSETS			
Restricted for debt service and bond reserves	19,870	126	19,996
Unrestricted	10,034	3,598	13,632
Total net assets	<u>\$ 29,904</u>	<u>\$ 3,724</u>	<u>\$ 33,628</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, 2009
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
Operating revenues:			
Interest on loans	\$ 2,264	\$ 0	\$ 2,264
Service fees	195	273	468
Lease income	0	433	433
Total operating revenues	<u>2,459</u>	<u>706</u>	<u>3,165</u>
Operating expenses:			
Professional fees	<u>58</u>	<u>247</u>	<u>305</u>
Total operating expenses	<u>58</u>	<u>247</u>	<u>305</u>
Operating income	<u>2,401</u>	<u>459</u>	<u>2,860</u>
Nonoperating revenues (expenses):			
Investment earnings	1,067	165	1,232
Amortization of premium (net)	79	(14)	65
Arbitrage rebate expense	(94)	0	(94)
Interest expense on bonds	<u>(2,605)</u>	<u>(445)</u>	<u>(3,050)</u>
Total nonoperating revenues (expenses)	<u>(1,553)</u>	<u>(294)</u>	<u>(1,847)</u>
Income before transfers	848	165	1,013
Transfers			
Transfers from (to) other KDOT funds	<u>0</u>	<u>(127)</u>	<u>(127)</u>
Change in Net Assets	848	38	886
Total net assets - beginning	29,056	3,686	32,742
Total net assets - ending	<u>\$ 29,904</u>	<u>\$ 3,724</u>	<u>\$ 33,628</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, 2009
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
Cash flows from operating activities:			
Principal collections on loans	\$ 5,020	\$ 0	\$ 5,020
Interest on loans collected	2,026	0	2,026
Service fees collected	139	273	412
Collection on leases	0	6,243	6,243
Loan and lease advances	(22,465)	(17,953)	(40,418)
Payments for inventory	0	(2,601)	(2,601)
Proceeds from the sale of inventory	0	13,529	13,529
Professional and contractual fees paid	(56)	(247)	(303)
Net cash used by operating activities	(15,336)	(756)	(16,092)
Cash flows from noncapital financing activities			
Proceeds from the sale of bonds	31,111	14,200	45,311
Bond issuance costs paid	(390)	(110)	(500)
Transfers from other KDOT funds	0	(6,719)	(6,719)
Debt service on bonds	(5,966)	(1,740)	(7,706)
Net cash provided by noncapital financing activities	24,755	5,631	30,386
Cash flows from investing activities			
Interest received on investments	1,085	165	1,250
Net cash provided by investing activities	1,085	165	1,250
Net increase in cash	10,504	5,040	15,544
Cash - beginning	12,919	436	13,355
Cash - ending	\$ 23,423	\$ 5,476	\$ 28,899
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 2,401	\$ 459	\$ 2,860
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in loans receivable	(17,445)	0	(17,445)
Change in receivable	(294)	0	(294)
Change in leases receivable	0	(16,132)	(16,132)
Change in deferred lease revenue	0	3,989	3,989
Change in vouchers payable	2	2,405	2,407
Change in inventory	0	8,523	8,523
Total adjustments	(17,737)	(1,215)	(18,952)
Net cash provided (used) by operating activities	\$ (15,336)	\$ (756)	\$ (16,092)

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

Kansas Department of Transportation
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2009
(amounts in thousands)

ASSETS

Cash	\$ 34,861
Receivables	<u>12,813</u>
Total assets	<u><u>\$ 47,674</u></u>

LIABILITIES

Due to cities and counties	<u>\$ 47,674</u>
Total liabilities	<u><u>\$ 47,674</u></u>

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

Kansas Department of Transportation
Notes to the Financial Statements
June 30, 2009
(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. 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 nonfiduciary activities of the Department. *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 fund 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 fund 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 \$500 (amount not rounded) 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 equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

L. Prior period adjustment – Beginning fund balance was restated in the Capital Projects Fund to record a liability for demand bonds that was recorded as an other financing source in the prior year. The effect of this restatement on the beginning fund balance was a decrease of \$150,870, while bonds payable on demand increased \$150,870. There was no effect on current year revenues or expenditures as a result of the adjustment.

M. Pending Governmental Accounting Standards Board Statements – At June 30, 2009, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Department. The following statements might impact the Department:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, was issued in June 2007. This statement establishes standards for when and whether intangible assets should be considered capital assets for financial reporting purposes. It requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The provisions of this statement are effective for periods beginning after June 15, 2009.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* was issued in June 2008. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with

changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. The guidance in this Statement improves financial reporting by requiring governments to measure certain derivative instruments at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009.

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, was issued in February 2009. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

Note 2. Budgeting, Budgetary Control and Legal Compliance

Except for off-budget funds, 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 2009 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: substantial maintenance, 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, 2009, expenditures without legal limitations exceeded the budget established by the Department's internal budgeting process in the State Highway Fund, Interagency Motor Vehicle Fuel Sales, Other Federal Grants, the Public Use General Aviation Airport Development and the Highway Bond Debt Service Funds.

Encumbrances represent commitments related to contracts for services, commodities and capital outlay items which have not been provided to the Department at the end of the period. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable budget, is used in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during subsequent years.

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, 2009, the Department's share in the State's common cash pool was \$388.5.

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 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 counterparty to these repurchase agreements has a AAA rating. 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, 2009 are summarized in the following table.

Quality Rating	U. S. Government Securities	Government Agency Securities	Repurchase Agreements	Total
AAA	\$ 2,617	\$ 223,529	\$ -	\$ 226,146
Not rated	-	-	15,277	15,277
	<u>\$ 2,617</u>	<u>\$ 223,529</u>	<u>\$ 15,277</u>	<u>\$ 241,423</u>

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

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, 2009:

Federal Home Loan Bank	\$ 138,384
Federal Farm Credit Banks	50,686
Federal Home Loan Mortgage Corp	18,759
Federal National Mortgage Association	15,589
Repurchase Agreements	15,277

Notes to the Financial Statements

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 them until maturity.

Investments administered by PMIB for the State Highway Fund as of June 30, 2009, 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	\$ 2,617	5.1
Agencies	223,399	0.7
Mortgage-backed	130	7.3
	<u>\$ 226,146</u>	
Portfolio Weighted Average Maturity		
* - Weighted Average Maturity (years)		

The bond reserve funds for the Transportation Revolving Fund are managed by KDFA. Due to the tax exempt status of the bonds, it is generally their practice to match reserve fund interest rates to the arbitrage yield on the bonds and the term of the investments to the maturity of the bonds. The following table summarizes the maturities of the investments managed by KDFA.

<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>
Repurchase Agreements					
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 2009 appropriations from other state funds and distributions to other state funds.

Appropriations from:	
Department of Administration (a)	\$ 1,461
Other transfers	<u>1</u>
Appropriations to governmental funds from other state funds	<u>\$ 1,462</u>
Distributions to:	
Department of Revenue (b)	\$ 42,762
State General Fund (c)	69,411
Highway Patrol (d)	20,396
Department of Administration (e)	5,500
Department of Commerce (f)	5,000
Parks and Wildlife (g)	1,792
University of Kansas (h)	1,736
Kansas State University (h)	1,483
Other state funds	<u>2,642</u>
Total distributions to other state funds	<u>\$ 150,722</u>

(a) The Department receives an amount equal to what it would have received had State-owned vehicles been privately owned and paid appropriate registration fees from the State Department of Administration.

(b) 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.

(c) Transfers were made to the State General Fund (SGF) to fund the operations of the Kansas Highway Patrol and debt service on the SGF bonds sold to finance highway projects. In addition, transfers reflecting select budget savings were made to the SGF.

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

(e) Transfers were made to the Department of Administration to assist in the funding of a new statewide financial information system.

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

Notes to the Financial Statements

(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 – Weekly and monthly transfers are made from the State Highway Fund to the Debt Service Fund to fund the debt service requirements for the Department. Annual transfers are made from the State Highway Fund to fund the activities of the Rail Service Improvement Fund, the 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.

	Nonmajor Governmental Funds							Total
	State Highway	Debt Service	Capital Projects Fund	Rail Service Improvement	Public Transportation Assistance	Airport Improvement	N Central Kansas Air Passenger Support	
Transfer out:								
State Highway Fund	\$ -	\$ 156,856	\$ -	\$ 3,000	\$ 6,000	\$ 3,000	\$ -	\$ 168,856
Debt Service Fund	-	-	20,270	-	-	-	-	20,270
Airport Improvement	-	-	-	-	-	-	1,000	1,000
Other Federal Grants	1,000	-	-	-	-	-	-	1,000
Nonmajor Proprietary Fund	127	-	-	-	-	-	-	127
	<u>\$ 1,127</u>	<u>\$ 156,856</u>	<u>\$ 20,270</u>	<u>\$ 3,000</u>	<u>\$ 6,000</u>	<u>\$ 3,000</u>	<u>\$ 1,000</u>	<u>\$ 191,253</u>

C. Loan to the State General Fund - In fiscal year 2002 the Legislature borrowed \$94,609 from the State Highway Fund for the State General Fund. In fiscal year 2004 a total of \$30,579 was transferred from the State Highway Fund to the State General Fund primarily for the benefit of the Kansas Highway Patrol. These loans are scheduled to be repaid in annual installments in fiscal years 2007 through 2010. During the 2008 Legislative Session, the installment due in fiscal year 2009 was delayed until fiscal 2011. The 2009 Legislature removed the provision to make the 2010 installment from the statute, leaving a long-term balance of \$30,896.

Note 5. Capital Assets

Capital asset activity in the governmental funds for the year ended June 30, 2009 was as follows:

Notes to the Financial Statements

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 149,123	\$ 14,120	\$ (11)	\$ 163,232
Infrastructure	9,358,404	527,779	(75,932)	9,810,251
Construction in progress	795,507	384,638	(279,592)	900,553
Total capital assets not being depreciated	10,303,034	926,537	(355,535)	10,874,036
Capital assets being depreciated:				
Buildings	79,045	2,383	(164)	81,264
Machinery & equipment	321,277	22,759	(8,988)	335,048
Total capital assets being depreciated	400,322	25,142	(9,152)	416,312
Less accumulated depreciation:				
Buildings	(34,514)	(1,847)	61	(36,300)
Machinery & equipment	(136,887)	(22,542)	7,270	(152,159)
Total accumulated depreciation	(171,401)	(24,389)	7,331	(188,459)
Total capital assets being depreciated, net	228,921	753	(1,821)	227,853
Total capital assets, net	<u>\$ 10,531,955</u>	<u>\$ 927,290</u>	<u>\$ (357,356)</u>	<u>\$ 11,101,889</u>

Depreciation expense was charged to the functions as follows:

Maintenance and preservation	\$ 16,250
Communications system	5,062
General government	3,077
	<u>\$ 24,389</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 \$16,778 and deferred lease revenue at June 30, 2009, was \$4,067. Future minimum lease payments to be received are indicated in the following table.

Notes to the Financial Statements

Fiscal year ending	
<u>June 30</u>	
2010	\$ 1,850
2011	1,822
2012	1,820
2013	1,819
2014	1,818
2015 - 2019	7,417
2020 - 2024	184
2025 - 2029	20
2030 - 2034	20
2035 - 3039	8
	<u>\$ 16,778</u>

Note 7. Compensated Absences

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

	Governmental <u>Activities</u>
Beginning balance	\$ 8,525
Retired	(7,136)
Increase in leave balance	<u>7,416</u>
Ending balance	<u>\$ 8,805</u>
Amount due within one year	<u>\$ 7,371</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, 2009 is comprised of the following amounts:

Notes to the Financial Statements

Series	Final Scheduled Maturity	Original Principal Amount	6/30/2008 Balance	Additions	Reductions	Principal Amount Outstanding	Amount due Within One Year
Governmental Funds							
State of Kansas Highway Revenue Bonds:							
Series 1998, Refunding	09/01/14	\$ 189,195	\$ 58,265	\$ -	\$ 11,595	\$ 46,670	\$ 15,310
Series 2000B*	09/01/20	100,000	100,000	-	-	100,000	-
Series 2000C*	09/01/20	100,000	100,000	-	-	100,000	-
Series 2002A, Refunding	09/01/11	199,600	77,040	-	21,125	55,915	22,390
Series 2002B, Refunding*	09/01/19	170,005	170,005	-	-	170,005	-
Series 2002C, Refunding*	09/01/19	150,000	150,000	-	-	150,000	-
Series 2002D, Refunding*	03/01/12	88,110	88,110	-	20,270	67,840	21,400
Series 2003A, Refunding	09/01/13	164,275	164,275	-	-	164,275	-
Series 2003B, Refunding	09/01/11	83,915	83,915	-	-	83,915	40,830
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	-
			<u>\$ 1,739,480</u>	<u>\$ -</u>	<u>\$ 52,990</u>	1,686,490	\$ 99,930
*Less - Bonds payable on demand						(885,715)	(21,400)
Less - Unamortized Deferred Refunding Difference						(30,244)	-
Net unamortized premium (discount)						24,930	-
						<u>\$ 795,461</u>	<u>\$ 78,530</u>
Proprietary Funds							
Transportation Revolving Fund							
Series 2005-TR	10/01/25	\$ 32,690	\$ 30,490	\$ -	\$ 2,035	\$ 28,455	\$ 2,080
Series 2006-TR	12/21/06	24,755	23,305	-	1,710	21,595	1,705
Series 2009-TR	10/01/28	30,950	-	30,950	-	30,950	1,280
Communications System Revolving Fund							
Series 2008-CRF	04/01/23	14,200	-	14,200	1,442	12,758	1,145
			<u>\$ 53,795</u>	<u>\$ 45,150</u>	<u>\$ 5,187</u>	\$ 93,758	\$ 6,210
Net unamortized premium (discount)						1,219	-
						<u>\$ 94,977</u>	

In September 2008, the Department converted the Series 2004B Bonds from the Auction Mode as originally issued to the Fixed Rate Mode. Due to market disruptions that affected the short-term municipal market, the Series 2004B Bonds (while in the Auction Mode) experienced “failed auctions” beginning in February 2008, and as a result the interest rates on these bonds increased significantly. The conversion was made to minimize adverse financial impacts that could arise due to further market disruptions. Costs incurred with respect to this conversion were paid with premium generated from the remarketing of the bonds. As with the initial bonds, maturities range from September 2021 to September 2024 but they now carry fixed interest rates ranging from 4.3 % to 5.00%.

In October 2008, the Kansas Development Finance Authority (KDFA) issued \$14,200 Kansas Department of Transportation Communication System Lease Program Revenue Bonds Series 2008 CRF on behalf of the Department. These bonds were issued to purchase equipment for subsequent lease to various public safety organizations around the State. The bonds were issued as a private placement and proceeds equaled par value. The bonds were issued with an effective interest rate of 4.80% with maturities ranging from April 2009 to April 2023.

In February 2009, the KDFA issued \$30,950 Kansas Department of Transportation Revolving Loan Fund Revenue Bonds Series 2009 TR on behalf of the Department. These bonds were issued to fund loans to various cities, counties or other governmental units to finance transportation related projects. Proceeds from the issuance of these bonds, including net

premiums and discounts, were \$31,112. These bonds were issued with an effective interest rate of 3.76% and maturities ranging from October 2010 to October 2028.

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 3.125% to 5.500%. 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 from 0.050% to 9.930% on the daily adjustable bonds, from 0.080% to 9.500% on the weekly adjustable bonds and from 1.700% to 3.000% on the 28-day adjustable bonds.

All Highway Revenue bonds were issued pursuant to the provisions of Section 68-2314 et seq. of the Kansas Statutes Annotated and the 1992 Resolution and supplements thereto. The statutes provide that, as of July 1, 1991, the Secretary of Transportation was authorized to issue bonds in an aggregate principal amount of \$890 million. This maximum amount was reached in 1994. As of July 1, 1999, the Secretary was authorized to issue additional bonds in the aggregate principal amount of \$995 million. Effective July 1, 2001 this authority again was increased by \$277 million. 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. With the issuance of the 2004C Series Bonds the Department again reached the maximum amount authorized.

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, the liquidity provider has agreed to purchase the bonds and hold them for a maximum of 180 days. During the year certain of the demand obligations experienced remarketing failures requiring liquidity providers to acquire the securities at contractual interest rates significantly above market rates.

Pursuant to an IRS notice which allowed governmental issuers to purchase and temporarily hold their own "qualified tender bonds" without retiring the debt, the Department acquired its own variable rate demand obligations to be held in its investment portfolio. This action was limited to \$110,000 under direction of a resolution signed by the Secretary. Subsequently, and prior to June 30, 2009, all such holdings were sold back into the market. However, since there is not a long-term financing option in place at June 30, 2009 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.

Notes to the Financial Statements

Calculation of Revenue Bond Coverage				
Adjusted GAAP Revenues	Principal	Bond Service Charges	Total	Bond Coverage
\$ 739,198	\$ 52,990	\$ 75,314	\$ 128,304	576 %

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. The interest amounts reflect the year end rates of 0.18 percent and 0.16 percent on the daily and weekly adjustable bonds, respectively.

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
<u>Governmental Funds</u>			
2010	\$ 99,930	\$ 61,690	\$ 161,620
2011	104,885	56,947	161,832
2012	109,970	52,081	162,051
2013	107,385	46,729	154,114
2014	103,235	42,281	145,516
2015 - 2019	469,820	167,230	637,050
2020 - 2024	594,265	82,304	676,569
2025	97,000	2,089	99,089
	<u>\$ 1,686,490</u>	<u>\$ 511,351</u>	<u>\$ 2,197,841</u>
<u>Proprietary Funds</u>			
2010	\$ 6,210	\$ 3,820	\$ 10,030
2011	7,223	3,412	10,635
2012	7,478	3,153	10,631
2013	7,605	2,885	10,490
2014	7,471	2,601	10,072
2015 - 2019	31,929	8,760	40,689
2020 - 2024	18,322	3,530	21,852
2025 - 2028	7,520	517	8,037
	<u>\$ 93,758</u>	<u>\$ 28,678</u>	<u>\$ 122,436</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

Notes to the Financial Statements

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, 2008, 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, 2009 are shown in the following table.

<u>Bond Series</u>	<u>Principal Defeased</u>
1994 Highway Revenue	\$ 19,080
1994A Highway Revenue	3,480
1998 Highway Revenue	55,300
1999 Highway Revenue	294,705
2000A Highway Revenue	144,900
Total	<u>\$ 517,465</u>

Note 9. Derivative Instruments

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, 2009, are included below. The Department's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Associated Bond <u>Issue</u>	Notional <u>Amount</u>	Effective <u>Date</u>	Fixed Rate <u>Paid</u>	Variable Rate <u>Received</u>	Fair <u>Value</u>	Swap Termination <u>Date</u>	Counterparty Credit <u>Rating</u>
Series 2002 D	\$ 86,875	12/17/02	5.240%	67% of USD-LIBOR	\$ (5,915)	3/1/2012	A2/A
Series 2002 B & C*	200,000	10/23/02	3.164%	67% of USD-LIBOR	(13,295)	9/1/2019	Aa3/A
Series 2002 B & C*	120,005	10/23/02	3.164%	67% of USD-LIBOR	(7,986)	9/1/2019	A3/A
Series 2003 C	150,275	12/03/03	3.359%	71% of USD-LIBOR**	(10,506)	9/1/2015	A2/A
Series 2004 B & C	72,000 ***	11/23/04	3.571%	63.5% of USD-LIBOR + .29%	(6,703)	9/1/2024	Aa3/A
Series 2004 B & C	75,000	07/01/07	3.571%	62.329% of 10 Year LIBOR	(4,558)	9/1/2024	Aa3/A
Series 2004 B	75,000	07/10/07	67% of USD-LIBOR	61.56% of 10 Year LIBOR	3,037	9/1/2024	Aaa/AAA
	<u>\$ 779,155</u>				<u>\$ (45,926)</u>		

* - two counterparties
** - or the lesser of the Actual Bond Rate of USD-LIBOR until September 1, 2010
*** - reduced from \$147,000 on 7/1/2007

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 current 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%.

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/Salomon 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 cash market.

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 cash market.

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 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, 2009, 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, 2009, were \$985.4 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 2009, the Department's contribution rate is 3.043 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, 2009, the amount of these liabilities included in accounts payable of the government-wide Statement of Net Assets was \$4,786. This is the Department's best estimate based on available information. Changes in the reported liability since June 30, 2007, resulted from the following:

<u>Fiscal Year</u>	<u>Beginning Liability</u>	<u>Current Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Ending Liability</u>
2008	\$ 15,404	\$ (8,551)	\$ 344	\$ 6,509
2009	6,509	(1,047)	676	4,786

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 of their annual covered salary and the Department is required to contribute at a statutorily determined rate. The statutory rate for FY 2009 was 7.97 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, 2009, 2008, and 2007 were \$8.4 million, \$8.3 million and \$7.3 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 this retirement 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.

Notes to the Financial Statements

Annual required contribution:	
Amortization of unfunded actuarial accrued liability (UAAL)	\$ 1,097
Normal cost (with interest)	1,250
Interest on amortization of UAAL	42
Annual required contribution (ARC) - Annual OPEB Cost	2,389
Interest on Net OPEB Obligation	113
Adjustment to the ARC	(160)
Annual OPEB Cost	2,342
Contributions made	-
Increase in OPEB obligation	2,342
Other post employment benefits obligations at July 1, 2008	2,942
Other post employment benefits obligations at June 30, 2009	\$ 5,284

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

D. Funded status and funding progress - As of June 30, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$22,092. KDOT's policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$22,092. The covered payroll (annual payroll of active employees covered by the plan) was \$117,522, and the ratio of the UAAL to the covered payroll was 19 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 will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

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)
06/30/08	\$ -	\$ 27,382	\$ 27,382	0%	\$ 119,570	23%
06/30/09	-	22,092	22,092	0%	117,522	19%

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, 2009 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 6.61 to 10 percent in the first ten years and an ultimate rate of 5.0 percent after ten years. 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

KDOT has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements are available to be issued.

Notes to the Financial Statements

In November, 2009, the Department issued Highway Revenue Refunding Bonds Series 2009A, in the amount of \$176,680. The purpose of these bonds was to refund the Series 2000B and 2000C bonds and to pay the costs associated with their issuance. The bonds were issued with interest rates ranging from 2.25% to 5.00 % and maturities ranging from 2015 to 2020.

**Kansas Department of Transportation
Required Supplementary Information
For the Year Ended June 30, 2009**

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. 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*
2007	80	97	75	90
2008	80	96	75	85
2009	80	97	75	86
* - 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
2004	\$110,000	\$155,711	\$260,000	\$348,849
2005	110,000	144,603	260,000	348,629
2006	110,000	115,820	260,000	380,988
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

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
2007	80	94
2008	80	94
2009	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 state's bridges at or above the stated minimum acceptable health

Required Supplementary Information

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
2004	\$75,000	\$117,671
2005	75,000	106,593
2006	75,000	90,908
2007	75,000	76,536
2008	75,000	72,941
2009	75,000	50,992

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.

APPENDIX C

Information Concerning Sources Of Funds in State Highway Fund

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

Motor Fuels Taxes

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

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

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

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

Tax Rates. The table set forth in this Appendix C and captioned “State of Kansas, Department of Transportation Motor Fuels Taxes Consumption Quantities, Rates, Receipts and Distributions” shows the Kansas motor fuel tax rates for the Fiscal Years 2000 - 2015. Under the current statute, rates were increased by two cents on July 1, 1999, by one cent on July 1, 2001, by two cents on July 1, 2002, and by one cent on July 1, 2003. The statute provided that on July 1, 2020, the rates revert to those in effect on June 30, 1999; however, the 2010 Legislature amended the statute to eliminate reversion of the Motor Fuel Tax rate in 2020 to the rates in effect on June 30, 1999.

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

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

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

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

In each of Fiscal Years 2003 through 2010, \$3,500,000 was deposited in the Kansas Qualified Agriculture Ethyl Alcohol Incentive Fund and \$3,500,000 is estimated to be deposited in such Fund annually through Fiscal Year 2015.

The table “State of Kansas, Department of Transportation Motor Fuels Taxes Consumption Quantities, Rates, Receipts and Distributions” included in this Appendix C sets forth the historical receipts and distributions of Motor Fuels Taxes in Kansas for Fiscal Years 2000-2009. The table also includes estimated receipts and distributions of Motor Fuel Taxes for the Fiscal Years 2010 through 2015. The estimates were prepared by the Department on the basis of statutory allocations currently in place. Such distributions are subject to change or revocation by the Kansas Legislature.

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

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State of Kansas, Department of Transportation

Motor Fuels Taxes

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

For the Fiscal Years Ended June 30, 2000 – 2009
and Department Estimates for Fiscal Years 2010 - 2015

	2000	2001	2002	2003	2004	2005	2006	2007
Consumption Quantities								
Gasoline, millions of gallons	1,402	1,419	1,357	1,356	1,333	1,311	1,291	1,311
Diesel, millions of gallons	380	400	425	434	424	454	476	480
Liquid Petroleum, millions of gallons	2	2	1	1	2	2	2	2
Carrier Trip Permit	10	10	10	10	10	10	13	19
Rates (in dollars)								
Gasoline/Gasohol	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.23	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24
Diesel	0.22	0.22	0.23	0.25	0.26	0.26	0.26	0.26
Liquid Petroleum	0.19	0.19	0.20	0.22	0.23	0.23	0.23	0.23
Carrier Trip Permit	11.00	11.00	11.50	12.50	13.00	13.00	13.00	13.00
Receipts								
Gasoline/Gasohol	\$ 280,349	\$ 281,199	\$ 283,823	\$ 309,681	\$ 318,831	\$ 314,584	\$ 309,832	\$ 314,751
Diesel	83,658	83,544	97,367	107,705	109,799	118,112	123,853	124,678
Liquid Petroleum	336	315	286	295	273	260	255	226
Carrier Trip Permit	107	112	110	120	128	131	165	243
Total Amount	\$ 364,450	\$ 365,170	\$ 381,586	\$ 417,801	\$ 429,032	\$ 433,087	\$ 434,105	\$ 439,898
Less: Refunds	5,881	6,272	6,885	6,183	5,178	6,827	5,939	5,851
Net Receipts	\$ 358,088	\$ 358,898	\$ 374,701	\$ 411,618	\$ 423,853	\$ 426,260	\$ 428,166	\$ 434,047
Net Year End Accruals	0	0	3,937	76	103	556	927	(1,036)
Net Revenue	<u>\$ 358,569</u>	<u>\$ 358,898</u>	<u>\$ 378,638</u>	<u>\$ 411,694</u>	<u>\$ 423,956</u>	<u>\$ 426,816</u>	<u>\$ 429,093</u>	<u>\$ 433,011</u>
Distributions to Funds								
Kansas Qualified Agricultural Ethyl Alcohol Producers Incentive	\$ 2,500	\$ 2,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500
Special City and County Highway	141,530	141,663	140,227	141,974	138,865	139,674	139,815	142,293
County Equalization and Adjustment	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
State Highway	212,039	212,235	228,474	263,645	278,988	280,586	281,851	285,754
Total	<u>\$ 358,569</u>	<u>\$ 358,898</u>	<u>\$ 374,701</u>	<u>\$ 411,618</u>	<u>\$ 423,853</u>	<u>\$ 426,260</u>	<u>\$ 428,166</u>	<u>\$ 434,047</u>

Note: Totals may not agree due to rounding.

State of Kansas, Department of Transportation

Motor Fuels Taxes

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

For the Fiscal Years Ended June 30, 2000 - 2009
and Department Estimates for Fiscal Years 2010 – 2015

	Estimated							
	2008	2009	2010	2011	2012	2013	2014	2015
Consumption Quantities								
Gasoline, millions of gallons	1,293	1,276	1,275	1,280	1,285	1,290	1,295	1,300
Diesel, millions of gallons	489	462	460	480	500	520	540	560
Liquid Petroleum, millions of gals	1	1	1	1	1	1	1	1
Carrier Trip Permit	20	19	10	10	10	10	10	10
Rates (in dollars)								
Gasoline/Gasohol	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.24
Diesel	0.26	0.26	0.26	0.26	0.26	0.26	0.26	0.26
Liquid Petroleum	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
Carrier Trip Permit	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
Receipts								
Gasoline/Gasohol	\$ 310,198	\$ 306,060	\$ 306,252	\$ 307,452	\$ 308,652	\$ 309,852	\$ 311,052	\$ 312,252
Diesel	127,062	119,993	119,600	124,800	130,000	135,200	140,400	145,600
Liquid Petroleum	208	208	230	230	230	230	230	230
Carrier Trip Permit	263	247	130	130	130	130	130	130
Total Amount	\$ 437,732	\$ 426,508	\$ 426,212	\$ 432,612	\$ 439,012	\$ 445,412	\$ 451,812	\$ 458,212
Less: Refunds	6,424	5,237	5,100	5,100	5,100	5,100	5,100	5,100
Net Receipts	\$ 431,308	\$ 421,271	\$ 421,112	\$ 427,512	\$ 433,912	\$ 440,312	\$ 446,712	\$ 453,112
Net Year End Accruals	(28)	0	0	0	0	0	0	0
Net Revenue	\$ 431,280	\$ 421,271	\$ 421,112	\$ 427,512	\$ 433,912	\$ 440,312	\$ 446,712	\$ 453,112
Distributions to Funds								
Kansas Qualified Agricultural Ethyl Alcohol Producers Incentive	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500
Special City and County Highway	141,372	137,913	137,943	140,095	142,248	144,400	146,552	148,705
County Equalization and Adjustment	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
State Highway	283,936	277,358	277,169	281,417	285,665	289,912	294,160	298,408
Net Receipts	\$ 431,308	\$ 421,271	\$ 421,112	\$ 427,512	\$ 433,913	\$ 440,312	\$ 446,712	\$ 453,113

Note: Totals may not agree due to rounding.

Vehicle Registration, Drivers' Licenses and Vehicle Permits

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

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

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

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

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

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

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

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

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

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

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

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

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Vehicle Registration Fee Schedule

<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 less than 6,000 miles 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.

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

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

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

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

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

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

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

Special Vehicle Permits. Permits for oversize or overweight vehicles are provided for by Kansas law. The Kansas Department of Revenue issues permits for vehicles to a specified size and weight. In accordance with an agreement between the Department and the Department of Revenue, the Department issues permits for oversize/overweight vehicles. Currently, an oversize/overweight permit costs \$5.00 for each exception (\$10.00 if vehicles are both oversize and overweight). This fee has not been increased since the 1970's. Revenue from this source has historically generated less than one percent of the amount deposited annually to the State Highway Fund.

Revenues. The following table sets forth for Fiscal Years 2000 through 2009 the amounts derived from vehicle registration fees, drivers' licenses and special vehicle permits credited to the State Highway Fund and the estimates for Fiscal Years 2010 through 2015.

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

<u>Fiscal Year</u>	<u>Vehicle Registration Fees</u>	<u>Drivers Licenses</u>	<u>Special Vehicle Permits</u>	<u>Total</u>
2000	\$132,797	\$ 8,565	\$ 510	\$141,872
2001	132,439	7,875	484	140,798
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	161,644	9,153	778	171,575
2008	163,504	7,982	867	172,353
2009	162,655	6,761	840	170,256
2010 ¹	164,500	6,761	840	172,101
2011 ¹	168,000	6,761	2,000	176,761
2012 ¹	171,500	6,761	2,000	180,261
2013 ¹	180,936	6,761	2,000	189,697
2014 ¹	198,705	6,761	2,000	207,466
2015 ¹	210,639	6,761	2,000	219,400

Totals may not add due to rounding.

¹ Vehicle registration fees for Fiscal Years 2010-2015 are estimates developed by the Highway Revenue Estimating Group as of November 10, 2009 (see the caption "THE STATE HIGHWAY FUND-Basis of Projections" in the Official Statement). The estimates also assume that rates currently provided by statute and the distribution of amounts collected will remain in effect throughout the period.

Sales Tax and Compensating Use Tax

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

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

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

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

History of the Compensating Use Tax. The Compensating Use Tax was first enacted in 1937 for consumers and in 1945 for retailers. The tax base is tangible personal property used, stored, or consumed in Kansas. All property purchased or leased inside or outside of Kansas and subsequently used, stored, or consumed in Kansas is subject to the Compensating Use Tax if the same property or transaction would have been subject to the state retail sales tax if the transaction had been made wholly in Kansas. In effect, the consumer's Compensating Use Tax is imposed on Kansas consumers who make retail purchases from nonregistered, out-of-state retailers, while the retailers' compensating tax is collected by registered out-of-state retailers. If the property has already been subjected to a sales tax in another state, the Compensating Use Tax is due only for the difference between the other state's sales tax and the Kansas Compensating Use Tax. The initial Compensating Use Tax rate was 2 percent. The rate was increased to 2.5% by a 1958 Special Session of the Kansas Legislature, 3.0% in 1965, and further increased to 4.0% in 1986. In 1989, the Kansas Legislature increased the Compensating Use Tax from 4% to 4.25% and directed that 1/17th of the tax be credited to the State Highway Fund. In 1992, the Kansas Legislature increased the Compensating Use Tax from 4.25% to 4.90% and expanded the taxable base; the 1992 Kansas Legislature did not disturb the amount of tax to be credited to the State Highway Fund at 1/17th of the tax at the 4.25% rate (effectively an amount equivalent to a tax rate of .25%). The current Compensating Use Tax rate, effective July 1, 2010, is 6.30% (increased from the 5.30% tax rate previously in effect and currently scheduled to decrease to 5.70% effective July 1, 2013). Prior to July 1, 2006, 5/106ths of the 5.30%, the equivalent of a .25% tax

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

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

Sales Tax and Compensating Use Tax Collections and Deposits. The table below sets forth the amounts of Sales Taxes and Compensating Use Taxes collected for Fiscal Years 2000 through 2009 and estimates for Fiscal Years 2010 through 2015. Deposits to the State General Fund for Fiscal Years 2000 through 2009 are included in the Department's Comprehensive Annual Financial Report as supplemental information. The Department's estimates for Sales Tax and Compensating Use Tax receipts are based on estimates by the State Consensus Estimating Group and the Highway Revenue Estimating Group. See the caption "THE STATE HIGHWAY FUND-Basis of Projections" in the Official Statement. The State Consensus Estimating Group prepares estimates for the current Fiscal Year and the next Fiscal Year only. The Highway Revenue Estimating Group prepares long-range estimates.

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

Fiscal Year	Deposits to State General Fund		Deposits to State Highway Fund	
	Sales Tax	Compensating Use Tax	Sales Tax and Compensating Use Tax	Sales Tax Transfer From SGF ³
2000	\$1,440,295	\$ 209,966	\$ 87,880	\$ 62,240
2001	1,423,059	235,893	89,959	51,709
2002	1,470,607	233,603	91,478	94,288
2003	1,567,722	225,923	88,949	-0-
2004	1,612,067	214,503	90,664	-0-
2005	1,647,663	244,755	94,208	-0-
2006	1,736,048	269,250	99,938	-0-
2007	1,766,768	284,981	162,525	-0-
2008	1,711,398	246,277	283,597	-0-
2009	1,697,522	225,000	268,259	-0-
2010 ¹	1,640,000	205,000	258,040	-0-
2011 ¹	1,971,211	271,068	289,524	-0-
2012 ²	2,072,554	282,150	298,918	-0-
2013 ²	2,145,740	292,114	308,640	-0-
2014 ²	1,899,604	258,533	473,190	-0-
2015 ²	1,939,314	263,930	497,644	-0-

1. Amounts for Fiscal Year 2010 and 2011 are estimates developed by the State Consensus Estimating Group as of April 16, 2010.
2. Amounts for Fiscal Years 2012-2015 reflect the Highway Revenue Estimating Group's November 10, 2009, projection that annual growth in Sales Tax and Compensating Use Tax collections will be 3.5 percent in Fiscal Year 2012 and thereafter.

3. The sales tax transfer from the State General Fund (SGF) was eliminated as a funding mechanism and the direct deposit of Sales Tax and Compensating Use Tax became the sole mechanism to provide Sales Tax and Compensating Use Tax receipts to the State Highway Fund.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$325,000,000

State of Kansas

Department of Transportation

**Taxable Highway Revenue Bonds, Series 2010A
(Build America Bonds—Direct Payment to Issuer)**

Dated: September 1, 2010

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Secretary (the “Secretary”) of the Kansas Department of Transportation (“KDOT”) in connection with the issuance of the above referenced bonds (the “Series 2010A Bonds”) pursuant to the hereinafter defined Bond Resolution, in which the Secretary, on behalf of KDOT, covenants to enter into this undertaking to provide certain financial and other information with respect to the Series 2010A Bonds in order to assist the Participating Underwriters (as hereinafter defined) in complying with the provisions of the SEC Rule. The Secretary is the only “obligated person” with responsibility for continuing disclosure with respect to the Series 2010A Bonds.

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

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

“Beneficial Owner” means any registered owner of any Series 2010A Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2010A Bonds (including persons holding Series 2010A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2010A Bonds for federal income tax purposes.

“Bond Resolution” means, collectively, the 1992 Resolution, adopted March 31, 1992, as amended and supplemented, specifically including the Twenty-Fifth Supplemental Resolution, adopted August 17, 2010.

“CAFR” means the Comprehensive Annual Financial Report of KDOT.

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

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

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

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

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

“GASB” means the Governmental Accounting Standards Board.

“Issue Date” shall mean September 1, 2010.

“KDOT” shall mean the Kansas Department of Transportation.

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

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

“Official Statement” means the Official Statement dated August 17, 2010, relating to the issuance of the Series 2010A Bonds.

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

“Participating Underwriters” shall mean any of the underwriters of the Series 2010A Bonds required to comply with the SEC Rule in connection with the offering of the Series 2010A Bonds.

“SEC” means the Securities and Exchange Commission of the United States.

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

“Secretary” shall mean the Secretary of Transportation of the State.

“Series 2010A Bonds” shall mean the State of Kansas Department of Transportation Highway Revenue Bonds, Series 2010A, dated as of the Issue Date.

“State” shall mean the State of Kansas.

Section 2. Provision of Annual Reports.

(a) The Secretary shall, or shall cause the Dissemination Agent to, not later than six months after the end of each Fiscal Year, commencing with the 2010 Fiscal Year, provide to the MSRB, through EMMA, the CAFR, which shall contain the Financial Information and Operating Data (collectively, the “Annual Report”) as follows:

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

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

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

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

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Secretary is an "obligated person" (as defined by the SEC Rule), which have been provided to the MSRB or the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Secretary shall clearly identify each such other document so included by reference. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section; *provided* that the audited financial statements of KDOT may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If KDOT's Fiscal Year changes, it shall give notice of such change in the same manner as for a Material Event under *Section 3(b)*.

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

Section 3. Reporting of Material Events.

(a) Pursuant to the provisions of this Section, the Secretary shall give, or cause the Dissemination Agent, if any, to give, notice of the occurrence of any of the following events with respect to the Series 2010A Bonds, if the Secretary deems such events to be material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) modifications to rights of bondowners;
- (4) optional, contingent or unscheduled bond calls;
- (5) defeasances;
- (6) rating changes;
- (7) adverse tax opinions or events affecting the tax-exempt status of the Series 2010A Bonds;

- (8) unscheduled draws on debt service reserves reflecting financial difficulties;
- (9) unscheduled draws on credit enhancements reflecting financial difficulties;
- (10) substitution of credit or liquidity providers, or their failure to perform; or
- (11) release, substitution or sale of property securing repayment of the Series 2010A Bonds.

(b) Such notice shall be given by promptly filing a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Material Events described in *subsections (a)(4) and (5)* need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Series 2010A Bonds pursuant to the Bond Resolution.

Section 4. Dissemination Agent.

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

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

(c) Material Event Notices.

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

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

(3) If the Dissemination Agent has been given written instructions by the Secretary to report the occurrence of a Material Event, the Dissemination Agent shall promptly file a notice of such occurrence with the MSRB, with copies to the Secretary. Notwithstanding the foregoing, notice of Material Events described in *Sections 3(a)(4)* and *(5)* need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Series 2010A Bonds pursuant to the Bond Resolution.

(d) ***Duties, Immunities and Liabilities of Dissemination Agent.*** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Secretary agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Secretary under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2010A Bonds. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Secretary pursuant to this Disclosure Certificate.

Section 5. Termination of Reporting Obligation. The Secretary's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Series 2010A Bonds. If the Secretary's obligations hereunder are assumed in full by some other entity as permitted in the Bond Resolution, such person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the Secretary, and the Secretary shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Series 2010A Bonds, the Secretary shall give notice of such termination or substitution in the same manner as for a Material Event under *Section 3(b)*.

Section 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Secretary and the Dissemination Agent, if any, may amend of this Disclosure Certificate (and the Dissemination Agent shall not unreasonably refuse to execute any amendment so requested by the Secretary) and any provision of this Disclosure Certificate may be waived, provided that: (a) Bond Counsel or other counsel experienced in federal securities law matters provides the Secretary and the Dissemination Agent, if any, with its opinion that the undertaking of the Secretary contained herein, as so amended or after giving effect to such waiver, is in compliance with the SEC Rule and all current amendments thereto and interpretations thereof that are applicable to of this Disclosure Certificate; (b) if the amendment or waiver relates to *Sections 2(a)* or *3(a)*, it may only be made in connection with a change in circumstances that arises from a change in law or legal requirements, or change in the identity, nature or status of an obligated person with respect to the Series 2010A Bonds, or the type of business conducted; and (c) the amendment or waiver is either (1) approved by the Owners of the Series 2010A Bonds in the same manner as provided in the Bond Resolution with consent of the Owners, or (2) does not in the opinion of Bond Counsel materially impair the interests of the Owners or Beneficial Owners of the Series 2010A Bonds.

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

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

Section 8. Noncompliance. As of the date hereof, the Secretary has not failed to comply in any material respect with any previous continuing disclosure undertaking made by him in accordance with the SEC Rule. In the event of a failure of the Secretary or the Dissemination Agent, if any, to comply with any provision of this Disclosure Certificate, the Participating Underwriters or any Beneficial Owner of the Series 2010A Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Secretary or the Dissemination Agent, if any, as the case may be, to comply with its obligations under this Disclosure Certificate. Noncompliance with the provisions of this Disclosure Certificate shall not be deemed an Event of Default under the Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Secretary or the Dissemination Agent, if any, to comply with this Disclosure Certificate shall be an action to compel performance.

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

Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Secretary, the Dissemination Agent, if any, the Participating Underwriters and Beneficial Owners from time to time of the Series 2010A Bonds, and shall create no rights in any other person or entity.

Section 11. Severability. If any provision in this Disclosure Certificate, the Bond Resolution or the Series 2010A Bonds relating hereto, shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

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

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SCHEDULE I

NOTICE OF FAILURE TO FILE ANNUAL REPORT

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

Name of Bond Issue: \$325,000,000 State of Kansas, Department of Transportation Taxable Highway Revenue Bonds, Series 2010A (Build America Bonds—Direct Payment to Issuer), dated as of the Issue Date

Issue Date: September 1, 2010

NOTICE IS HEREBY GIVEN that the Secretary has not provided an Annual Report with respect to the above-named bonds (the “Series 2010A Bonds”) as required by the Bond Resolution authorizing the Series 2010A Bonds and the Continuing Disclosure Certificate regarding the Series 2010A Bonds. The Secretary anticipates that the Annual Report will be filed by _____.

Dated: _____

**SECRETARY OF TRANSPORTATION
OF THE STATE OF KANSAS**

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APPENDIX E

SUMMARY OF 1992 RESOLUTION

The following is a brief summary of certain provisions of the 1992 Resolution (the "1992 Resolution") and is qualified in its entirety by reference thereto, copies of which may be obtained from the Secretary. See "THE SERIES 2010A BONDS" and "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS" herein for a summary of certain additional provisions of the 1992 Resolution. Capitalized terms used and not otherwise defined in this "SUMMARY OF THE 1992 RESOLUTION" are defined in **Appendix F** hereto and in the 1992 Resolution.

1992 Resolution to Constitute Contract

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

Pledge of Revenues

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

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

Maintenance of State Highway Fund and Revenues

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

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

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

Records

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

Report Requirements

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

- (a) the amount of all Revenues, transfers and expenditures, as the case may be, from the State Highway Fund, the Highway Bond Proceeds Fund and the Highway Bond Debt Service Fund,
- (b) a brief description of all Bonds issued, paid, purchased or redeemed,
- (c) a balance sheet as of the end of such Fiscal Year for each such fund, and

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

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

Annual Budget and Multi-year Program Report

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

Tax Covenant

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

Defeasance

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

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

will be certified or reported upon by an Independent Accountant to be of such amounts, maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment and such certification will be filed with the Paying Agent together with an Opinion of Counsel to the effect that (1) all legal conditions of the 1992 Resolution to the defeasance and discharge of such Bonds will have been met and fulfilled, and (2) as a result thereof there is no adverse effect with respect to the exclusion from gross income for federal income tax purposes of the interest on any of the tax-exempt Bonds or the Secretary's right to receive Government Interest Subsidy Payments with respect to each payment of interest on any series of Government Interest Subsidy Bonds. At such time as Bonds will be deemed to be paid, such Bonds will no longer be secured by the 1992 Resolution and the appropriate Supplemental Resolution, and the Owner or Owners thereof will no longer be entitled to the benefits of the 1992 Resolution, except for the purposes of any such payment from such moneys or Defeasance Securities and except for the purposes of registration, transfer and exchange of such Bond or series of Bonds.

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

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

Events of Default

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

- (a) *Nonpayment of Principal.* If payment of the principal of any of the Bonds is not made when the same will become due and payable, either at maturity, or by prior redemption (including mandatory sinking fund redemption), or otherwise;
- (b) *Nonpayment of Interest.* If payment of any installment of interest on any Bonds is not made when the same will become due and payable;
- (c) *Failure to Make Required Sinking Fund Deposit.* If there will occur a failure to make any deposit into the Interest Account or the Principal Account in the time and manner required by any Supplemental Resolution with respect to any series of Bonds and such failure continues beyond any grace or cure period provided in any such Supplemental Resolution; and
- (d) *Failure to Comply with Other Provisions.* If there continues any failure in the observance or performance of any covenant, agreement, condition or provision contained in the Bonds or in the 1992 Resolution (other than as described in clauses (a), (b) or (c) hereof) and such failure continues for a period of thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Secretary, or to the Bond

Registrar, by the Owners of at least ten percent (10%) in aggregate principal amount of the Initial Series and any Additional Bonds then Outstanding; provided, with respect to any such failure under this clause (d), no Event of Default will be deemed to have occurred so long as a course of action adequate to remedy such failure shall have been commenced within such thirty (30) day period and will thereafter be diligently pursued to completion and the failure will be remedied thereby.

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

Remedies for Defaults

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

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

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

Trustee Appointment Upon Event of Default

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

Majority of Bondowners May Control Proceedings

Notwithstanding anything in the 1992 Resolution to the contrary, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, or the Trustee, if appointed, shall have the right, at

any time, to the extent permitted by law, by instrument(s) in writing, executed and delivered to the Bond Registrar, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the 1992 Resolution and any other proceeding hereunder; provided that such direction will not be otherwise than in accordance with the provisions hereof.

Rights and Remedies of Bondowners

- (a) No Owner of any Bond shall have any right to institute any suit, action or proceeding, in equity or at law, for the enforcement of the 1992 Resolution or for the execution of any trust hereof or for the exercise of any remedy hereunder, unless: (i) a default has occurred of which the Secretary or Bond Registrar has been notified as provided in clause (d) herein under the caption "Events of Default" of the 1992 Resolution or under clauses (a), (b) or (c) herein under the caption "Events of Default" as to which the Bond Registrar is deemed to have notice; (ii) such default has become an Event of Default; and (iii) the Owners of not less than a majority in aggregate principal amount of the Initial Series and any Additional Bonds then Outstanding shall not have complied with the requirements of the 1992 Resolution, it being understood and intended (A) that no one or more Owner(s) of the Bonds shall have the right in any manner whatsoever to affect, disturb or prejudice the lien of the 1992 Resolution by any action or to enforce any right hereunder, except in the manner herein provided, and (B) that all proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of the Owners of all Bonds (except Owners of junior and subordinate highway revenue bonds) then Outstanding.
- (b) Notwithstanding the provisions of the immediately preceding paragraph, if an Event of Default has occurred and pursuant to the 1992 Resolution, a trustee has been appointed and has accepted such appointment, then no Owner of a Bond shall have the right to exercise any remedy or undertake any action or proceeding at law or in equity or otherwise attempt to enforce the terms of the 1992 Resolution or any Supplemental Resolution unless the Owners of not less than twenty-five percent (25%) of the Initial Series and Additional Bonds then Outstanding have requested the trustee to act, have afforded such trustee adequate security or indemnity against its costs, expenses and liabilities, and such trustee has not complied with such request within a reasonable period of time.
- (c) Nothing in the 1992 Resolution shall, however, affect or impair the right of any Owner of any Bond(s) to enforce the payment of the principal of, premium, if any, or interest on any Bond at and after the maturity thereof, or the obligation of the State to pay the principal of, premium, if any, and interest on each of the Bonds to the respective Owners of the Bonds at the time and place, from the source, and in the manner herein and in the Bonds expressly provided.

Waivers of Events of Default

The Owners of a majority in aggregate principal amount of the Bonds of each series then Outstanding in respect of which default exists, may, in their discretion, waive any Event of Default hereunder and its consequences; provided, however, that there will not be waived (a) any Event of Default in the payment of the principal of, or premium on, any Outstanding Bonds at the date of maturity specified therein, or (b) any Event of Default in the payment of the interest on any such Bonds unless, prior to such waiver or rescission, all arrears of payments of interest or all arrears of payments of principal and premium, if any (with interest on such principal at a rate that will be equal to the rate on the Bonds upon which the payment of the principal has

been defaulted), when due, as the case may be, and all amounts to be paid by the State (or by KDOT) hereunder in connection with such Event of Default will have been paid or provision has been made for such payment. In case of any such waiver or rescission, or in case any proceedings taken by the Bondowners on account of any such Event of Default will have been discontinued or abandoned or determined adversely to the Bondowners, then, and in every such case, the State (for itself and KDOT) and the Bondowners will be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default, or impair any rights consequent thereon.

Supplemental Resolutions Not Requiring Consent of Bondowners

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

- (a) To add to the covenants and agreements in the 1992 Resolution or in any Supplemental Resolution contained, other covenants and agreements thereafter to be observed for the protection or benefit of the Bondowners; or
- (b) To cure any ambiguity, or to cure, correct or supplement any defect or inconsistent provision contained in the 1992 Resolution or in any Supplemental Resolution, or to make any provisions with respect to matters arising under the 1992 Resolution or in any Supplemental Resolution for any other purpose if such provisions are necessary or desirable, do not materially adversely affect the security of the Owners and will not result in the reduction or the withdrawal of any ratings then assigned to the Bonds; or
- (c) To comply with the provisions of the Code or any Federal or state securities law, including without limitation the Trust Indenture Act of 1939; or
- (d) To subject to the 1992 Resolution or in any Supplemental Resolution additional revenues, properties or collateral; or
- (e) To issue Bonds as permitted by the 1992 Resolution.

Supplemental Resolutions Requiring Consent of Bondowners

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

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

- (b) The deprivation of the Owner of any Bond then Outstanding of the lien created by the 1992 Resolution (other than as permitted hereby when such Bond was initially issued); or
- (c) A privilege or priority of any Bond(s) over any other Bond(s); or
- (d) A reduction in the aggregate principal amount of the Bonds required for consent to any Supplemental Resolution.

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

Bond Counsel Opinion on Supplemental Resolutions

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

APPENDIX F

DEFINITIONS OF CERTAIN TERMS

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

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

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

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

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

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

interest rate on such Bonds shall be determined as if such Bonds bore interest at an Assumed Rate on the notional amount of such Bonds.

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

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

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

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

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

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

Valuation Date to the next succeeding Valuation Date, and (2) the difference between the Appreciated Values for such Valuation Dates.

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

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

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

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

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

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

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

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

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

"Bond Service Charges" shall mean, for any applicable time period or date, the scheduled principal of and premium, if any, interest and the fees, expenses and costs of the Bond Registrar and Paying Agent, if

any, on any Bonds (excluding any junior and subordinate highway revenue bonds) accruing for that period or due and payable on that date. In determining Bond Service Charges accruing for any period or due and payable on any date, Mandatory Sinking Fund Requirements accruing for that period or due on that date shall be included.

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

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

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

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

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

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

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

"Debt Service Requirements" shall mean during the applicable period and as of any date of calculation (a) with respect to any series of Outstanding Bonds, the aggregate of the Bond Service Charges on such series. For purposes of this definition, the scheduled principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of Deferred Income Bonds becoming due at maturity or by virtue of mandatory sinking fund redemption shall be included in the calculations of accrued and unpaid and accruing interest or principal payments in such manner and during such period of time as is specified in the Supplemental Resolution authorizing such Capital Appreciation Bonds or Deferred Income Bonds.

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

"Defeasance Securities" shall mean:

- (i) direct and general obligations of, or obligations which as to principal and interest are unconditionally guaranteed as to full and timely payment by, the United States of America, to the payment of which the full faith and credit of the United States of America is irrevocably and unconditionally pledged, including evidences of direct ownership of proportionate interests in future principal or interest payments of such obligations. Investments in such proportionate interests must be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying United States obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying United States obligations; and (c) the underlying United States obligations are held in safekeeping in a special account, segregated from the custodian's general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated. The obligations described in this paragraph are hereinafter called "United States Government Obligations;" and
- (ii) pre-refunded municipal obligations rated "AAA" by S&P and "Aaa" by Moody's and meeting the following conditions:
 - (a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee has been given irrevocable instructions concerning their calling and redemption and the issuer of such municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;
 - (b) the municipal obligations are secured by cash or non-callable United States Government Obligations that may be applied only to interest, principal and premium payments of such municipal obligations;
 - (c) the principal of and interest on such United States Government Obligations (plus any cash in the escrow fund) are sufficient to meet the liabilities of the municipal obligations;
 - (d) the cash and United States Government Obligations serving as security for the municipal obligations are held by an escrow agent or trustee; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(vi) obligations of any state of the United States of America or any political subdivision of any state of the United States of America or any agency or instrumentality of any such state or political subdivision which shall be rated at the time of their purchase hereunder in one of the two highest Rating Categories by both Moody's and S&P;

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

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

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

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

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

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

1. For non-bond proceeds, the maturity of the agreement shall not exceed one year.
2. For bond proceeds, the maturity of the agreement shall not exceed the expected final draw of the projected construction draw schedule by more than three months.
3. The agreement shall require the agreement provider to redeem the agreement at par plus accrued interest if the provider is downgraded below a rating of "AA-" by Standard & Poor's or "Aa3" by Moody's Investor's Service.
4. Collateralized agreements may only be collateralized by obligations described in (i) and (ii) above.
5. Collateral must be equal to at least 102% of the value of the agreement and shall be marked-to-market no less frequently than weekly.
6. Any collateralized agreement shall require that a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the State Treasurer;

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

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

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

"KDOT" shall mean the Kansas Department of Transportation.

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

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

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

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

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

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

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

- (i) Bonds cancelled pursuant to the 1992 Resolution at or prior to their maturity dates;
- (ii) Bonds (or portions of Bonds) for the payment or redemption or purchase for cancellation of which sufficient moneys shall be held in trust under the provisions of the 1992 Resolution and set aside for such purpose (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions thereof) are to be redeemed, notice of such redemption shall have been given or provision satisfactory to the Secretary shall have been made for the giving of such notice as provided in the 1992 Resolution;
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered hereunder; and
- (iv) Optional Tender Bonds deemed tendered in accordance with the provisions of the Supplemental Resolution authorizing such Bonds on the applicable tender, adjustment or conversion date, if interest thereon shall have been paid through such applicable date and the purchase price thereof shall have been paid or amounts are available for such payments as provided therein.

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

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

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

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

"Qualified Swap Agreement" shall mean an interest rate exchange, hedge or similar agreement entered into by the Secretary and a Swap Provider, expressly identified in a certificate of the Secretary as having been entered into in order to hedge the interest rate payable on all or any portion of any Bonds, which agreement (i) may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar) and (ii) does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof. Anything in the 1992 Resolution to the contrary notwithstanding, any Bonds for which a Qualified Swap Agreement has been entered into by the Secretary shall be deemed to bear interest for the period of time that such Qualified Swap Agreement is in effect at a net rate which takes into account the interest payments made by the Secretary with respect to such Bonds and the payments made or received by the Secretary with respect to such Qualified Swap Agreement; provided that the long-term credit rating of the Swap Provider (or any guarantor thereof) is in one of the two highest rating categories of any Rating Agency (without regard to any refinements of gradation of any rating category by numerical modifier or otherwise) then rating such Bonds unless such Bonds are secured by a Credit Enhancement, in which case such Qualified Swap Agreement shall be approved in writing by the provider of such Credit Enhancement. For purposes of the Additional Bonds provisions of the 1992 Resolution described in the Official Statement under the caption "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2010A BONDS -- Additional Bonds" and the rate covenant provisions of the 1992 Resolution described in **Appendix E** under the caption "SUMMARY OF THE 1992 RESOLUTION -- Maintenance of State Highway Fund and Revenues", so long as any Bonds are deemed to bear interest at a rate taking into account a Qualified Swap Agreement, any payments made by the Secretary with respect to such Qualified Swap Agreement shall be *excluded* from the calculation of Adjusted Debt Service Requirements and Bond Service Charges and any payments received by the Secretary with respect to such Qualified Swap Agreement shall be excluded from Revenues.

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

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

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

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

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

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

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

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

"State" shall mean the State of Kansas.

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

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

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

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

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

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

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

APPENDIX G

PROPOSED FORM OF OPINION OF BOND COUNSEL

The Honorable Deb Miller
Secretary of Transportation
Topeka, Kansas

Re: Kansas Department of Transportation
Taxable Highway Revenue Bonds, Series 2010A
(Build America Bonds—Direct Payment to Issuer)

We have acted as bond counsel in connection with the issuance by the Secretary of the Kansas Department of Transportation (the “Secretary”) of the above-captioned Series 2010A Bonds (the “Series 2010A Bonds”), pursuant to the 1992 Resolution (the “1992 Resolution”) adopted by the Secretary, as supplemented by the Twenty-Fifth Supplemental Resolution adopted by the Secretary with respect to the Series 2010A Bonds (the “Twenty-Fifth Supplemental Resolution,” together with the 1992 Resolution, the “Resolution”). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Resolution.

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

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

1. The Secretary has authority under the Act to authorize the issuance of the Series 2010A Bonds, and the Series 2010A Bonds have been duly authorized, executed and delivered by the Secretary and are valid and legally binding special obligations of the State of Kansas, payable and collectible solely from, and are secured by a valid first lien and claim on, the Revenues and moneys in certain funds and accounts as provided in the Resolution on parity with the Outstanding Series 1998 Bonds, Series 2002A Bonds, Series 2002B Bonds, Series 2002C Bonds, Series 2002D, Series 2003A Bonds, Series 2003B Bonds, the Series 2004A Bonds, the Series 2004B Bonds, the 2004C Bonds, the 2008A Bonds, the 2009A Bonds and any Additional Bonds which may hereafter be issued under the Resolution. The Series 2010A Bonds do not constitute general obligations of the State of Kansas nor do they otherwise constitute an indebtedness of the State of Kansas within the meaning of any constitutional or statutory provision, limitation or restriction.

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

3. There has been compliance with all laws and requirements with respect to the form and execution by the Twenty-Fifth Supplemental Resolution, and the execution and delivery by the Secretary of the Series 2010A Bonds, and all instruments furnished to the Bond Registrar in connection with the issuance of the Series 2010A Bonds conform to the requirements of the 1992 Resolution and constitute sufficient authority thereunder for the Bond Registrar to authenticate and deliver the Series 2010A Bonds.

4. The Series 2010A Bonds and all income or interest therefrom are exempt from all Kansas taxes.

We express no opinion regarding the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Series 2010A Bonds (except to the extent, if any, stated in the Official Statement).

The rights of the owners of the Series 2010A Bonds and the enforceability of the Series 2010A Bonds and the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

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

Very truly yours,

APPENDIX H

INFORMATION CONCERNING THE OFFICE OF THE STATE TREASURER

State Treasurer

Dennis McKinney was appointed Treasurer of the State of Kansas and began serving as the 38th Treasurer on January 5, 2009. His term extends until January 2011. Prior to becoming State Treasurer, McKinney was the Minority Leader in the Kansas House of Representatives for six years and served as a Kiowa County Commissioner from January 1989 through May 1992. Treasurer McKinney is a farmer and a stockman in Kiowa and Comanche counties and holds a bachelor's degree in political science and a master's degree in public finance and administration, both from Wichita State University.

Organization and Duties

The State Treasurer serves as a board member on the Pooled Money Investment Board, an oversight board for the investment of state funds. The State Treasurer also has the authority, when so designated for a series of bonds, to serve as municipal bond registrar, transfer agent and paying agent. Other duties of the State Treasurer include: receipt and deposit of state monies; check redemption and reconciliation; administration of the Kansas Unclaimed Property Act; custodian of securities for state bank deposits; and administering the distribution of various state and local funds to Kansas municipalities. The Kansas Postsecondary Education Savings Program was successfully implemented on July 1, 2000 and a third party contractor, American Century Investments, was hired as program manager to administer accounts and invest the funds. As of June 30, 2010, the program reported over 141,000 accounts with approximately \$2.3 billion in assets. The State Treasurer administers a \$55 million linked deposit program that, through Kansas financial institutions, offers below market interest rate loans to Kansas farmers for operating expenses and a similar \$60 million linked deposit loan program for Housing Construction Loans. Additionally, the State Treasurer is a member of the board of trustees of the Kansas Public Employees Retirement System and serves on the Committee of Surety Bonds and Insurance.

As it relates to the State Treasurer's responsibilities as paying agent and registrar of bonds, the Office of the State Treasurer employs one division whose sole responsibility is bond services. The Bond Services Department registers all municipal bonds and temporary notes issued by Kansas municipalities. In addition, this department acts as registrar and transfer agent for over 91% of the municipal bonds issued in the State. The department currently maintains its database in the State Treasurer's in-house computer system where approximately 2,200 issues and nearly 32,000 individual bondholders are tracked. The department also performs paying agent functions and is responsible for collection of principal and interest payments from issuers, as well as the processing of called or matured bonds and interest coupons. In fiscal year 2010, \$2.3 billion was paid to bondholders. This department also reports unpaid bond and coupon balances to each issuer on a regular basis.

The Office of the State Treasurer has internal controls which include the segregation of the registrar and transfer function from the duties involving the payment of bond principal and interest. Transactions are traced from receipt through disbursement.

There are 46.5 authorized full-time equivalent positions in the State Treasurer's Office as of July 1, 2010 and 39 of these positions are currently filled. Their functions are as follows:

Administration (11 full-time positions, 10 currently filled): Responsible for general administration, personnel, budget, audit and information technology functions.

Bond Services (12 full-time positions, 9 currently filled): Responsible for registration of all Kansas municipal bonds. Acts as registrar and paying agent for over 91% of the municipal bonds issued in the State.

Cash Management (10 full-time positions, 8 currently filled): Responsible for receiving and depositing state monies and redeeming and reconciling of all state checks issued. Responsible for providing custodial service on securities held against deposits and distributing state aid and local tax dollars to cities and counties.

College Savings Program (1.5 full-time equivalent positions, 1.5 currently filled): Responsible for the administration and oversight of the Kansas Postsecondary Education Savings Program (now called Learning Quest).

Unclaimed Property (12 full-time positions, 9.5 currently filled): Responsible for the administration of the Kansas Unclaimed Property Act.

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