

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), (1) the interest on the Series 2015B Bonds is excludable from gross income for federal income tax purposes, except as described in this Official Statement, and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (2) the Series 2015B Bonds and all income or interest therefrom are exempt from all Kansas taxes and (3) the Series 2015B Bonds have not been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code. See "TAX MATTERS RELATING TO THE SERIES 2015B BONDS" in this Official Statement.



\$400,000,000
STATE OF KANSAS
DEPARTMENT OF TRANSPORTATION
Highway Revenue Bonds
Series 2015B

Dated: Date of Delivery

Due: As shown on inside cover

The Highway Revenue Bonds, Series 2015B, to be dated the date of delivery thereof (the "Series 2015B 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 2015B Bonds will be used to pay the costs associated with the issuance thereof. The Series 2015B 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.

Maturity Schedule on Inside Cover

Interest on the Series 2015B Bonds is payable semiannually on March 1 and September 1 of each year (each an "Interest Payment Date") commencing March 1, 2016. The Series 2015B 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 2015B Bonds (the "Securities Depository"). Purchases of the Series 2015B 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 2015B Bonds purchased. Principal of and interest on the Series 2015B 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 2015B Bonds are subject to redemption prior to maturity as described herein.

THE SERIES 2015B 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 2015B BONDS MAY NOT LOOK TO ANY GENERAL OR OTHER FUND OF THE STATE FOR PAYMENT AND THE SERIES 2015B BONDS WILL NOT CONSTITUTE 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 2015B Bonds are offered when, as and if issued and are subject to the final approving opinion of Gilmore & Bell, P.C., Bond Counsel. Certain legal matters will be passed upon for the Secretary and the Department of Transportation by its Special Counsel, Jonathan P. Small, Chartered, Topeka, Kansas, and by Kutak Rock LLP, Special Disclosure Counsel, and certain legal matters will be passed upon for the Underwriters by Bryan Cave LLP, Counsel to the Underwriters. It is expected that the Series 2015B Bonds will be available for delivery to DTC in New York, New York, on or about December 10, 2015.

Morgan Stanley

Barclays

BofA Merrill Lynch

J.P. Morgan

\$400,000,000
State of Kansas
Department of Transportation
Highway Revenue Bonds
Series 2015B

Maturities, Principal Amounts, Interest Rates and Yields

<u>Maturity</u> <u>September 1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>CUSIP</u> <u>Base: 485424</u>
2025	\$44,845,000	5.00%	2.02%	QF5
2026	47,090,000	5.00	2.17†	QG3
2027	45,095,000	5.00	2.27†	QH1
2028	43,000,000	5.00	2.34†	QJ7
2029	40,800,000	5.00	2.43†	QK4
2030	38,495,000	5.00	2.51†	QL2
2031	25,610,000	5.00	2.57†	QM0
2032	23,900,000	5.00	2.60†	QN8
2033	32,130,000	5.00	2.65†	QP3
2034	30,410,000	5.00	2.70†	QQ1
2035	28,625,000	5.00	2.75†	QR9

† Priced at the stated yield to the September 1, 2025, optional redemption date at par.

CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the Department or the Underwriters and are included solely for the convenience of the registered and beneficial owners of the applicable Series 2015B Bonds. None of the Department nor the Underwriters is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Series 2015B Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Series 2015B Bonds.

STATE OF KANSAS

Sam Brownback, Governor

KANSAS DEPARTMENT OF TRANSPORTATION

Michael S. King
Secretary of Transportation

Jerome T. Younger, P.E.
Deputy Secretary
and State Transportation Engineer

Wade Wiebe
Director of Partner Relations

Keith Bradshaw
Director of Fiscal and Asset Management

Barbara W. Rankin
Chief Counsel

Chris Herrick
Director of Planning and Development

Jim Kowach
Director of Engineering and Design

Joel Skelley
Director of Policy

Catherine Patrick
Director of Operations

Special Counsel
Jonathan P. Small, Chartered

Bond Counsel
Gilmore & Bell, P.C.

Independent Auditors
CliftonLarsonAllen LLP

Financial Advisor
Public Financial Management, Inc.

No dealer, broker, salesperson or other person has been authorized by the State of Kansas (the “State”), the Department of Transportation (the “Department”), the Secretary of Transportation (the “Secretary”) or the Underwriters to give any information or to make any representation in connection with the offering of the Series 2015B 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 2015B 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. 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 2015B Bonds.

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 respective responsibilities to investors 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 2015B BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

THE SERIES 2015B BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE SERIES 2015B 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 2015B BONDS AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

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

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OFFICIAL STATEMENT

**\$400,000,000
State of Kansas
Department of Transportation
Highway Revenue Bonds
Series 2015B**

INTRODUCTION

This Official Statement, including the cover page and the Appendices, sets forth certain information concerning the \$400,000,000 Highway Revenue Bonds, Series 2015B, to be dated the date of delivery thereof (the “Series 2015B Bonds”), of the State of Kansas (the “State”). The Series 2015B Bonds are being issued by the Secretary of Transportation (the “Secretary”) pursuant to the provisions of Section 68-2314b *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 Thirty-Second Supplemental Resolution authorizing the Series 2015B Bonds (the “Thirty-Second Supplemental Resolution”), to be adopted by the Secretary prior to the delivery of the Series 2015B Bonds. The Series 2015B 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 2015B Bonds will be used to pay the costs associated with the issuance thereof. See “APPLICATION OF PROCEEDS OF THE SERIES 2015B BONDS” herein.

The Series 2015B Bonds will be issued and secured on a parity with the Outstanding Bonds previously issued under the 1992 Resolution and described under “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Outstanding Bonds” herein.

The 1992 Resolution provides for the issuance of additional bonds on a parity with the Series 2015B Bonds and the Outstanding Bonds (“Additional Bonds”) and for the issuance of subordinate bonds (“Subordinate Bonds”). The Series 2015B 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”) and authorized by the Kansas Legislature through certain amendments to the Act effective June 3, 2010. 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 \$15.4 billion, including construction expenditures estimated to be \$6.1 billion. From Fiscal Year 2011 through Fiscal Year 2015, the Department has let contracts in excess of \$3.0 billion for T-WORKS construction projects.

The Act permits the Secretary to issue additional 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. However, the Act was amended in 2015 to provide that such 18% of Revenues limitation is suspended for the purpose of the issuance of any Additional Bonds during Fiscal Years ending June 30, 2016, and June 30, 2017. The Act provides that Revenues are adjusted for this purpose to take into account, among other adjustments, any transfers to the State General Fund and to certain other departments of the State. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Additional Bonds” and “CERTAIN TRANSFERS FROM STATE HIGHWAY FUND TO STATE GENERAL FUND” herein.

Prior Programs

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

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

Statutory Authorization; Outstanding and Additional Bonds

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

The several series of Highway Revenue Bonds, including new money and refunding bonds, issued and remaining Outstanding are described under “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Outstanding Bonds” herein.

The 1992 Resolution contains conditions, in addition to those conditions provided in the Act described hereinabove, with respect to the issuance of Additional Bonds thereunder. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Additional Bonds.”

The 1992 Resolution requires that, as a condition to the issuance of Additional Bonds, an independent accountant certify that the amount of Revenues (less any local reimbursement moneys received) transferred or deposited into the State Highway Fund in any 12 consecutive months out of the most recent 18 months prior to the issuance of the Additional Bonds, plus the amount of any other Revenues received by the State Treasurer during that period (less any local reimbursement moneys received), was not less than 300% of the maximum annual aggregate Adjusted Debt Service Requirements on all Parity Bonds to be Outstanding after the Additional Bonds are issued. The 1992 Resolution requires an adjustment to the Revenues actually transferred or deposited into the State Highway Fund if State legislation has been enacted that has changed the rate or distribution of any taxes or fees comprising the Revenues or that has changed any of the transactions subject to the fees, excises or license taxes comprising the Revenues at any time subsequent to the beginning of such 12-month period, to reflect the Revenues which would have been transferred or deposited in such 12-month period had the changes been effective for the entire period. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Additional Bonds.”

Source of Payment for the Series 2015B Bonds

The Series 2015B 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 2015B Bonds may not look to the general or any other fund of the State for payment and the Series 2015B Bonds will not constitute 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 2015B BONDS.”

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

Miscellaneous

The purchase of the Series 2015B Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Series 2015B Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. The discussion of certain risks is not intended to be exhaustive and should be read in conjunction with this entire Official Statement including the Appendices hereto. See “INVESTMENT CONSIDERATIONS” herein.

This Official Statement contains descriptions of, among other matters, the Series 2015B Bonds, the 1992 Resolution, as supplemented by the Thirty-Second Supplemental Resolution, the Department, the Revenues and the State Highway Fund. Such descriptions and information do not purport to be comprehensive or definitive. Summaries of certain provisions of the 1992 Resolution are set forth in Appendix D hereto. Definitions of certain terms used in this Official Statement are set forth in Appendix E hereto. All references herein to the 1992 Resolution and the Thirty-Second Supplemental Resolution are qualified in their entirety by reference to the text of the 1992 Resolution and the Thirty-Second Supplemental Resolution and references herein to the Series 2015B Bonds are qualified in

their entirety by reference to the forms thereof included in the 1992 Resolution and the Thirty-Second Supplemental Resolution. Executed copies of such documents are available for inspection at the office of the Secretary.

THE SERIES 2015B BONDS

General

The Series 2015B Bonds are being issued by the Secretary pursuant to the Act, the 1992 Resolution and the Thirty-Second Supplemental Resolution. The Series 2015B Bonds are dated and bear interest from their date of delivery. Interest on the Series 2015B Bonds is payable on March 1 and September 1 of each year (an “Interest Payment Date”) commencing March 1, 2016. Interest on the Series 2015B Bonds will be computed on the basis of a 360-day year comprised of twelve 30-day months. The Series 2015B Bonds mature in the amounts and on the dates shown on the inside cover of this Official Statement.

Interest on the Series 2015B Bonds shall be payable in lawful money of the United States of America on the Interest Payment Dates to the Owners thereof whose names appear on the books maintained by the Bond Registrar at the close of business on the Record Dates (the fifteenth (15th) day of the month preceding each Interest Payment Date with respect to the Series 2015B Bonds).

The Treasurer of the State of Kansas (the “State Treasurer”) will serve as Paying Agent and Bond Registrar with respect to the Series 2015B 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.

The Series 2015B Bonds are being issued only in fully registered form in denominations of \$5,000 and integral multiples thereof. The Series 2015B 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 2015B Bonds. See “BOOK-ENTRY SYSTEM.” For so long as Cede & Co. remains the registered owner of the Series 2015B Bonds, payments of principal and interest on the Series 2015B Bonds will be made by the Paying Agent by check or electronic transfer directly to DTC or Cede & Co. as the nominee of DTC and will be redistributed by DTC and the Participants as described below under “BOOK-ENTRY SYSTEM.”

Optional Redemption

The Series 2015B Bonds maturing on and after September 1, 2026, are subject to redemption prior to maturity, at the option of the Secretary, on or after September 1, 2025, in whole or in part on any date, at a redemption price equal to the principal amount thereof, plus accrued interest to the redemption date.

In the event less than all of the Series 2015B Bonds are to be redeemed pursuant to the optional redemption provisions set forth above, the Secretary may select the particular maturities to be redeemed. If less than all of the Series 2015B Bonds of the same maturity are to be redeemed, such Series 2015B Bonds within such maturity to be redeemed shall be selected at random by the Bond Registrar in such manner as the Bond Registrar may deem fair and appropriate.

The Series 2015B 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 2015B Bonds by lot when Series 2015B 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 through it were a separate Series 2015B 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 2015B Bond is selected for redemption, then upon notice of intention to redeem such \$5,000 unit or units, the Owner of such Series 2015B Bond or the Owner's duly authorized agent shall forthwith present and surrender such Series 2015B 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 2015B Bond of the aggregate principal amount of the unredeemed portion of the principal amount of such Series 2015B Bond. If the Owner of any such Series 2015B Bond of a denomination greater than \$5,000 shall fail to present such Series 2015B Bond to the Paying Agent for payment and exchange as aforesaid, such Series 2015B 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).

Registration, Transfer and Exchange of Series 2015B Bonds

The Secretary covenants that, as long as any of the Series 2015B Bonds remain Outstanding, he will cause to be kept, at the office of the Bond Registrar, books for the registration, transfer and exchange of such Series 2015B Bonds. So long as the Series 2015B Bonds are available through the book-entry only system of DTC, transfers of the Series 2015B Bonds may be made as described under "BOOK-ENTRY SYSTEM."

BOOK-ENTRY SYSTEM

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

DTC will act as securities depository for the Series 2015B Bonds. The Series 2015B 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 2015B Bond certificate will be issued for each maturity of the Series 2015B Bonds in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which

are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants," together with the Direct Participants, the "Participants"). DTC has a Standard & Poor's rating of: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Series 2015B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2015B 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 2015B 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 2015B Bonds, except in the event that use of the book-entry system for the Series 2015B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015B 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 2015B 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 2015B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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 2015B Bonds: (i) payments of principal of or interest on the Series 2015B Bonds; (ii) certificates representing an ownership interest or other confirmation of Beneficial Ownership interests in the Series 2015B Bonds; or (iii) redemption or other notices sent to DTC or its nominee, as the Registered Owners of the Series 2015B 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 2015B 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 2015B Bonds; (iv) the delivery by any DTC Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the 1992 Resolution to be given to Registered Owners; (v) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the Series 2015B 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 2015B 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 2015B 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 2015B BONDS

The following table sets forth the estimated applications of the proceeds of the Series 2015B Bonds. The Highway Bond Proceeds Fund is created by the Act and is in the custody of the State Treasurer.

Sources of Funds:

Principal Amount of the Series 2015B Bonds	\$400,000,000.00
Plus: Original Issue Premium	<u>89,273,209.70</u>
Total Sources of Funds	<u>\$489,273,209.70</u>

Uses of Funds:

Deposit to Highway Bond Proceeds Fund	\$488,242,912.98
Costs of Issuance and Underwriters' Discount ⁽¹⁾	<u>1,030,296.72</u>
Total Uses of Funds	<u>\$489,273,209.70</u>

⁽¹⁾ Includes all costs of issuance of the Series 2015B Bonds, including underwriters' discount (\$475,606.72), fees for legal counsel and other expenses, the payment of which is contingent upon the issuance of the Series 2015B Bonds.

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS

Legal Authority and Current Statutory Bond Authorization

The Series 2015B Bonds will be special obligations of the State and are being issued by the Secretary pursuant to the Act, the 1992 Resolution and the Thirty-Second Supplemental Resolution. Under the terms and provisions of the Act, the Secretary is authorized to issue bonds for the payment of costs of construction, reconstruction, maintenance or improvement of highways in the State and expenses incidental thereto, to pay costs of issuance, to provide credit enhancement and to pay administrative and other expenses incurred in carrying out the powers granted by the Act.

The Series 2015B 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 Act permits the Secretary to issue additional 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. However, the Act was amended in 2015 to provide that such 18% of Revenues limitation is suspended for the purpose of the issuance of any Additional Bonds during Fiscal Years ending June 30, 2016, and June 30, 2017. The Act provides that Revenues are adjusted for this purpose to take into account, among other adjustments, any transfers to the State General Fund and to certain other departments of the State. See "CERTAIN TRANSFERS FROM STATE HIGHWAY FUND TO STATE GENERAL FUND" herein. The 1992 Resolution also contains conditions with respect to the issuance of Additional Bonds thereunder. See the subcaption "Additional Bonds" hereunder.

Outstanding Bonds

Beginning with the issuance on March 15, 1992, of the Highway Revenue Bonds, Series 1992, the Secretary has issued 31 series of Bonds under the 1992 Resolution, as supplemented by the First through the Thirty-First Supplemental Resolutions (all such Bonds have been issued as Parity Bonds and no Subordinate Bonds have been issued thereunder).

The Parity Bonds currently Outstanding under the 1992 Resolution (collectively, the “Outstanding Bonds”) are shown in the following table:

<u>Series</u>	<u>Dated Date</u>	<u>Bond Name</u>	<u>Final Scheduled Maturity</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding December 2015</u>
2004A	June 23, 2004	Highway Revenue Bonds	3/1/2019	\$ 250,000,000	\$ 76,235,000
2004C	Nov. 23, 2004	Adj. Tender Hwy. Rev. Bonds ⁽¹⁾	9/1/2024	147,000,000	147,000,000
2009A	Nov. 30, 2009	Highway Revenue Refunding Bonds	9/1/2020	176,680,000	156,235,000
2010A	Sept. 1, 2010	Taxable Hwy. Rev. Bonds ⁽²⁾	9/1/2035	325,000,000	325,000,000
2012B	Oct. 17, 2012	Highway Revenue Refunding Bonds	9/1/2022	144,885,000	144,885,000
2012C	Dec. 19, 2012	Highway Revenue Bonds	9/1/2032	200,000,000	193,000,000
2014A	July 31, 2014	Highway Revenue Bonds	9/1/2030	250,000,000	250,000,000
2014B	Aug. 28, 2014	Highway Rev. Ref. Index Bonds ⁽¹⁾	9/1/2019	212,875,000	175,875,000
2015A	Sept. 16, 2015	Highway Revenue Refunding Bonds	9/1/2024	190,875,000	<u>190,875,000</u>
					<u>\$1,659,105,000</u>

⁽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 2010A Bonds were issued as taxable “Build America Bonds” to be eligible to receive a cash subsidy from the United States Treasury.

Expectations for Issuance of Additional Bonds

The Secretary does not expect to issue Additional Bonds under the 1992 Resolution during the next 18 months.

Interest Rate Exchange Agreements

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

In connection with the issuance of the Series 2002B and 2002C Bonds and in order to achieve a synthetic fixed rate refunding of certain prior Bonds refunded thereby, the Secretary, pursuant to a competitive bid process, executed interest rate exchange agreements having a combined original notional amount of \$320,005,000 with Salomon Brothers Holding Company Inc. (an affiliate of Citigroup Global Markets, Inc.) and Goldman Sachs Capital Markets, L.P. (an affiliate of Goldman, Sachs & Co.). The interest rate exchange agreements are floating-to-fixed interest rate exchange agreements paying 67% of LIBOR (London Interbank Offered Rate) to the Department and with the Department paying a fixed rate of 3.164%. The Bank of New York Mellon Trust Company, N.A., assumed responsibility from Salomon Brothers Holding Company Inc. under the same terms and conditions effective February 29, 2012. Upon the issuance of the Series 2014B Bonds on August 28, 2014, which refunded the Series 2002B and 2002C Bonds, such interest rate exchange agreements were allocated to the Series 2014B Bonds. Such interest rate exchange agreements have a termination date of September 1, 2019, and a mark-to-market valuation as of September 30, 2015, of \$(11,780,153).

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%. Such interest rate exchange agreement has a termination date of September 1, 2024, and a mark-to-market valuation as of September 30, 2015, of \$(21,788,842).

Special Obligations

The Series 2015B 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 2015B Bonds may not look to any general or other fund of the State for payment, and the Series 2015B Bonds will not constitute indebtedness or a debt within the meaning of any constitutional or statutory provision or limitation, nor can they be considered or held to be general obligations of the State.

Revenues

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

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

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

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

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

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

Sales Tax and Compensating Use Taxes. The current State sales tax and compensating use tax rates, effective July 1, 2015, are 6.50%, a portion of which is credited directly to the State Highway Fund in accordance with State law. Most recently, the statute provided that 17.073% of the revenue collected at the rate of 6.15% be credited to the State Highway Fund. The 2015 Legislature amended the statute to credit 16.226% of the revenue collected at the rate of 6.50% to the State Highway Fund effective July 1, 2015. Effective July 1, 2016, and thereafter, the statute is amended to credit 16.154% of the revenue collected at the rate of 6.50% to the State Highway Fund. Such portion of the Sales Tax and State Compensating Use Tax (after refunds) is designated to be credited directly to the State Highway Fund.

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

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

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

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

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

Legislative Changes Affecting Revenues

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

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

Exclusion From Revenues for Certain Purposes

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

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

See the table on page 21 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 under "REVENUES AND DEBT SERVICE COVERAGE—Projected Debt Service Coverage" herein.

Funds and Accounts

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

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

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

The 1992 Resolution states that the Secretary shall direct the State Treasurer to transfer the first moneys available in the State Highway Fund and deposit to the Debt Service Fund amounts sufficient to make appropriate deposits to the credit of all accounts, subaccounts and funds in the Debt Service Fund as may be specified in the 1992 Resolution and Supplemental Resolutions. With respect to the Series 2015B Bonds, the Thirty-Second 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 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 Thirty-First Supplemental Resolutions (the “Existing Supplemental Resolutions”).

As discussed under “CERTAIN TRANSFERS FROM STATE HIGHWAY FUND TO STATE GENERAL FUND” herein, State budgets for the past several Fiscal Years and for the current Fiscal Year have provided for transfers from the State Highway Fund (such transfers including allotments to the State General Fund and to certain other departments of the State) to alleviate State budget pressures. These transfers have been and will be made after provision has been made for the transfers required to be made from the State Highway Fund to the Debt Service Fund as required by the 1992 Resolution.

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 Thirty-Second Supplemental Resolution creates: within the Interest Account, the Series 2015B Bond Interest Account; within the Principal Account, the Series 2015B Bond Principal Account; and, within the Debt Service Reserve Account, the Series 2015B 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 2015B 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 Thirty-Second Supplemental Resolution creates therein the Series 2015B Bond Debt Service Reserve Account (the “Series 2015B Reserve Account”).

Deposits into the Series 2015B Reserve Account will not 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 2015B Reserve Account (or, if earlier, the time when the requirement to fund the Series 2015B Reserve Account is discontinued), the State Treasurer is directed to deposit into the Series 2015B Reserve Account an amount equal to one forty-eighth (1/48th) of the Series 2015B 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 2015B 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 2015B Reserve Account to pay debt service on the Series 2015B 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 2015B 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 2015B 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 2015B Bonds, means the least of (a) the maximum amount of principal of and interest due in any Fiscal Year on all such Series 2015B Bonds Outstanding on the day following the day of calculation, (b) 125% of the average annual debt service on the Series 2015B Bonds then Outstanding, or (c) 10% of the sale proceeds of the Series 2015B Bonds, calculated in each case by giving effect to each redemption of Outstanding Series 2015B 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 Thirty-Second Supplemental Resolution for the Series 2015B Bonds.

Highway Bond Proceeds Fund. The Act states that proceeds from the sale of bonds issued thereunder are deemed to be trust funds and shall be deposited in the custody of the State Treasurer in the Highway Bond Proceeds Fund which is established by the Act. Proceeds of the Series 2015B Bonds will be deposited into the Highway Bond Proceeds Fund. Moneys in the Highway Bond Proceeds Fund are to be withdrawn only upon vouchers or transfers signed by the Secretary. The 1992 Resolution provides that upon the occurrence of an Event of Default under the 1992 Resolution, any moneys in the Highway Bond Proceeds Fund shall be transferred by the Secretary to the Debt Service Fund and applied as described above with respect to such Fund.

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

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

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

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

The PMIB, established pursuant to K.S.A. 75-4221a, is charged with the management of different State pooled moneys. In addition, the PMIB is named as the investing arm of the State for various special portfolios, such as the State Highway Fund, which are authorized by specific statutes. The PMIB consists of the State Treasurer and four gubernatorial appointees who serve staggered terms. One of the five is appointed as chairperson by the governor. The PMIB is, in turn, authorized to appoint officers, analysts and other employees to fulfill its directives. As of September 30, 2015, the State investment portfolio (Pooled Money Investment Portfolio or PMIP) managed by the Pooled Money Investment Board totaled approximately \$3.2 billion.

Additional Bonds

The 1992 Resolution provides for the issuance of Bonds thereunder. Such Bonds may be Parity Bonds or Subordinate Bonds. In this Official Statement, all Bonds referred to as “Additional Bonds” are Parity Bonds. The tests for the issuance of Additional Bonds set forth below do not need to be met prior to the issuance of Subordinate Bonds. The Act permits the Secretary to issue additional 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. However, the Act was amended in 2015 to provide that such 18% of Revenues limitation is suspended for the purpose of the issuance of any Additional Bonds during Fiscal Years ending June 30, 2016, and June 30, 2017. The Act provides that Revenues are adjusted for this purpose to take into account, among other adjustments, any transfers to the State General Fund and to certain other departments of the State. See “Legal Authority and Current Statutory Bond Authorization” hereinabove and “CERTAIN TRANSFERS FROM STATE HIGHWAY FUND TO STATE GENERAL FUND” herein.

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

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

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

The Secretary does not expect to issue Additional Bonds under the 1992 Resolution during the next 18 months.

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 as 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 Thirty-Second 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 2015B 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 Thirty-Second Supplemental Resolution for the Series 2015B Bonds. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Funds and Accounts-Series 2015B 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 Revenue Estimating Group and (b) the Highway Revenue Estimating Group.

The Consensus Revenue 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 Revenue 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 Revenue 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 Revenue Estimating Group does not prepare estimates for these revenues which do not flow to the State General Fund. In addition, since the larger Consensus Revenue 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 Revenue Estimating Group's estimates are as of November 6, 2015. The Highway Revenue Estimating Group's estimates as of November 12, 2015, are incorporated into the Department's projections for Motor Fuels Taxes and Vehicle Registration Fees.

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

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

upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

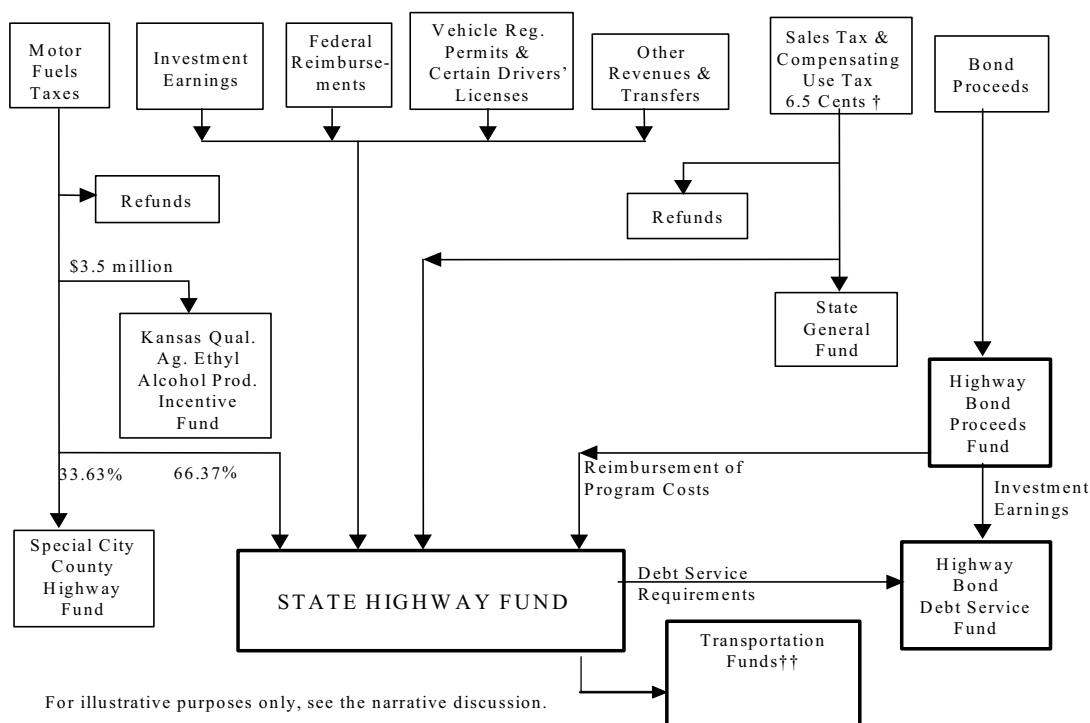
Neither the Department's independent auditors, nor any other independent accountants, have compiled, examined or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its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

See "INVESTMENT CONSIDERATIONS—Forward-Looking Statements" herein.

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



For illustrative purposes only, see the narrative discussion.

† Beginning July 1, 2015 and thereafter, 16.226% of the revenue collected at the rate of 6.50% is credited to the State Highway Fund. Beginning July 1, 2016 and thereafter, 16.154% of the revenue collected at the rate of 6.50% is credited to the State Highway Fund.

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

The moneys currently credited to or transferred to the State Highway Fund are derived primarily from the following sources: (a) the Motor Fuels Taxes, (b) vehicle registration, drivers' license fees and vehicle permits, (c) a portion of the Sales Tax and Compensating Use Tax receipts, (d) investment income on the State Highway Fund, (e) intergovernmental transfers consisting primarily of federal grant funds in reimbursement of expenditures made by the Department and reimbursements from local governments, (f) transfers-in to the State Highway Fund from other Department funds and (g) miscellaneous other sources. The following table sets forth, by category, the major sources of funds credited to or transferred to the State Highway Fund and the amount of such funds in each of the Fiscal Years 2005 through 2015 and the amount of such funds estimated by the Department for each of the Fiscal Years 2016 through 2020. Each of the sources is described in the paragraphs following the table. More detail with respect to the primary current sources is set forth in Appendix C to this Official Statement. A description of the basis of the Department's estimates is set forth under "Basis of Projections" and additional information with respect to the estimates for certain categories is contained in Appendix C.

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

Fiscal Year	Motor Fuel Taxes	Direct Credit Sales Tax	Other Transfers	Registration, Licenses And Permits	Intergovernmental Reimbursements		Investment Earnings††	Other	Subtotal	Operating Transfers-in From Other Departmental Funds‡	Total
					Federal†	Locals†					
2005	\$ 281,142	\$ 94,208	\$ 3,825	\$ 163,760	\$ 354,261	\$ 29,807	\$ 15,093	\$ 5,483	\$ 947,579	\$ 0	\$ 947,579
2006	282,778	99,938	214,508 ±	165,573	373,461	25,543	17,783	6,151	1,185,735	0	1,185,735
2007	284,718	162,525	3,313	171,575	456,820	37,310	25,076	8,419	1,149,756	0	1,149,756
2008	283,974	283,597	1,464	172,353	462,574	32,506	20,564	8,116	1,265,148	0	1,265,148
2009	277,358	268,259	1,462	170,256	332,386	53,419	17,043	4,820	1,125,003	0	1,125,003
2010	280,376	259,899	1,588	175,291	453,589	44,433	3,649	7,923	1,226,748	0	1,226,748
2011	283,981	295,989	2,478	178,492	608,461	62,281	1,082	4,754	1,437,518	1,000	1,438,518
2012	286,151	312,934	3,665	177,649	461,837	24,801	219	8,835	1,276,091	0	1,276,091
2013	274,337	320,756	1,636	198,120	411,091	30,008	303	20,622	1,256,873	0	1,256,873
2014	293,707	501,291	2,595	211,644	487,144	28,277	329	5,544	1,530,531	0	1,530,531
2015	288,303	512,360	2,196	218,788	362,445	34,983	831	5,886	1,425,792	0	1,425,792
2016	290,590	518,253	4,813	215,853	299,040	17,736	795	13,546	1,360,626	0	1,360,626
2017	291,453	534,771	1,401	215,853	368,504	21,886	861	8,546	1,443,275	0	1,443,275
2018	292,315	554,820	1,401	215,853	360,144	31,004	1,957	4,964	1,462,458	0	1,462,458
2019	293,178	575,621	1,401	215,853	346,917	21,206	1,172	4,964	1,460,312	0	1,460,312
2020	294,041	597,201	1,401	215,853	354,264	18,783	1,633	4,964	1,488,140	0	1,488,140

Note: Fiscal Years (FY) 2005 through 2015 are derived from audited information. FY 2016 through 2020 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 2005 and later years.

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

±See "CERTAIN TRANSFERS FROM STATE HIGHWAY FUND TO STATE GENERAL FUND" for a discussion 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.

The amount of total revenues credited to the State Highway Fund, the amount of revenues derived from Motor Fuels Taxes credited to the State Highway Fund and the resulting percentage of such revenues credited to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Motor Fuels Taxes

<u>Fiscal Year</u>	<u>Total State Highway Fund Revenues</u>	<u>Motor Fuels Tax Revenues</u>	<u>% of Total Revenues Credited</u>
2011	\$1,438,518,000	\$283,981,000	20%
2012	1,276,091,000	286,151,000	22
2013	1,256,873,000	274,337,000	22
2014	1,530,531,000	293,707,000	19
2015	1,425,792,000	288,303,000	20

Additional information concerning the Motor Fuels Taxes is included in Appendix C to this Official Statement.

Vehicle Registration, Drivers' Licenses and Vehicle Permits

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

Kansas statutes currently require that vehicles be registered, based on vehicle type and weight or use, by the State before they may legally be operated on the Kansas highways and require that drivers be licensed. Kansas law also requires permits for oversize or overweight vehicles. The 2002 Legislature increased the registration fee for automobiles and pickups by \$10 and the registration fee for trucks from \$2 to \$10 based on the vehicle weight classification. The total increase in registration fees was approximately 8.5%. The 2010 Legislature increased the registration fee for trucks with a gross weight of more than 16,000 pounds with a fee increase of \$50 effective January 1, 2013, and a second \$50 fee increase effective January 1, 2014. Since January 1, 2013, a \$4 surcharge on registrations collected and remitted to the Department of Revenue for the purpose of integration and modernization of the Vehicle Information Processing System has been credited to the State Highway Fund. During Fiscal Years 2014 and 2015, \$12,266,045 and \$12,252,823, respectively, were derived from such surcharge. During Fiscal Years 2016 and 2017 an annual amount not exceeding \$3,000,000 derived from such surcharge is expected to be transferred by the Department of Revenue to certain other State agencies with the remainder to be credited to the State Highway Fund.

The amount of total revenues credited to the State Highway Fund, the amount of revenues derived from Vehicle Registrations and Permits credited to the State Highway Fund and the resulting percentage of such revenues credited to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Vehicle Registrations and Permits

<u>Fiscal Year</u>	<u>Total State Highway Fund Revenues</u>	<u>Vehicle Registrations/Permits Revenues</u>	<u>% of Total Revenues Credited</u>
2011	\$1,438,518,000	\$178,492,000	12%
2012	1,276,091,000	177,649,000	14
2013	1,256,873,000	198,120,000	16
2014	1,530,531,000	211,644,000	14
2015	1,425,792,000	218,788,000	15

Additional information concerning the Vehicle Registrations and Permits is included in Appendix C to this Official Statement.

Sales Taxes and Compensating Use Taxes

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

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

The current State Sales Tax and Compensating Use Tax rates, effective July 1, 2015, are 6.50%, a portion of which is credited directly to the State Highway Fund in accordance with State law.

Prior to July 1, 2006, 5/106ths of the 5.30%, the equivalent of a .25% tax rate, was credited directly to the State Highway Fund. The 2004 Legislature changed the statute to 19/265ths of the 5.30% effective July 1, 2006, and 13/106ths of the 5.30% effective July 1, 2007, the equivalent of .38% for Fiscal Year 2007 and .65% for Fiscal Year 2008 and thereafter. The 2010 Legislature amended the statute to credit 11.427% of the revenue collected at the rate of 6.30% to the State Highway Fund effective July 1, 2010, 11.26% of the revenue collected to the State Highway Fund effective July 1, 2011, and 11.233% of the revenue collected to the State Highway Fund effective July 1, 2012, and beginning July 1, 2013, and thereafter, 18.421% of the revenue collected at the rate of 5.70% to the State Highway Fund. The 2013 Legislature amended the statute to credit 17.073% of the revenue collected at the rate of 6.15% to the State Highway Fund effective July 1, 2013, and thereafter. The 2015 Legislature amended the statute to credit 16.226% of the revenue collected at the rate of 6.50% to the State Highway Fund effective July 1, 2015. Effective July 1, 2016, and thereafter, the statute is amended to credit 16.154% of the revenue collected at the rate of 6.50% to the State Highway Fund. Such portion of the Sales Tax and State Compensating Use Tax (after refunds) is designated to be credited directly to the State Highway Fund.

The amount of total revenues credited to the State Highway Fund, the amount of revenues derived from Sales Taxes and Compensating Use Taxes credited to the State Highway Fund and the resulting percentage of such revenues credited to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Sales Taxes and Compensating Use Taxes

<u>Fiscal Year</u>	<u>Total State Highway Fund Revenues</u>	<u>Sales/Use Tax Revenues</u>	<u>% of Total Revenues Credited</u>
2011	\$1,438,518,000	\$295,989,000	21%
2012	1,276,091,000	312,934,000	25
2013	1,256,873,000	320,756,000	26
2014	1,530,531,000	501,291,000	33
2015	1,425,792,000	512,360,000	36

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 2015B BONDS—Investment of Funds and Accounts” herein for a discussion of investment policy.

The amount of total revenues credited to the State Highway Fund, the amount of revenues derived from Investment Income credited to the State Highway Fund and the resulting percentage of such revenues credited to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Investment Income

<u>Fiscal Year</u>	<u>Total State Highway Fund Revenues</u>	<u>Investment Income Revenues</u>	<u>% of Total Revenues Credited</u>
2011	\$1,438,518,000	\$1,082,000	<1%
2012	1,276,091,000	219,000	<1
2013	1,256,873,000	303,000	<1
2014	1,530,531,000	329,000	<1
2015	1,425,792,000	831,000	<1

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.

The amount of total revenues credited to the State Highway Fund, the amount of revenues derived from Intergovernmental Reimbursements credited to the State Highway Fund and the resulting percentage of such revenues credited to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Intergovernmental Reimbursements

<u>Fiscal Year</u>	<u>Total State Highway Fund Revenues</u>	<u>Intergovernmental Reimbursements</u>	<u>% of Total Revenues Credited</u>
2011	\$1,438,518,000	\$670,742,000	47%
2012	1,276,091,000	486,638,000	38
2013	1,256,873,000	441,099,000	35
2014	1,530,531,000	515,421,000	34
2015	1,425,792,000	397,428,000	28

Other Revenues

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

Expenditures

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

Maintenance. Routine maintenance consists of maintenance activities which are performed primarily by Department staff using the Department's own equipment and materials. The Department currently projects that routine maintenance will remain at the current level during T-WORKS. The expenditures for routine maintenance normally occur in the year for which the expenditures were budgeted. The Department assumes that expenditures related to routine maintenance, primarily performed by Department staff, will grow at approximately 2.50% to 3.50% per year.

The amount of total expenditures charged to the State Highway Fund, the amount of expenditures related to Maintenance charged to the State Highway Fund and the resulting percentage of such expenditures charged to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Maintenance

<u>Fiscal Year</u>	<u>Total State Highway Fund Expenditures</u>	<u>Maintenance Expenditures</u>	<u>% of Total Expenditures</u>
2011	\$1,259,968,000	\$138,928,000	11%
2012	1,365,277,000	137,558,000	10
2013	1,140,401,000	136,886,000	12
2014	1,270,987,000	131,061,000	10
2015	1,569,722,000	137,483,000	9

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.

The amount of total expenditures charged to the State Highway Fund, the amount of expenditures related to Construction charged to the State Highway Fund and the resulting percentage of such expenditures charged to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Construction

<u>Fiscal Year</u>	<u>Total State Highway Fund Expenditures</u>	<u>Construction Expenditures</u>	<u>% of Total Expenditures</u>
2011	\$1,259,968,000	\$604,218,000	48%
2012	1,365,277,000	739,779,000	54
2013	1,140,401,000	712,259,000	62
2014	1,270,987,000	678,212,000	53
2015	1,569,722,000	797,043,000	51

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.

The amount of total expenditures charged to the State Highway Fund, the amount of expenditures related to Local Support charged to the State Highway Fund and the resulting percentage of such expenditures charged to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Local Support

<u>Fiscal Year</u>	<u>Total State Highway Fund Expenditures</u>	<u>Local Support Expenditures</u>	<u>% of Total Expenditures</u>
2011	\$1,259,968,000	\$192,511,000	15%
2012	1,365,277,000	113,236,000	8
2013	1,140,401,000	106,656,000	9
2014	1,270,987,000	139,429,000	11
2015	1,569,722,000	151,616,000	10

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.

The amount of total expenditures charged to the State Highway Fund, the amount of expenditures related to Management charged to the State Highway Fund and the resulting percentage of such expenditures charged to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Management

<u>Fiscal Year</u>	<u>Total State Highway Fund Expenditures</u>	<u>Management Expenditures</u>	<u>% of Total Expenditures</u>
2011	\$1,259,968,000	\$62,552,000	5%
2012	1,365,277,000	63,302,000	5
2013	1,140,401,000	69,234,000	6
2014	1,270,987,000	55,403,000	4
2015	1,569,722,000	53,081,000	3

Transfers-Out. The transfers-out are disbursements from the State Highway Fund for the operation of other state agencies. The amounts of the transfers are established by appropriations each year and are expended in the year budgeted. The Department expects transfers-out to grow with inflation at 2.50% to 3.50% per year.

The amount of total expenditures charged to the State Highway Fund, the amount of expenditures related to Transfers-Out charged to the State Highway Fund and the resulting percentage of such expenditures charged to the State Highway Fund in each of the Fiscal Years 2011-2015 are shown in the following table:

Transfers-Out

<u>Fiscal Year</u>	<u>Total State Highway Fund Expenditures</u>	<u>Transfers-Out Expenditures</u>	<u>% of Total Expenditures</u>
2011	\$1,259,968,000	\$261,759,000	21%
2012	1,365,277,000	311,402,000	23
2013	1,140,401,000	115,366,000	10
2014	1,270,987,000	266,882,000	21
2015	1,569,722,000	430,499,000	27

Debt Service. Debt Service disbursements from the State Highway Fund are operating transfers to debt service funds to pay 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 (2011-2015) 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 2015 Basic Financial Statements.

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

	2015	2014	2013	2012	2011
REVENUES:					
Motor Fuels Taxes	\$ 288,303	\$ 293,707	\$ 274,337	\$ 286,151	\$ 283,981
Vehicle Registrations and Permits	218,788	211,644	198,120	177,649	178,492
Intergovernmental Reimbursements					
Federal	362,445	487,144	411,091	461,837	608,461
Locals	34,983	28,277	30,008	24,801	62,281
Sales Taxes and Compensating Use Taxes ¹	512,360	501,291	320,756	312,934	295,989
Investment Earnings	831	329	303	219	1,082
Other	5,886	5,544	20,622	8,835	4,754
Appropriations From Other State Funds	<u>2,196</u>	<u>2,595</u>	<u>1,636</u>	<u>3,665</u>	<u>2,478</u>
Total Revenues	<u>1,425,792</u>	<u>1,530,531</u>	<u>1,256,873</u>	<u>1,276,091</u>	<u>1,437,518</u>
EXPENDITURES:					
Current Operating					
Maintenance ²	137,483	131,061	136,886	137,558	138,928
Construction ²	797,043	678,212	712,259	739,779	604,218
Local Support	151,616	139,429	106,656	113,236	192,511
Management	53,081	55,403	69,234	63,302	62,552
Transfers to Other State Funds	<u>430,499</u>	<u>266,882</u>	<u>115,366</u>	<u>311,402</u>	<u>261,759</u>
Total Expenditures	<u>1,569,722</u>	<u>1,270,987</u>	<u>1,140,401</u>	<u>1,365,277</u>	<u>1,259,968</u>
Excess (Deficiency) of Revenues					
Over Expenditures	<u>(143,930)</u>	<u>259,544</u>	<u>116,472</u>	<u>(89,186)</u>	<u>177,550</u>
OTHER FINANCING SOURCES (USES):					
Operating Transfers-in	297,972	83,976	251,948	170,495	61,720
Operating Transfers-out	<u>(198,978)</u>	<u>(202,473)</u>	<u>(178,145)</u>	<u>(227,487)</u>	<u>(222,888)</u>
Total Other Financing					
Sources (Uses)	<u>98,994</u>	<u>(118,497)</u>	<u>73,803</u>	<u>(56,992)</u>	<u>(161,168)</u>
Excess (Deficiency) of Revenues					
and Other Sources Over					
Expenditures and Other Uses	<u>(44,936)</u>	<u>141,047</u>	<u>190,275</u>	<u>(146,178)</u>	<u>16,382</u>
FUND BALANCE, BEGINNING OF YEAR	457,933	317,266	127,569	272,776	257,154
Changes in Inventory Reserve	<u>(518)</u>	<u>(380)</u>	<u>(578)</u>	<u>971</u>	<u>(760)</u>
FUND BALANCE, END OF YEAR	<u>\$ 412,479</u>	<u>\$ 457,933</u>	<u>\$ 317,266</u>	<u>\$ 127,569</u>	<u>\$ 272,776</u>

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

¹Direct Credit to the State Highway Fund

²Amounts in prior years are reclassified to conform to current year presentation.

CERTAIN TRANSFERS FROM
STATE HIGHWAY FUND TO STATE GENERAL FUND

State budgets for the past several Fiscal Years and for the current Fiscal Year have provided for transfers from the State Highway Fund (such transfers including allotments to the State General Fund and to certain other departments of the State) to alleviate State budget pressures. These transfers have been and will be made after provision has been made for the transfers required to be made from the State Highway Fund to the Debt Service Fund as required by the 1992 Resolution.

All Bonds issued under the 1992 Resolution, including the Series 2015B Bonds, are secured by a first lien and claim on the Revenues. 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 (all Bonds issued under the 1992 Resolution, including the Series 2015B Bonds, are Parity Bonds). The 1992 Resolution provides that the State Treasurer is directed to transfer the first moneys available in the State Highway Fund for deposit in the Debt Service Fund in amounts sufficient to pay the debt service requirements of all Bonds issued and secured under the 1992 Resolution. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Revenues,” “—Legislative Changes Affecting Revenues” and “—Funds and Accounts” herein. Accordingly, any such historical or future transfers from the State Highway Fund to the State General Fund and to certain other departments of the State have not affected and are not expected to affect the timely payment of or security for the payment of the Bonds, including the Series 2015B Bonds, issued under the 1992 Resolution. The primary impact on the Department of such transfers from the State Highway Fund to the State General Fund and to other departments of the State has been that the Department has adjusted the timing for making certain construction expenditures (not funded with proceeds of Bonds issued under the 1992 Resolution) from the State Highway Fund for costs of construction, reconstruction, maintenance or improvement of highways and it is anticipated that the Department may have to make similar adjustments as a result of any such transfers in the future, including such transfers included in the State budgets for Fiscal Years 2016 and 2017, as the same may be modified from time to time, as described below.

All Bonds issued under the 1992 Resolution, including the Series 2015B Bonds, 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 and are not payable from or secured by any amounts held in the State General Fund or any other fund of the State.

Information and reports regarding the financial condition of the State that may be of general interest to the reader include: the Comprehensive Annual Financial Reports of the State of Kansas, including the most recently available Report for the Fiscal Year ended June 30, 2014, available from the Kansas Department of Administration’s web site at <http://www.admin.ks.gov/offices/chief-financial-officer/comprehensive-annual-financial-report--cafr>; the July 15, 2015, monthly report of the Kansas Legislative Research Department for State General Fund receipts (“SGF Receipts”) for the 12-month period July 2014 through June 2015 of Fiscal Year 2015 (stating that total SGF Receipts were \$(15.6) million or 0.3% below the revised estimates made by the Consensus Revenue Estimating Group on April 20, 2015) available on the Kansas Legislative Research Department’s web site at http://www.kslegresearch.org/KLRD-web/Publications/SGF/2015_SGF_June_Receipts.pdf; the December 2, 2015, monthly report of the Kansas Legislative Research Department for State General Fund receipts (“SGF Receipts”) for the 5-month period July 2015 through November 2015 of Fiscal Year 2016 (stating that total SGF Receipts were \$14.6 million or 0.6% above the revised estimates made by the Consensus Revenue Estimating Group on November 6, 2015) available on the Kansas Legislative Research Department’s web site at http://www.kslegresearch.org/KLRD-web/Publications/SGF/2016_SGF_November_Receipts.pdf. References to web site addresses in this paragraph are for informational purposes only and any hyperlinks are included solely for the reader’s convenience. Such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

FY 2002 Loan to State General Fund. The 2002 Legislature borrowed \$94.6 million from the State Highway Fund for the State General Fund and directed that the funds were to be repaid to the State Highway Fund by June 30, 2003. The 2003 Legislature deferred the repayment of the \$94.6 million loan into four equal annual installments beginning prior to June 30, 2007. In addition, the 2003 Legislature directed that the State Highway Fund transfer to the State General Fund \$30.6 million for activities of the

State Highway Patrol and the 2003 Legislature directed that this transfer also be repaid in four equal annual installments beginning prior to June 30, 2007. The first repayment installment was made in June 2007 and the second in June 2008. The 2009 Legislature delayed the June 2009 repayment to June 2011 and the 2010 Legislature eliminated the language authorizing the June 2011 repayment. At this time, there is no authorization for the final two repayments. The Department's projections included in this Official Statement do not include receiving the final two repayments.

FY 2011-2015 Transfers. The State budgets for Fiscal Years 2011, 2012, 2013, 2014 and 2015 provided for transfers from the State Highway Fund (including allotments to the State General Fund and to certain other departments of the State) in the amounts of \$257,884,668, \$307,586,863, \$110,096,719, \$263,827,970 and \$424,488,331, respectively.

FY 2016 and 2017 Budgeted Transfers. The State budgets for Fiscal Years 2016 and 2017 provide for transfers from the State Highway Fund to the State General Fund and certain other departments of the State in the amounts of \$385,563,180 and \$375,054,464, respectively. The Consensus Revenue Estimating Group, in its meeting held November 6, 2015, revised its State General Fund Revenue estimate for Fiscal Year 2016 to provide, among other things, for an additional transfer by the Department of \$50,000,000 from the State Highway Fund to the State General Fund and certain other departments of the State.

Estimates for Future Fiscal Years. The information contained in the table on page 21 hereof and elsewhere herein relating to the funds estimated to be credited to or transferred to the State Highway Fund for each of the Fiscal Years 2016 through 2020 is subject to change and may be impacted by various factors. A description of the basis of the Department's estimates is set forth under "THE STATE HIGHWAY FUND—Basis of Projections" herein and additional information with respect to the estimates for certain categories is contained in Appendix C. Also see "INVESTMENT CONSIDERATIONS—Departmental Transfers" herein.

REVENUES AND DEBT SERVICE COVERAGE

State Highway Fund Revenues

The Series 2015B 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, 2016 through 2020. 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.

Annual Debt Service

The annual debt service payments for the Series 2015B Bonds and the annual debt service payments on the Outstanding Bonds (described under “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Outstanding Bonds” herein) are set forth in the following table.

Annual Debt Service				
(Columns may not add due to rounding)				
Fiscal Year Ending June 30	Series 2015B Principal	Series 2015B Interest	Debt Service on Outstanding Bonds⁽¹⁾	Total Debt Service
2016		\$ 4,500,000	\$ 182,345,274	\$ 186,845,274
2017		20,000,000	182,312,324	202,312,324
2018		20,000,000	179,338,160	199,338,160
2019		20,000,000	182,474,090	202,474,090
2020		20,000,000	173,604,549	193,604,549
2021		20,000,000	165,206,148	185,206,148
2022		20,000,000	171,917,011	191,917,011
2023		20,000,000	171,037,404	191,037,404
2024		20,000,000	127,445,288	147,445,288
2025		20,000,000	137,330,735	157,330,735
2026	\$ 44,845,000	18,878,875	75,351,750	139,075,625
2027	47,090,000	16,580,500	75,296,500	138,967,000
2028	45,095,000	14,275,875	75,239,000	134,609,875
2029	43,000,000	12,073,500	75,183,500	130,257,000
2030	40,800,000	9,978,500	75,119,125	125,897,625
2031	38,495,000	7,996,125	75,049,875	121,541,000
2032	25,610,000	6,393,500	85,306,199	117,309,699
2033	23,900,000	5,155,750	83,906,968	112,962,718
2034	32,130,000	3,755,000	72,681,102	108,566,102
2035	30,410,000	2,191,500	71,616,074	104,217,574
2036	<u>28,625,000</u>	<u>715,625</u>	<u>70,524,241</u>	<u>99,864,866</u>
Total	<u>\$400,000,000</u>	<u>\$282,494,750</u>	<u>\$2,508,285,317</u>	<u>\$3,190,780,067</u>

⁽¹⁾ Debt service amount for Fiscal Year 2016 includes payment of \$144,013,460 of principal and interest on Outstanding Bonds made on September 1, 2015. Currently Outstanding (i) Series 2004C adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a floating-to-fixed interest rate swap, and liquidity and remarketing fees and basis risk) of approximately 4.481% per annum, and (ii) Series 2014B adjustable interest rate bonds are calculated as having a net effective interest rate (reflecting the effect of a floating-to-fixed interest rate swap and basis risk) of approximately 3.934% per annum. See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Interest Rate Exchange Agreements” herein. Debt service on taxable Series 2010A “Build America Bonds” does not include reductions for expected receipts of Government Interest Subsidy Payments.

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Projected Debt Service Coverage

On the basis of the annual debt service payments on the Outstanding Bonds and the annual debt service payments for the Series 2015B Bonds, as set forth under “Annual Debt Service” above, payable from the State Highway Fund during Fiscal Years 2016 through 2020 and the Department’s estimates of Revenues deposited in or transferred to the State Highway Fund (see “THE STATE HIGHWAY FUND” herein and Appendix C hereto), the following has been prepared and shows the Department’s projected debt service coverage:

PROJECTED DEBT SERVICE COVERAGE

Fiscal Year	Estimated Revenues		Annual Debt Service ⁽³⁾	Projected Debt Service Coverage ⁽³⁾	
	With Federal Reimbursements ⁽¹⁾			With Federal Reimbursements ⁽¹⁾	
	Excluded	Included ⁽²⁾		Excluded	Included ⁽²⁾
2016	\$1,048,709,380	\$1,340,749,380	\$ 186,845,274	5.61x	7.18x
2017	1,057,757,449	1,419,261,449	202,312,324	5.23	7.02
2018	1,076,182,449	1,429,326,449	199,338,160	5.40	7.17
2019	1,097,061,449	1,436,978,449	202,474,090	5.42	7.10
2020	1,119,965,449	1,467,229,449	193,604,549	5.78	7.58

⁽¹⁾ See “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Exclusion From Revenues for Certain Purposes” herein. See also the table on page 21 herein including the column “Intergovernmental Reimbursements-Federal.”

⁽²⁾ In calculating the Federal Reimbursements shown as “Included” and available for annual debt service payments, the Department has not included federal reimbursements for funds expended off the State Highway System, resulting in approximately \$7.0 million annually being subtracted from the amounts shown in the column “Intergovernmental Reimbursements-Federal” in the table on page 21 herein.

⁽³⁾ Annual debt service payments do not include any projected annual debt service payments for Parity Bonds issued subsequent to the issuance of the Series 2015B Bonds.

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

KANSAS DEPARTMENT OF TRANSPORTATION

Purpose of Department

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

Responsibilities of Department

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

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

State Highway System. The first group of roads comprises the State Highway System, including the Interstate system and other “U.S.” and “K” numbered routes. The Department is responsible for administering the 9,461 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 2014, there were over 27.5 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 2014, there were over 15.8 million daily vehicle miles traveled on the city connecting links, including urban interstates, of the State Highway System. This represents approximately 19% of all of the daily vehicle miles driven in Kansas.

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

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

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

“SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B 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 2015B BONDS—Covenant to Maintain and Fund State Highway Fund” herein.

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

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

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

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

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

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

Organization of Department

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

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

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

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

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

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

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

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

Additional Unit

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

Multi-Year Construction Plan

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

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

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

Preservations projects which involve taking care of roads and bridges that currently exist are expected to be selected based exclusively upon engineering data. Modernization projects which improve the existing roadway are expected to be selected based upon engineering data and the local consultation process. Expansion projects which add more lanes or interchanges are expected to be selected based upon a combination of engineering data, the local consultation process, and the economic impact of the project. Highway and bridge projects will be spread across the State. The Act requires that a minimum of \$8 million be spent in each county annually through 2020.

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 21 hereof and Appendix C hereto for detail of revenues and operating transfers-in to the State Highway Fund. The programs under which such funds are provided are subject to federal authorization and appropriation legislation.

Authorizing/Reauthorizing Legislation

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

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

On July 31, 2014 Congress passed and on August 8, 2014, the President signed the Highway and Transportation Funding Act of 2014 (the "2014 Act"), which extended funding of the Highway Trust Fund until May 31, 2015. The 2014 Act primarily funds any funding shortfall with a combination of a \$9.8 billion transfer from the General Fund of the U.S. Treasury and a \$1 billion transfer from the

Leaking Underground Storage Tank Trust Fund. Several short term extensions that required no additional funding have been passed since August 8, 2014. On May 23 Congress passed and on May 29, 2015, the President signed an extension of the 2014 Act. This extension required no additional funding. On July 30, 2015, Congress passed and on July 31, 2015 the President signed a bill that extended funding for three month until October 31, 2015. On October 29, 2015, Congress passed and the President signed a bill that extended the funding authorization for three weeks until November 20. On November 19 Congress approved and on November 20, 2015, the President signed into law a two-week extension from November 20 to December 4, 2015, to allow Congress time to work in conference on a long-term authorization.

Different long-term surface transportation reauthorization proposals from the Senate and House were submitted and voted on as of November 5, 2015. A conference committee was formed and on December 1, 2015, it released a five-year, \$305 billion authorization bill that is expected to be submitted to Congress for consideration prior to the December 4, 2015, expiration of the extension of funding provided by the 2014 Act. If not passed by the Congress and signed by the President by midnight December 4, 2015, another short-term extension extending authorization would be required. **Although interim authorization measures have been enacted by Congress in the past, no assurance can be given that such measures would or could be enacted in the future to maintain the flow of federal highway funding upon termination of either a short-term or multi-year authorization period.**

Highway Trust Fund Shortfall

The Federal Highway Administration (“FHWA”) administers payments to states under the Federal-Aid Highway Program through the HTF. Funded by the collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a dedicated fund with dedicated revenues held in trust for reimbursement of the states’ cost of transportation projects, including highway projects. The HTF presently contains the Highway Account and a Mass Transit Account. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel tax revenues, with the remaining share of such revenues deposited in the Mass Transit Account. Using revenues in the Highway Account of the HTF, the FHWA reimburses states for expenditures related to approved transportation projects. The FHWA distributes these revenues to states based on apportionment and allocation rules prescribed by federal law. With the passage of MAP-21, there were approximately \$18 billion in offsets that are considered non-transportation funding. There were no additional ongoing revenue sources identified to fund the HTF following the expiration of the 2014 Act.

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

Rescissions of Unobligated Funds

In prior surface transportation programs there have been numerous rescissions of federal funding resulting from Congressional action in annual transportation appropriations bills and other federal legislation. These rescissions require states to deduct a set amount of unobligated funds which accumulate because states are not permitted to spend the entire amount of appropriations they receive due to a required obligation limitation.

To date in FFY 2016 the State has not been required to rescind any unobligated balances. However, in the future, there will not be the balances of unobligated funds that Kansas and other states have relied on as a cushion to meet the requirements of the rescissions.

Conclusion

On the Federal level, the problems 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.

INVESTMENT CONSIDERATIONS

The purchase of the Series 2015B Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Series 2015B Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. This discussion of certain risks is not intended to be exhaustive and should be read in conjunction with this entire Official Statement including the Appendices hereto.

Special Obligations

The Series 2015B 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 2015B Bonds may not look to the general or any other fund of the State for payment and the Series 2015B Bonds will not constitute 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 2015B BONDS" herein.

General Factors Affecting Revenues

See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Revenues" and "THE STATE HIGHWAY FUND" herein for descriptions of the components of Revenues required to be credited or transferred to the State Highway Fund. Certain of the primary components of Revenues include Motor Fuels Taxes, Sales and Compensating Use Taxes and Intergovernmental Reimbursements, which collectively accounted for approximately 86% of the total Revenues credited to the State Highway Fund in Fiscal Year 2015.

There are various factors beyond the control of the Department that could have a negative impact upon the amount of collections of Motor Fuels Taxes, which accounted for approximately 20% of the total Revenues credited to the State Highway Fund in Fiscal Year 2015 and upon the amount of collections of Sales and Compensating Use Taxes, which accounted for approximately 35% of the total Revenues credited to the State Highway Fund in Fiscal Year 2015. These factors include various events affecting vehicle travel, the availability and price of motor fuel, events affecting consumer purchases of goods and services subject to taxation and local and national economic conditions generally. In addition, the Kansas Legislature has the ability to amend the current statutory provisions affecting one or more of such components of Revenues. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS—Legislative Changes Affecting Revenues" herein.

There are various factors beyond the control of the Department that could have a negative impact upon the amount of collections of Intergovernmental Reimbursements, which accounted for approximately 31% of the total Revenues credited to the State Highway Fund in Fiscal Year 2015. 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. See "FEDERAL TRANSPORTATION LEGISLATION" herein.

Limitations on Enforcement

Enforcement of remedies under the 1992 Resolution may be limited or restricted by federal and State laws relating to bankruptcy, fraudulent conveyances, and rights of creditors and by application of general principles of equity applicable to the availability of specific performance or other remedies, and may be substantially delayed in the event of litigation or statutory remedy procedures. The various legal opinions to be delivered concurrently with the delivery of the Series 2015B Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies, and by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors.

Financial Information

There can be no assurance that the financial results achieved by the Department in the future will be similar to historical results. Such future results will vary from historical results and actual variations may be material. Therefore, the historical operating results of the Department cannot be taken as a representation that the Department will be able to generate sufficient revenues in the future to make payments under the 1992 Resolution sufficient for the full and timely payment of the principal of, premium, if any, and interest on the Bonds, including the Series 2015B Bonds.

Departmental Transfers

As described under "CERTAIN TRANSFERS FROM STATE HIGHWAY FUND TO STATE GENERAL FUND" herein, the State budgets for the past several Fiscal Years and for the current Fiscal Year have provided for transfers from the State Highway Fund (such transfers including allotments to the State General Fund and to certain other departments of the State). Although these transfers have been and will be made only after the required transfers to the Debt Service Fund, the Department can provide no assurances regarding the amounts of such transfers during the current Fiscal Year or in any future Fiscal Year or the effect of any such transfers on ratings of or liquidity for Bonds issued under the 1992 Resolution which could adversely affect market price for and marketability of such Bonds, including the Series 2015B Bonds.

Federal Tax Status of the Series 2015B Bonds

The Internal Revenue Code of 1986, as amended, imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Series 2015B Bonds to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that the Department file an information report with the Internal Revenue Service and a requirement that all rebate payments, if any, are timely paid. The Department has covenanted in certain of the documents referred to herein that it will comply with such requirements. Future failure by the Department to comply with any of these covenants may result in the interest on the Series 2015B Bonds being taxable, retroactively to the date of issuance. See "APPLICATION OF PROCEEDS OF THE SERIES 2015B BONDS" and "TAX MATTERS RELATING TO THE SERIES 2015B BONDS" herein.

Ratings

There is no assurance that the ratings assigned to the Series 2015B Bonds will not be lowered or withdrawn at any time, the effect of which could adversely affect market price for and marketability of the Series 2015B Bonds. See the information contained herein under the caption “RATINGS” herein. Bond rating organizations have come under scrutiny by legislators, regulators and investors. Future changes in bond rating criteria or procedures that result in different ratings of the Series 2015B Bonds could have a material adverse effect on the value and marketability of the Series 2015B Bonds.

Secondary Market

There is no guarantee that a secondary trading market will develop for the Series 2015B Bonds. Consequently, prospective bond purchasers should be prepared to hold their Series 2015B Bonds to maturity or prior redemption. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend but are not obligated to make a market in the Series 2015B Bonds.

Book-Entry

Persons who purchase Series 2015B Bonds through broker dealers become creditors of the broker dealer with respect to the Series 2015B Bonds. Records of the investors’ holdings are maintained only by the broker dealer and the investor. In the event of the insolvency of the broker dealer, the investor would be required to look to the broker dealer’s estate, and to any insurance maintained by the broker dealer, to make good the investor’s loss. None of the Department, the Paying Agent or the Underwriters is responsible for failures to act by, or insolvencies of, the Securities Depository or any broker dealer.

Forward-Looking Statements

This Official Statement, including the appendices hereto, contains statements that are forward-looking and involve a number of risks and uncertainties. The words or phrases “believes,” “plans,” “anticipates,” “expects,” “intends,” “estimates,” “forecasts,” “should,” “projection,” “could,” “may,” “continues,” “might,” “potential,” “scheduled” or similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. Any other statement that expresses the possibility of future activity, intent or result also is a forward-looking statement.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed in or implied by the forward-looking statements. Among these risks and uncertainties are: general economic, demographic, competitive, or business conditions; investment performance; changes in laws or regulations, and other factors including factors that are not anticipated by the Department. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements. Prospective investors should not place undue reliance on the forward-looking statements, which speak only as of the date hereof. The Department does not intend to update or revise any forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied by such statements will not be realized.

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 2015B Bonds or in any way contest or affect the validity of the Series 2015B Bonds, or which concerns the proceedings of the Secretary taken in connection with the issuance of the Series 2015B Bonds, the adoption of the

Thirty-Second 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, 2015, included in this Official Statement as Appendix B, have been audited by CliftonLarsonAllen LLP, independent auditors, as set forth in their report in Appendix B. The auditors have not expressed and will not express any opinion as to any information contained in this Official Statement other than that contained in Appendix B. The inclusion of the financial statements and report in Appendix B does not imply that there has been no change in the financial position of the Department since the date thereof.

LEGAL INVESTMENT

The Series 2015B 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 2015B Bonds are securities which may properly and legally be deposited with and received by any State of Kansas or Kansas municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds or other obligations of the State is now or may be hereafter authorized by law.

REMEDIES OF BONDOWNERS

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

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

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

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

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

TAX MATTERS RELATING TO THE SERIES 2015B BONDS

The following is a summary of the material federal and State of Kansas income tax consequences of holding and disposing of the Series 2015B 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 2015B 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 2015B Bonds in the secondary market. Prospective investors are advised to consult their own tax advisors regarding federal, state, local and other tax considerations of holding and disposing of the Series 2015B Bonds.

Opinion of Bond Counsel

In the opinion of Gilmore & Bell, P.C., Bond Counsel, under the law existing as of the issue date of the Series 2015B Bonds:

Federal Tax Exemption. The interest on the Series 2015B Bonds is excludable from gross income for federal income tax purposes.

Alternative Minimum Tax. Interest on the Series 2015B Bonds is not an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, but is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations.

Bank Qualification. The Series 2015B Bonds have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

State Tax Exemption. The Series 2015B Bonds and all income or interest therefrom are exempt from all Kansas taxes.

Bond counsel’s opinions are provided as of the date of the original issue of the Series 2015B Bonds, subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2015B Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the inclusion of interest on the Series 2015B Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2015B Bonds. Bond Counsel is expressing no opinion regarding other federal, state or local tax consequences arising with respect to the Series 2015B Bonds but has reviewed the discussion under the heading “TAX MATTERS RELATING TO THE SERIES 2015B BONDS.”

Other Tax Consequences

Original Issue Premium. If a Series 2015B Bond is issued at a price that exceeds the stated redemption price at maturity of the Series 2015B Bond, the excess of the purchase price over the stated redemption price at maturity constitutes “premium” on that Series 2015B Bond. Under Section 171 of the Code, the purchaser of that Series 2015B Bond must amortize the premium over the term of the Series 2015B Bond using constant yield principles, based on the purchaser’s yield to maturity. As premium is amortized, the owner’s basis in the Series 2015B Bond and the amount of tax-exempt interest received will be reduced by the amount of amortizable premium properly allocable to the owner. This will result in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes on sale or disposition of the Series 2015B Bond prior to its maturity. Even though the owner’s basis is reduced, no federal income tax deduction is allowed. Prospective investors should consult their own tax advisors concerning the calculation and accrual of bond premium.

Sale, Exchange or Retirement of Series 2015B Bonds. Upon the sale, exchange or retirement (including redemption) of a Series 2015B Bond, an owner of the Series 2015B 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 2015B Bond (other than in respect of accrued and unpaid interest) and such owner’s adjusted tax basis in the Bond. To the extent a Series 2015B Bond is held as a capital asset, such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the Series 2015B Bond has been held for more than 12 months at the time of sale, exchange or retirement.

Reporting Requirements. In general, information reporting requirements will apply to certain payments of principal, interest and premium paid on the Series 2015B Bonds, and to the proceeds paid on the sale of the Series 2015B Bonds, other than certain exempt recipients (such as corporations and foreign entities). A backup withholding tax will apply to such payments if the owner fails to provide a taxpayer identification number or certification of foreign or other exempt status or fails to report in full dividend and interest income. The amount of any backup withholding from a payment to an owner will be allowed as a credit against the owner’s federal income tax liability.

Collateral Federal Income Tax Consequences. Prospective purchasers of the Series 2015B Bonds should be aware that ownership of the Series 2015B Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and

casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with “excess net passive income,” foreign corporations subject to the branch profits tax, life insurance companies, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series 2015B Bonds. Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of Series 2015B 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 2015B Bonds, including the possible application of state, local, foreign and other tax laws.

CERTAIN LEGAL MATTERS

Legal matters incident to the issuance of the Series 2015B Bonds and with regard to the tax-exempt status of the interest on the Series 2015B Bonds are subject to the approving legal opinion of Gilmore & Bell, P.C., Bond Counsel. See “TAX MATTERS RELATING TO THE SERIES 2015B BONDS” herein. The opinion of Bond Counsel to be delivered by Gilmore & Bell, P.C., is expected to be delivered in substantially the form included as Appendix F to this Official Statement. Certain legal matters will be passed upon for the Secretary and the Department by Jonathan P. Small, Chartered, Topeka, Kansas, as Special Counsel to the Department, and by Kutak Rock LLP, Special Disclosure Counsel, and by Bryan Cave LLP, Counsel to the Underwriters.

Bond Counsel has participated in the preparation, and has reviewed those portions, of this Official Statement pertaining to the Series 2015B Bonds, the tax status of interest on the Series 2015B Bonds, the provisions of the 1992 Resolution, the Thirty-Second Supplemental Resolution and the matters of law contained under “THE SERIES 2015B BONDS,” “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS,” “LEGAL INVESTMENT,” “TAX MATTERS RELATING TO THE SERIES 2015B BONDS” and “UNDERTAKING TO PROVIDE ONGOING DISCLOSURE” and in “Appendix D—Summary of 1992 Resolution,” “Appendix E—Definitions of Certain Terms” and “Appendix F—Proposed Form of Opinion of Bond Counsel.” Bond Counsel has not been retained to pass upon, and will not express any opinion upon, any other information contained in this Official Statement.

On August 11, 2014, the State consented to the entry by the Securities and Exchange Commission (“SEC”) of a cease-and-desist order (the “Consent Order”) in connection with disclosure about the State’s unfunded pension liabilities in offering documents for certain 2009 and 2010 bond issues of the Kansas Development Finance Authority. The Consent Order settled claims by the SEC, without admitting or denying the SEC’s findings, that such offering documents from August 2009 through July 2010 failed to disclose “the existence of the significant unfunded liability” in the State’s retirement system “or the effect of such unfunded liability on the risk of non-appropriation of debt service payments by the State Legislature,” and that such omissions rendered the State’s offering documents materially misleading. In the Consent Order, the State agreed to cease and desist from committing or causing any future violations of Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933. Following the entry of the Consent Order, the State revised its written disclosure policies and procedures effective December 1, 2014. The Consent Order, available at <http://www.sec.gov/litigation/admin/2014/33-9629.pdf>, does not relate to any Bonds issued by the Secretary on behalf of the Department, which Bonds 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 and are not payable from or secured by any amounts held in (or appropriated from) the State General Fund or any other fund of the State.

RATINGS

Moody's Investors Service ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and Fitch, Inc. ("Fitch") have assigned ratings to the Series 2015B Bonds of "Aa2," "AAA" and "AA+" respectively.

Such ratings reflect only the views of such organizations at the time such ratings are given, and the Department makes no representation as to the appropriateness of such ratings. An explanation of the significance of such ratings may be obtained only from such rating agencies. No such rating constitutes a recommendation to buy, sell, or hold any bonds, including the Series 2015B 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 2015B 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 2015B Bonds any proposed revision or withdrawal of a rating of the Series 2015B 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 2015B Bonds.

UNDERWRITING

The Series 2015B Bonds are to be purchased by the Underwriters identified on the cover page hereof for whom Morgan Stanley & Co. LLC is acting as Representative (the "Underwriters"), pursuant to a Bond Purchase Agreement with the Secretary (the "Bond Purchase Agreement") at a price of \$488,797,602.98 (representing the par amount of the Series 2015B Bonds less Underwriters' discount of \$475,606.72 and plus original issue premium of \$89,273,209.70). The Bond Purchase Agreement provides that the Underwriters will not be obligated to purchase any Series 2015B Bonds if all Series 2015B Bonds are not available for purchase. The initial public offering prices or yields set forth on the inside cover page hereof may be changed under certain conditions. The Underwriters may offer and sell the Series 2015B Bonds to certain dealers (including dealers depositing Series 2015B Bonds into investment trusts) and others at prices lower or yields higher than the public offering prices or yields stated on the inside cover page hereof. The initial public offering prices or yields may be changed from time to time by the Underwriters.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Series 2015B Bonds, has entered into a retail distribution arrangement with its affiliate Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2015B Bonds.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 2015B Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2015B Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2015B Bonds that such firm sells.

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The Underwriters and their affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Department or the State, for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Underwriters and their affiliates purchase, sell or hold a broad array of investments and actively traded securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers and such investment and trading activities may involve or relate to assets, securities and/or instruments of the Department or the State (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the Department or the State. The Underwriters and their affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

FINANCIAL ADVISOR

Public Financial Management, Inc. is serving as financial advisor to the Department with respect to the issuance of the Series 2015B 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 2015B Bonds and provided other financial advice regarding the Department's financial plan. Public Financial Management, Inc., is a financial and investment advisory and consulting organization and is not engaged in the underwriting, marketing or trading of municipal securities or other negotiable instruments.

UNDERTAKING TO PROVIDE ONGOING DISCLOSURE

Pursuant to the terms contained in the Thirty-Second Supplemental Resolution, the Secretary will execute and deliver a Continuing Disclosure Certificate for the benefit of Bondowners and Beneficial Owners of the Series 2015B Bonds under which the Secretary will agree to provide certain periodic information and notices of material events to the Municipal Securities Rulemaking Board (the "MSRB") pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule"). The form of the Continuing Disclosure Certificate is attached hereto as Appendix G.

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

During the past five years the Secretary has failed to make timely filings of event notices relating to rating changes with respect to certain series of Bonds. In particular, event notices were not timely filed on EMMA in connection with: (i) certain ratings changes on various series of Bonds resulting from changes in the ratings of the applicable liquidity providers and bond insurers; and (ii) rating agency clerical errors. Specific information about the rating changes described in clause (i) was filed on EMMA on July 8, 2014.

KDOT is the obligated person for continuing disclosure purposes for the Kansas Development Finance Authority Kansas Transportation Revolving Fund Revenue Bonds, Series 2005-TR, Series 2006-TR and Series 2009-TR. The financial statements of KDOT for fiscal year 2011 were filed on February 1, 2012, after the filing deadline of December 27, 2011. A notice of the failure to timely file

such financial statements was filed on December 28, 2011. In addition, the operating data for fiscal year 2013 was timely filed on December 17, 2013, but omitted certain operating data relating to investment agreements. This information was filed on EMMA on July 3, 2014.

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 Thirty-Second Supplemental Resolution summarized herein and information with respect to the State, the Secretary and the Department may be obtained from the Office of the Secretary of the Department of Transportation, in Topeka, Kansas, (785) 296-3545. This information can be made available in alternative accessible formats upon request. To obtain an alternative format, contact the Kansas Department of Transportation, Office of Transportation Information, Dwight D Eisenhower State Office Building, 700 S.W. Harrison Street, Topeka, Kansas 66603-3745 or phone (785) 296-3585 (Voice)/(TTY). Prior to the delivery of the Series 2015B Bonds, information with respect to the State and the Department may be obtained from the above and also upon request, from the Financial Advisor by contacting Public Financial Management, Inc., at 801 Grand Avenue, Suite 3300, Des Moines, Iowa 50309, telephone: (515) 724-5724.

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

This Official Statement is submitted in connection with the issuance of the Series 2015B 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 Thirty-Second 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 2015B Bonds.

STATE OF KANSAS

By /s/ Michael S. King

Secretary of Transportation

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APPENDIX A

Selected Information on the State of Kansas

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

Much of the historical economic information included within this appendix was provided by the U.S. Department of Commerce. Also, information contained in the SGF Receipt Estimates for FY 2016 and 2017 memo dated November 10, 2015, addressed to the Governor and Legislative Coordinating Council is used throughout various sections of this appendix. Kansas Tax Facts, 2014 Supplement to the Eighth Edition, December 2014 published by Kansas Legislative Research Department, is the source of tax information. Other sources used are noted in the text, charts and graphs.

Overview

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

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

Population

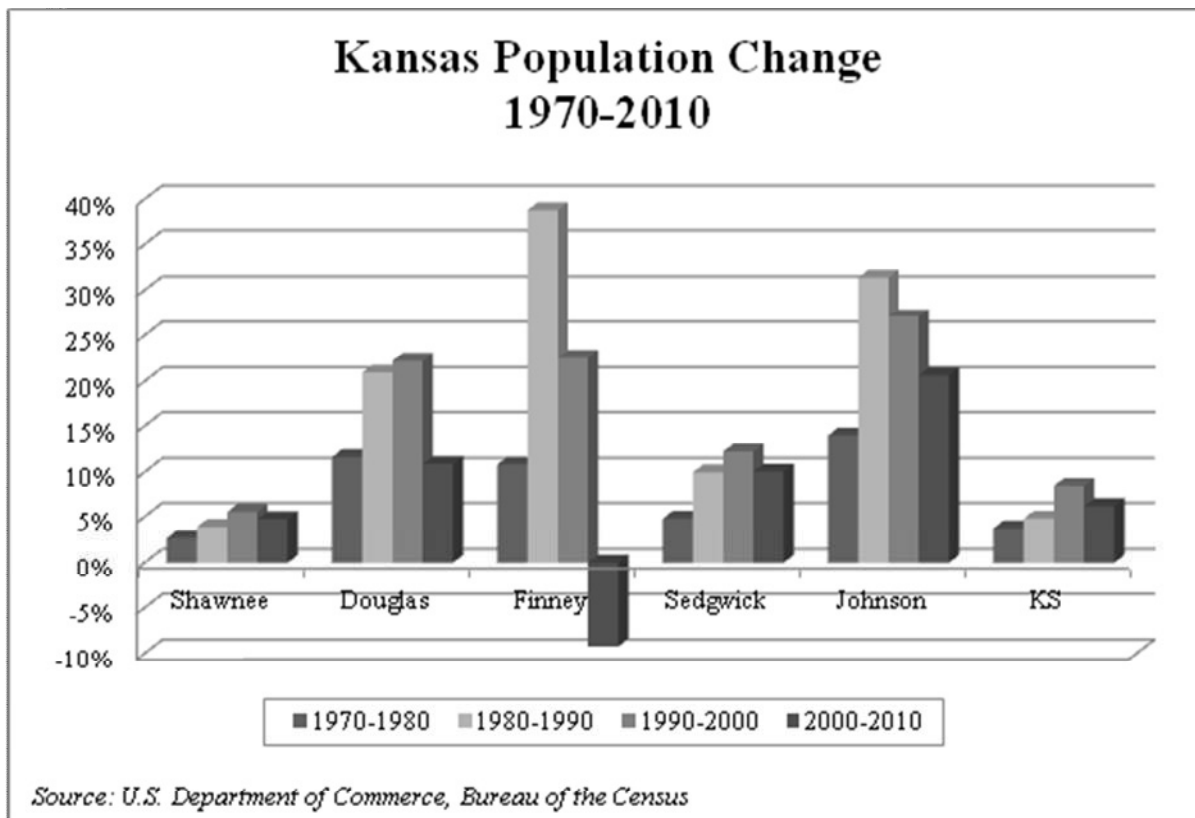
Trends. According to data gathered by the 2010 U.S. Census Bureau the state's resident population increased from 2,688,418 in 2000 to 2,853,118 in 2010, an increase of 6.1 percent. Although population growth in Kansas was about two-thirds the nationwide increase of 9.7 percent, it approximated the growth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

POPULATION (000)						
Year	Kansas Population	% Change	Region Population*	% Change	United States Population	% Change
1950	1,905		15,606		151,326	
1960	2,179	14.4	16,784	7.5	179,323	18.5
1970	2,249	3.2	18,035	7.5	203,302	13.4
1980	2,364	5.1	19,582	8.6	226,546	11.4
1990	2,477	4.8	20,243	3.4	248,710	9.8
2000	2,688	8.5	22,253	9.9	281,422	13.2
2010	2,853	6.1	23,860	7.2	308,746	9.7

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

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

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



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

The Kansas Economy

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

Gross State Product (Millions of Nominal Dollars)

	Kansas		Plains*		United States	
	<u>Level (\$)</u>	<u>Percent Change</u>	<u>Level (\$)</u>	<u>Percent Change</u>	<u>Level (\$)</u>	<u>Percent Change</u>
2002	92,953	3.0	706,178	3.8	10,916,911	3.4
2003	97,651	5.1	746,668	5.7	11,446,549	4.9
2004	101,343	3.8	793,359	6.3	12,206,995	6.6
2005	106,864	5.4	831,629	4.8	13,022,458	6.7
2006	113,738	6.4	864,955	4.0	13,781,347	5.8
2007	122,349	7.6	907,581	4.9	14,399,635	4.5
2008	126,152	3.1	933,376	2.8	14,635,348	1.6
2009	122,029	(3.3)	925,375	(0.9)	14,329,566	(2.1)
2010	127,947	4.8	965,357	4.3	14,869,544	3.8
2011	136,613	6.8	1,012,181	4.9	15,416,873	3.7
2012	140,441	2.8	1,057,797	4.5	16,060,678	4.2
2013	142,449	1.4	1,098,306	3.8	16,665,215	3.8
2014	147,075	3.2	1,131,518	3.0	17,316,314	3.9

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis

* Includes Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

Most major economic variables and indicators have been adjusted downward since the Consensus Group last convened in April. The estimated rate of expansion in the national and state economies has been reduced. Real US Gross Domestic Product (GDP) is now expected to grow by 2.4 percent in 2015, down from the previous forecast of 3.0 percent growth; while real Kansas GDP growth for 2015 has been reduced to 1.2 percent from the previous estimate of 2.3 percent. At both the state and national levels, business investment appears to be slowing. Increasingly troubling international news, including uncertainty over the Chinese economic situation and rising political tensions in Europe over the refugee crisis, has done little to encourage consumer or business confidence.

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

Personal Income
(Thousands of Dollars)

	Kansas		Plains*		United States	
	<u>Level (\$)</u>	<u>Percent Change</u>	<u>Level (\$)</u>	<u>Percent Change</u>	<u>Level (\$)</u>	<u>Percent Change</u>
2002	81,164,906	0.9	595,392,813	2.2	9,146,428,000	1.8
2003	83,867,302	3.3	622,177,588	4.5	9,479,763,000	3.6
2004	87,440,538	4.3	656,005,682	5.4	10,043,231,000	5.9
2005	91,794,441	5.0	679,810,446	3.6	10,605,595,000	5.6
2006	99,435,490	8.3	719,839,535	5.9	11,376,405,000	7.3
2007	105,709,576	6.3	765,476,886	6.3	11,990,104,000	5.4
2008	114,034,795	7.9	812,602,498	6.2	12,429,234,000	3.7
2009	109,820,740	(3.7)	791,975,666	(2.5)	12,080,223,000	(2.8)
2010	110,956,678	1.0	810,969,337	2.4	12,417,659,000	2.8
2011	120,801,179	8.9	871,689,097	7.5	13,189,935,000	6.2
2012	125,167,639	3.6	918,738,017	5.4	13,873,161,000	5.2
2013	128,540,565	2.7	935,597,598	1.8	14,151,427,000	2.0
2014	132,266,632	2.9	959,336,444	2.5	14,708,582,165	3.9

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis

* Includes Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

Kansas Personal Income (KPI), which has been growing more slowly than US Personal Income (USPI) since the first quarter of 2014, is expected to continue to do so throughout the forecast period. The previous KPI growth estimate of 3.4 percent for 2015 has now been reduced to 2.2 percent; and estimated 2016 growth in this key indicator has been reduced from 4.4 to 3.9 percent. The latest national estimates call for USPI growth of 4.3 percent in 2015 and 4.8 percent in 2016 (down from the previous forecast of 4.5 and 5.1 percent, respectively).

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

**Total Non-farm Employment
(Thousands of Employees)**

	Kansas		Plains*		United States	
	<u>Total</u>	<u>Percent Change</u>	<u>Total</u>	<u>Percent Change</u>	<u>Total</u>	<u>Percent Change</u>
2002	1,336	(0.9)	9,766	(1.0)	130,628	(1.1)
2003	1,313	(1.7)	9,720	(0.5)	130,318	(0.2)
2004	1,325	0.9	9,802	0.8	131,749	1.1
2005	1,333	0.6	9,943	1.4	134,005	1.7
2006	1,354	1.6	10,089	1.5	136,398	1.8
2007	1,380	1.9	10,195	1.1	137,936	1.1
2008	1,391	0.8	10,219	0.2	137,170	(0.6)
2009	1,343	(3.4)	9,886	(3.3)	131,233	(4.3)
2010	1,328	(1.1)	9,821	(0.7)	130,275	(0.7)
2011	1,338	0.7	9,936	1.2	131,842	1.2
2012	1,356	1.4	10,092	1.6	134,104	1.7
2013	1,372	1.2	10,230	1.4	136,393	1.7
2014	1,393	1.5	10,366	1.3	139,042	1.9

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

* Includes Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, and South Dakota.

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Employment levels for each Kansas industry are presented in the following table.

KANSAS EMPLOYMENT

The most recent monthly data from the Kansas Department of Labor show that from September to September, the Kansas labor force increased by about 10,200 jobs, or 0.9 percent. That growth is below the 1.5 percent figure that had been previously expected; and also less than the comparable 2.1 percent growth that occurred nationally over the same 12-month period. The overall state labor force appears to be shrinking, and there is some indication that 55-64 year olds in particular are leaving the labor force altogether. Kansas also has a higher percentage of its total work force holding more than one job than does the nation as a whole. Specific to the Wichita area, neither total employment nor manufacturing employment has returned to pre-Great Recession levels. The Kansas unemployment rate of 4.3 percent in 2015 and 4.1 percent in 2016 is expected to remain well below the national unemployment rate forecast (5.0 percent and 4.8 percent, respectively).

Unemployment Rate

	<u>Kansas</u>	<u>Plains</u>	<u>United States</u>
2002	5.1	4.5	5.8
2003	5.6	4.8	6.0
2004	5.5	4.9	5.5
2005	5.1	4.5	5.1
2006	4.4	4.1	4.6
2007	4.1	4.2	4.6
2008	4.4	4.7	5.8
2009	7.1	7.5	9.3
2010	7.1	7.3	9.6
2011	6.5	6.6	8.9
2012	5.7	5.6	8.1
2013	5.3	5.2	7.4
2014	4.5	4.6	6.2

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

Oil and Gas For both oil and gas, record levels of storage and growing concerns over an increasingly sluggish global economy prompted major downward revisions in the estimated prices for severance tax purposes of both commodities. The forecasted price per taxable barrel of Kansas crude has now been reduced to \$35 for FY 2016 and to \$45 for FY 2017. For perspective, the final actual price as recently as FY 2014 was \$93.79 per barrel. Oil production, which had been increasing in recent years, is now expected to decline throughout the balance of the forecast period. The price of natural gas is expected to average \$2.05 per mcf for FY 2016 before increasing to \$2.50 per mcf for FY 2017, based on an industry source's analysis of futures markets.

Agriculture. Although this sector of the Kansas economy does not now employ many people, the importance of agriculture to the State and national economies is evidenced by Kansas' ranking among all states in the production of crops and livestock. Following is a discussion of data pertaining to Kansas agriculture production and how it compares to other states. The data cited in this section is taken from the 2013 edition of Kansas Farm Facts published by the U.S. Department of Agriculture which contains data for 2012. Kansas Farm Facts is published annually in July.

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

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

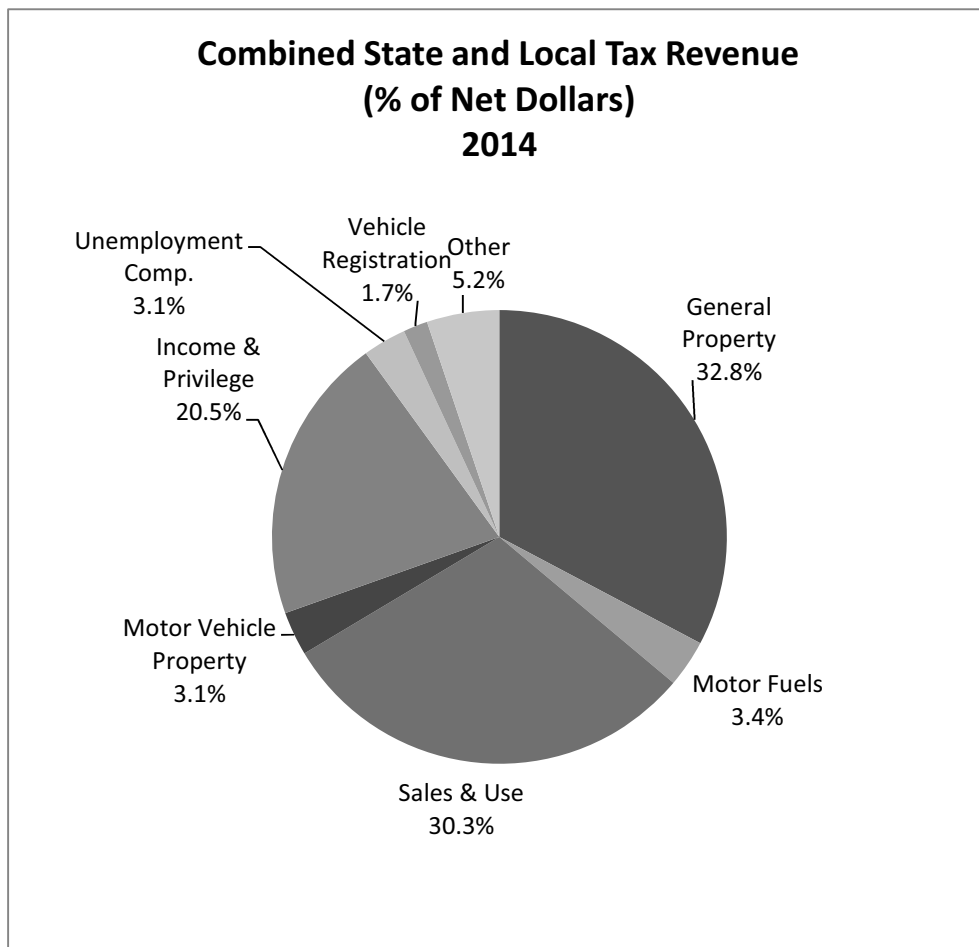
Kansas ranks third in beef production, with 19 percent of all beef originating from Kansas beef processing facilities. The state ranks third in cattle and calves on farms and third in cattle and calves on grain feed and tenth in hogs on farms.

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

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Taxes

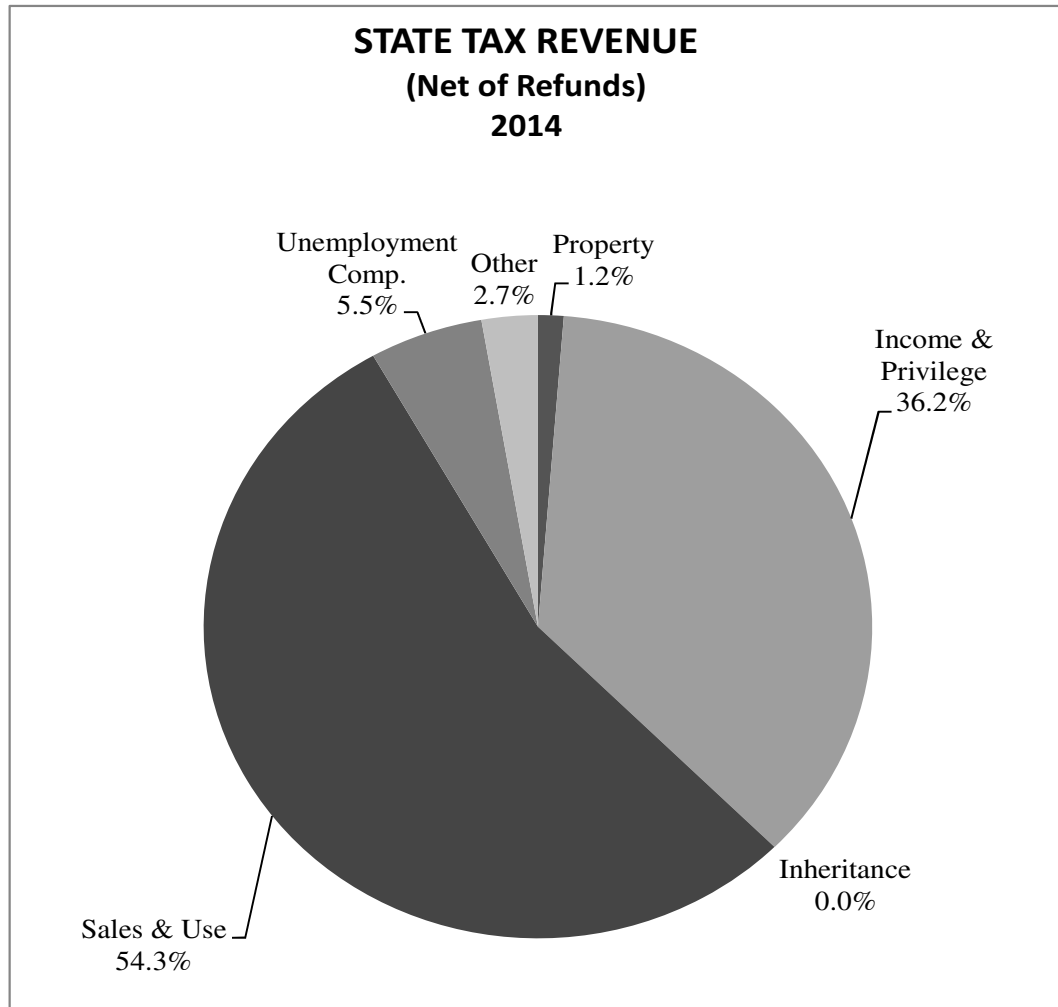
Kansas Tax Facts, 2014 Supplement to the Eighth Edition, December 2014 published by Kansas Legislative Research Department provides the most current information available on taxes collected in Kansas. This publication is the source for data used in this section. Combined state and local tax revenues from all sources for fiscal year 2014 are illustrated in the accompanying pie chart. Motor fuel taxes accounted for approximately 3.4 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 over 30 percent in 2014. The spread of local sales taxes has contributed significantly to the growth of sales tax revenue since 1970.

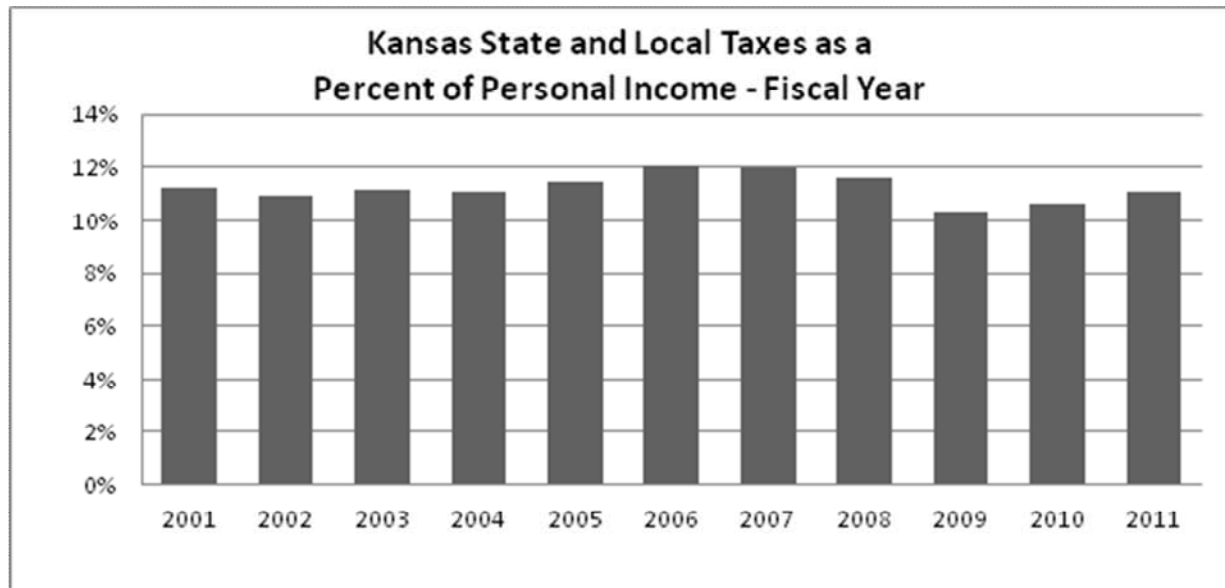
General property tax is still the most important single revenue producer; however, its proportion of total state and local taxes has steadily declined over the decades. It was 82 percent in Fiscal Year 1930, 56 percent in Fiscal Year 1960, and 32.8 percent in Fiscal Year 2014. The trend has reversed itself recently, since in FY 1998 the general property tax was only about 27 percent of the tax burden.

The following pie chart illustrates the revenue for Fiscal Year 2014 collected by state sources only. The largest two categories are sales and use tax and income & privilege tax, which constitute 54% and 36%, respectively.



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



Source: Kansas Legislative Research Dept.

The table below shows state tax revenue for the Fiscal Years 2009– 2014.

STATE TAX REVENUE NET OF REFUNDS

(In Millions)

	2009	2010	2011	2012	2013	2014
Property	85	81	76	79	84	92
Income & Privilege	2,998	2,669	2,953	3,244	3,360	2,685
Inheritance	23	8	0	1	(0)	0
Sales & Use	3,232	3,124	3,585	3,811	3,862	4,026
Other	132	172	162	169	177	202
Unemployment Comp.	171	306	399	434	425	407
Total	6,641	6,360	7,176	7,738	7,909	7,411

Source: Kansas Legislative Research Dept.

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APPENDIX B

**Basic Financial Statements of the
Kansas Department of Transportation
as of June 30, 2015,
and for the Year Then Ended
and the Report of the Independent Auditors**

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Kansas Department of Transportation
Basic Financial Statements
For the Fiscal Year Ended June 30, 2015

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INDEPENDENT AUDITORS' REPORT

Secretary of Transportation
Kansas Department of Transportation
Topeka, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kansas Department of Transportation (the Department), which is a major fund, special revenue fund, and enterprise funds of the State of Kansas, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Emphasis of a Matter

During fiscal year ended June 30, 2015, the Department adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the related GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, the Department reported a restatement for the change in accounting principle (see Note 12.) Our auditors' opinion was not modified with respect to the restatement.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Kansas Department of Transportation as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, infrastructure assets reported using the modified approach, and schedule of funding progress for other post employment benefits and pension plan on pages 4-14, 55-57, and 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2015, on our consideration of Kansas Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Kansas Department of Transportation's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Broomfield, Colorado
September 15, 2015

**Kansas Department of Transportation
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
(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, 2015, the Department's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$10,708,682. Of this amount, \$378,092 is unrestricted and available to use to meet future obligations to citizens and creditors.
- The Department's net position decreased by \$121,289 during the year.
- At the end of the fiscal year, the combined ending fund balances of the Department's governmental funds were \$419,258.
- The ending fund balances of governmental funds increased by \$190,056.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The basic financial statements consist of the following:

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

Government-wide financial statements

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

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

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

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

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

Fund financial statements

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

The Department has three kinds of funds:

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

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

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

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

Notes to financial statements

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

Required supplementary information

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

Other information

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

CONDENSED GOVERNMENT-WIDE FINANCIAL STATEMENTS AND ANALYSIS

Net Position

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

Summary of Net Position						
	Governmental Activities		Business-type Activities		Total	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Current and other assets	\$ 699,903	\$ 702,427	\$ 109,880	\$ 115,640	\$ 809,783	\$ 818,067
Capital assets	12,184,313	11,908,357	0	0	12,184,313	11,908,357
Total assets	12,884,216	12,610,784	109,880	115,640	12,994,096	12,726,424
Deferred outflows of resources						
Pension contributions	10,469	0	0	0	10,469	0
Unamortized loss	13,269	16,761	0	0	13,269	16,761
Derivative instrument - interest rate swap	12,072	23,024	0	0	12,072	23,024
Total deferred outflows of resources	35,810	39,785	0	0	35,810	39,785
Less liabilities:						
Other liabilities	585,283	616,902	7,488	7,885	592,771	624,787
Long-term liabilities	1,657,275	1,264,361	41,358	47,090	1,698,633	1,311,451
Total liabilities	2,242,558	1,881,263	48,846	54,975	2,291,404	1,936,238
Deferred inflow of resources						
Experience gain	3,542	0	0	0	3,542	0
Investment earnings more than expected	17,801	0	0	0	17,801	0
Proportionate share decrease (service life minus 1 yr)	8,477	0	0	0	8,477	0
Total deferred inflow of resources	29,820	0	0	0	29,820	0
Net position:						
Net investments in capital assets	10,292,208	10,185,136	0	0	10,292,208	10,185,136
Restricted	0	0	38,382	38,207	38,382	38,207
Unrestricted	355,440	584,170	22,652	22,458	378,092	606,628
Total net position	\$ 10,647,648	\$ 10,769,306	\$ 61,034	\$ 60,665	\$ 10,708,682	\$ 10,829,971

* - FY 2015 restated for implementation of GASB Statement No. 68. GASB Statement No. 68 was not retroactively implemented.

Management's Discussion and Analysis

As noted earlier, over time, total net position may serve as a useful indicator of a government's financial position. At the end of the year, total net position was \$10,708,682, a decrease of \$121,289.

The vast majority of the Department's net position reflects its investment in capital assets such as land, buildings, equipment, and infrastructure, less any debt still outstanding used to acquire those assets. The Department uses these assets to provide services to the traveling public and they are not available for future spending. Although this investment is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from current sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The increase in net position investment in capital assets, reflects the activities of constructing new highways. Unrestricted net position decreased due to the implementation of GASB Statement No. 68 related to pension plans in the current year. GASB Statement No. 68 was not retroactively implemented.

Changes in Net Position

The following table summarizes and compares governmental and business-type activities for the years ended June 30, 2015 and 2014.

	Changes in Net Position					
	Governmental Activities		Business-type Activities		Total	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Revenues						
Program revenues						
Capital grants	\$ 208,377	\$ 275,729	\$ 0	\$ 0	\$ 208,377	\$ 275,729
Operating grants	191,169	243,236	0	0	191,169	243,236
Vehicle registrations and drivers' licenses	218,788	211,644	0	0	218,788	211,644
Charges for service & other	6,693	6,769	1,652	2,064	8,345	8,833
General revenues						
Motor fuels tax	288,016	294,285	0	0	288,016	294,285
Sales and use taxes	513,735	500,808	0	0	513,735	500,808
Investment earnings	156	(6,005)	769	743	925	(5,262)
Unrestricted appropriations from other state funds	2,196	2,595	0	0	2,196	2,595
Total revenue	<u>1,429,130</u>	<u>1,529,061</u>	<u>2,421</u>	<u>2,807</u>	<u>1,431,551</u>	<u>1,531,868</u>
Expenses						
Maintenance and preservation	649,739	648,197	0	0	649,739	648,197
Communications system	9,155	7,158	69	217	9,224	7,375
Local support	151,971	139,735	0	0	151,971	139,735
General government	490,375	309,922	0	0	490,375	309,922
Rail, air and public transportation	16,556	19,451	0	0	16,556	19,451
Interest	63,328	61,036	0	0	63,328	61,036
Transportation revolving fund	0	0	1,983	2,666	1,983	2,666
Total expenses	<u>1,381,124</u>	<u>1,185,499</u>	<u>2,052</u>	<u>2,883</u>	<u>1,383,176</u>	<u>1,188,382</u>
Increase in net position before transfers	48,006	343,562	369	(76)	48,375	343,486
Transfers	0	0	0	0	0	0
Change in net position	48,006	343,562	369	(76)	48,375	343,486
Net position - beginning	10,769,306	10,425,744	60,665	60,741	10,829,971	10,486,485
Change in accounting principle	(169,664)	0	0	0	(169,664)	0
Net position - beginning of year, as restated	10,599,642	10,425,744	60,665	60,741	10,660,307	10,486,485
Net position - ending	<u>\$ 10,647,648</u>	<u>\$ 10,769,306</u>	<u>\$ 61,034</u>	<u>\$ 60,665</u>	<u>\$ 10,708,682</u>	<u>\$ 10,829,971</u>

* - FY 2015 restated for implementation of GASB Statement No. 68. GASB Statement No. 68 was not retroactively implemented.

As a result of the activities of the Department during the past year net position decreased \$121,289. Overall revenues decreased by 7% and expenses increased by 16%.

Governmental activities

Revenues for the year decreased \$99,931 or about 7%. This decrease was due primarily to the Department receiving less Capital & Operating grants during fiscal year 2015. The grants decreased due to receiving more advance construction grants.

Expenses for the year increased \$195,625 or about 17%. The most significant increase was for general government activities. Expenditures for general government activities include transfers and payments to other governments for services or statutory transfers. Statutory transfers increased for FY 2015.

Business-type activities

Business-type activities reflect the activities in the Transportation Revolving Fund and the Communications System Revolving Fund. Total revenues for these funds had a \$386 or 14% decrease. Total expenses decreased by \$831 or about 29% for these funds. In fiscal year 2015, revenues for the programs decreased in comparison to fiscal year 2014 due to early payments on loans and leases received in FY 2014. Expenses decreased in comparison to fiscal year 2014 due to the bond interest. Each year, the Department pays less bond interest as the bond principal amounts decrease.

INDIVIDUAL FUND ANALYSIS

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

Governmental funds

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

Management's Discussion and Analysis

The following table summarizes and compares the balance sheets of the governmental funds at June 30, 2015 and June 30, 2014.

Comparative Summary of Governmental Funds' Balance Sheets				
	<u>6/30/2015</u>	<u>6/30/2014</u>	<u>Change</u>	<u>% Change</u>
Assets				
Cash and investments	\$ 576,296	\$ 526,574	\$ 49,722	9
Receivables	94,171	146,621	(52,450)	(36)
Prepaid insurance	391	1,096	(705)	
Inventories	23,465	23,983	(518)	(2)
Long-term receivable	5,580	4,153	1,427	34
Total assets	<u>\$ 699,903</u>	<u>\$ 702,427</u>	<u>\$ (2,524)</u>	(0)
Liabilities				
Current liabilities	\$ 98,087	\$ 61,067	\$ 37,020	61
Bonds payable on demand	147,000	383,215	(236,215)	(62)
Deferred revenue	18,183	12,270	5,913	48
Total liabilities	<u>263,270</u>	<u>456,552</u>	<u>(193,282)</u>	(42)
Deferred inflows of resources				
Unavailable revenue	<u>17,375</u>	<u>16,673</u>	<u>702</u>	4
Total deferred inflows of resources	<u>17,375</u>	<u>16,673</u>	<u>702</u>	4
Fund balances				
Nonspendable:				
Materials & supplies	23,465	23,983	(518)	(2)
Prepaid insurance	391	1,096	(705)	
Long-term receivable	5,580	4,153	1,427	34
Restricted for:				
Other purposes	35,748	29,014	6,734	23
Assigned to:				
Debt service	113,946	121,317	(7,371)	(6)
Unassigned	<u>240,128</u>	<u>49,639</u>	<u>190,489</u>	384
Total fund balances	<u>419,258</u>	<u>229,202</u>	<u>190,056</u>	83
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 699,903</u>	<u>\$ 702,427</u>	<u>\$ (2,524)</u>	(0)

Total fund balances for all governmental funds increased by \$190,056 during the year.

This increase is the result of assets decreasing slightly and liabilities decreasing. The slight decrease in assets was primarily the result of a decrease in federal aid receivables of advance construction at the end of fiscal year 2015. The liabilities decreased because of principal payments for Bonds Payable on Demand and refunding a portion of the Bonds Payable on Demand. The State Highway Fund's (the agency's general fund) increase in fund balance is the result of decreasing liabilities. The Capital Projects Fund's fund balance increase is attributable to refunding a portion of the Bonds Payable on Demand during fiscal year 2015. Other funds stayed static during fiscal year 2015.

In fiscal year 2015, the unassigned fund balance increased. Increases to the unassigned fund balance were caused mainly by refunding a portion of the Bonds Payable on Demand.

Management's Discussion and Analysis

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

Comparative Statement of Governmental Funds Revenues, Expenditures, and Other Financing Sources (Uses)				
	FYE 6/30/2015	FYE 6/30/2014	Change	% Change
Revenues				
Motor fuel taxes	\$ 288,303	\$ 293,707	\$ (5,404)	(2)
Vehicle registrations and permits	218,788	211,644	7,144	3
Operating grants	191,847	243,714	(51,867)	(21)
Capital grants	208,085	279,527	(71,442)	(26)
Sales and use taxes	512,360	501,291	11,069	2
Investment earnings	1,059	584	475	81
Other	7,853	7,950	(97)	(1)
Appropriations from other state funds	2,196	2,595	(399)	(15)
Total revenues	<u>1,430,491</u>	<u>1,541,012</u>	<u>(110,521)</u>	<u>(7)</u>
Expenditures				
Current operating:				
Maintenance	133,608	125,934	7,674	6
Preservation	432,941	378,348	54,593	14
Modernization	19,528	27,850	(8,322)	(30)
Expansion and enhancement	344,574	272,014	72,560	27
Communications system	5,508	7,140	(1,632)	(23)
Local support	151,971	139,735	12,236	9
Rail, air and public transportation	16,556	19,452	(2,896)	(15)
Management	53,443	55,653	(2,210)	(4)
Distributions to other state funds	430,519	270,382	160,137	59
Debt service:				
Principal	90,065	80,790	9,275	11
Interest and fees	72,708	62,652	10,056	16
Total expenditures	<u>1,751,421</u>	<u>1,439,950</u>	<u>311,471</u>	<u>22</u>
Excess (deficiency) of revenues over expenditures	<u>(320,930)</u>	<u>101,062</u>	<u>(421,992)</u>	<u>(418)</u>
Other financing sources (uses)				
Issuance of debt	462,875	0	462,875	
Premium on issuance of debt	48,629	0	48,629	
Transfers-in	521,050	309,046	212,004	69
Transfers-out	<u>(521,050)</u>	<u>(309,046)</u>	<u>(212,004)</u>	<u>69</u>
Total other financing sources (uses)	<u>511,504</u>	<u>0</u>	<u>511,504</u>	
Net change in fund balances	190,574	101,062	89,512	89
Fund balances - beginning of year	229,202	128,520	100,682	78
Other changes in fund balances:				
Change in reserve for materials and supplies inventory	(518)	(380)	(138)	36
Fund balances - end of year	<u>\$ 419,258</u>	<u>\$ 229,202</u>	<u>\$ 190,056</u>	<u>83</u>

Revenues for the year decreased by \$110,521 or 7%. Expenditures for the year increased by \$311,471 or 22%. As discussed earlier, the decrease in revenues was a result of less advance construction in fiscal year 2015. The expenditure increase was the result of decreases in statutory distributions to other state funds.

Proprietary funds

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

BUDGETARY HIGHLIGHTS

During the course of the year, the budget for the State Highway Fund was amended by the State Legislature to reflect updated revenue projections and to more accurately reflect the level of activity being accomplished by the Department. In addition, certain budget changes were made to reflect conditions of the state economy. The original budget (adopted by the 2013 Legislature) projected a budgetary surplus of \$242,418. The final budget (adopted by the 2014 Legislature) projected a budgetary surplus of \$92,411. These budgetary surpluses contribute to reserves held by the State Highway Fund.

Significant differences between the original and final budget include:

- The budgets for construction without legal limits were increased for the anticipated level of activity expected to be accomplished by the Department.
- The budget for Transfers out to other State funds was increased to reflect legislative action to assist in the statewide budget shortfall.

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

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

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

- The budget variance for Intergovernmental revenues increased due to receiving more advance construction during the fiscal year than was budgeted.
- The budget variance for Other revenues increased due to investment activity.
- The budget variance without legal limits for construction decreased due to shifting projects from one fiscal year to future fiscal year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2015, the total investment in capital assets was \$12,184,313. The following table summarizes those assets.

Summary of Capital Assets (net of depreciation)		
	Governmental Activities	
	6/30/2015	6/30/2014
Land (excluding right of way)	\$ 5,435	\$ 5,236
Right of way	200,229	195,990
Total land	205,664	201,226
Roadways	8,865,851	8,738,790
Bridges	2,272,681	2,121,138
Construction in progress	629,691	631,024
Total infrastructure and related construction in progress	11,768,223	11,490,952
Buildings	44,795	45,152
Machinery and equipment	165,631	171,027
Total buildings and equipment	210,426	216,179
Total capital assets	\$ 12,184,313	\$ 11,908,357

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

Long-term debt. At the end of the fiscal year, Highway Revenue debt was \$1,770,900 and the Department had total bonds outstanding of \$1,817,456. This includes \$147,000 of bonds payable on demand, \$121,641 of net unamortized premium (discount), and \$108,304 par value of bonds due in the next fiscal year. The Department has acted as the issuer on all State Highway Fund debt.

During the year, the Department issued \$250,000 Highway Revenue Bonds Series 2014A and \$212,875 Highway Revenue Refunding Bonds Series 2014B. The 2014A series bonds were issued to finance the activities of the Department under the T-WORKS highway program. See Note 8 for more information. There were also bonds issued and refunded during FY 2016 before the report was issued. See Note 15 for more information.

All bonds issued by the Department have been rated by the three national bond-rating agencies. In FY 2014, the Moody's Investors Service downgraded highway revenue bonds from Aa1 to Aa2. The ratings assigned to the Department's bonds that have not been refunded are as follows:

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

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

THE MODIFIED APPROACH TO REPORTING INFRASTRUCTURE ASSETS

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

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

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

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

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

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

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

PL-1 – Road surface is in good condition and needs only routine or light preventative maintenance,

PL-2 – Roadway surface needs at least routine maintenance, and

PL-3 – Roadway surface is in poor condition and needs significant work.

The Department's minimum acceptable performance level is the same as its goal for roadways. The stated goal and minimum acceptable performance level is to maintain the Interstate system such that at least 85% of the mileage is at PL-1. Many factors outside the control of the Department contribute to the ongoing condition of the highways. The latest reported measurements of performance indicate that 98% of Interstate roads are at PL-1. The stated goal and minimum acceptable performance level for Non-interstate roads is 80% in PL-1. The latest reported measurements indicate 90% of the Non-interstate roads are at PL-1. These measurements were made in the spring of 2015.

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

The Department's minimum acceptable performance level is the same as its goal for bridges. The stated goal is to maintain these assets at an overall health index of 85. The latest evaluation, based on inspections made throughout the year, indicates a current health index of 86.

ECONOMIC AND OTHER FACTORS

Fiscal year 2015 was the fifth year for the Transportation Works for Kansas (T-WORKS) Program that was passed by the 2010 Legislature. The intent of the T-WORKS program is to provide for:

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

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

The Department has the authority to issue additional bonds provided that at the time of issuance the projected debt service on State Highway Fund (SHF) debt in the current or any future year is estimated to not exceed 18% of the expected SHF revenues in any future year. This 18% requirement was suspended for FY 2016 & 2017 by the 2015 Legislature.

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 Public Affairs, Eisenhower Building, 700 SW Harrison, 2nd Floor West, Topeka, KS, 66603-3754, or (785) 296-3585 (Voice)/Hearing Impaired - 711.

Kansas Department of Transportation
Statement of Net Position
June 30, 2015
(amounts in thousands)

	Governmental Activities	Business- type Activities	Total
ASSETS			
Cash:			
Unrestricted	\$ 365,038	\$ 22,430	\$ 387,468
Restricted	131,294	34,577	165,871
Investments, at fair value	79,964	15,277	95,241
Receivables	94,171	5,867	100,038
Prepaid insurance	391	0	391
Materials and supplies	23,465	0	23,465
Other long-term receivables	5,580	31,729	37,309
Capital assets:			
Land, including right of way	205,664	0	205,664
Infrastructure (including construction in progress)	11,768,223	0	11,768,223
Buildings and improvements (net of accumulated depreciation)	44,795	0	44,795
Road, office and shop equipment (net of accumulated depreciation)	165,631	0	165,631
Total assets	<u>12,884,216</u>	<u>109,880</u>	<u>12,994,096</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions	10,469	0	10,469
Unamortized loss on refunding	13,269	0	13,269
Accumulated decrease in fair value of hedging derivatives	12,072	0	12,072
Total deferred outflows of resources	<u>35,810</u>	<u>0</u>	<u>35,810</u>
LIABILITIES			
Accounts payable and other current liabilities	114,227	642	114,869
Bonds payable on demand	147,000	0	147,000
Accrued interest	25,403	0	25,403
Unearned revenues and other credits	18,183	975	19,158
Compensated absences:			
Due within one year	7,162	0	7,162
Due in more than one year	1,277	0	1,277
Bonds payable:			
Due within one year	102,670	5,634	108,304
Due in more than one year	1,642,435	41,358	1,683,793
Arbitrage rebate liability	0	237	237
Derivative instrument - interest rate swap	21,111	0	21,111
Other post employment benefits obligation	13,563	0	13,563
Net pension liability	149,527	0	149,527
Total liabilities	<u>2,242,558</u>	<u>48,846</u>	<u>2,291,404</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Inflows	29,820	0	29,820
Total deferred inflow of resources	<u>29,820</u>	<u>0</u>	<u>29,820</u>
NET POSITION			
Net investment in capital assets	10,292,208	0	10,292,208
Restricted for:			
Debt service	0	38,382	38,382
Unrestricted	355,440	22,652	378,092
Total net position	<u>\$ 10,647,648</u>	<u>\$ 61,034</u>	<u>\$ 10,708,682</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, 2015
(amounts in thousands)

Functions/Programs	Expenses	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
		Charges for Services		Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
		Vehicle Registrations and Drivers' Licenses	Other					
Governmental activities								
Maintenance and preservation	\$ 649,739	\$ 0	\$ 0	\$ 123,244	\$ 208,377	\$ (318,118)	\$ 0	\$ (318,118)
Communications system	9,155	0	0	0	0	(9,155)	0	(9,155)
Local support	151,971	0	0	62,137	0	(89,834)	0	(89,834)
General government	490,375	218,788	6,693	5,788	0	(259,106)	0	(259,106)
Rail, air and public transportation	16,556	0	0	0	0	(16,556)	0	(16,556)
Interest on long-term debt	63,328	0	0	0	0	(63,328)	0	(63,328)
Total governmental activities	1,381,124	218,788	6,693	191,169	208,377	(756,097)	0	(756,097)
Business-type activities								
Transportation revolving fund	1,983	0	1,419	0	0	0	(564)	(564)
Communications system	69	0	233	0	0	0	164	164
Total business-type activities	2,052	0	1,652	0	0	0	(400)	(400)
Total	\$ 1,383,176	\$ 218,788	\$ 8,345	\$ 191,169	\$ 208,377	(756,097)	(400)	(756,497)
General revenues								
Motor fuel taxes						288,016	0	288,016
Sales and use taxes						513,735	0	513,735
Investment earnings						156	769	925
Unrestricted appropriations from other state funds						2,196	0	2,196
Total general revenues						804,103	769	804,872
Change in net position						48,006	369	48,375
Net position - beginning of year						10,769,306	60,665	10,829,971
Change in accounting principle						(169,664)	0	(169,664)
Net position - beginning of year, as restated						10,599,642	60,665	10,660,307
Net position - ending						\$ 10,647,648	\$ 61,034	\$ 10,708,682

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

Kansas Department of Transportation
Balance Sheet
Governmental Funds
June 30, 2015
(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	\$ 329,007	\$ 0	\$ 0	\$ 36,031	\$ 365,038
Restricted	17,500	113,794	0	0	131,294
Investments, at fair value	79,964	0	0	0	79,964
Receivables:					
Federal aid	10,516	0	0	0	10,516
Accrued taxes	78,297	0	0	0	78,297
Local governments	4,089	0	0	0	4,089
Accrued interest	53	152	0	2	207
Loans and other	0	0	0	1,062	1,062
Prepaid insurance	391	0	0	0	391
Materials and supplies	23,465	0	0	0	23,465
Long-term receivable:					
Loans and other	1,495	0	0	4,085	5,580
Total assets	<u>\$ 544,777</u>	<u>\$ 113,946</u>	<u>\$ 0</u>	<u>\$ 41,180</u>	<u>\$ 699,903</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Vouchers payable	\$ 84,309	\$ 0	\$ 0	\$ 1,347	\$ 85,656
Retainage payable	2,232	0	0	0	2,232
Accrued salaries and wages	10,199	0	0	0	10,199
Bonds payable on demand	0	0	147,000	0	147,000
Unearned revenue	18,183	0	0	0	18,183
Total liabilities	<u>114,923</u>	<u>0</u>	<u>147,000</u>	<u>1,347</u>	<u>263,270</u>
Deferred inflows of resources					
Unavailable revenue	17,375	0	0	0	17,375
Total deferred inflows of resources	<u>17,375</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,375</u>
Fund Balances:					
Nonspendable:					
Materials & supplies	23,465	0	0	0	23,465
Prepaid insurance	391	0	0	0	391
Long-term receivable	1,495	0	0	4,085	5,580
Restricted for:					
Other purposes	0	0	0	35,748	35,748
Assigned to:					
Debt service	0	113,946	0	0	113,946
Unassigned	387,128	0	(147,000)	0	240,128
Total fund balances	<u>412,479</u>	<u>113,946</u>	<u>(147,000)</u>	<u>39,833</u>	<u>419,258</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 544,777</u>	<u>\$ 113,946</u>	<u>\$ 0</u>	<u>\$ 41,180</u>	<u>\$ 699,903</u>

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

Kansas Department of Transportation
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position
June 30, 2015
(amounts in thousands)

Total fund balances - Governmental Funds	\$	419,258
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Land, including right of way	\$ 205,664	
Infrastructure (including construction in progress)	11,768,223	
Other capital assets net of depreciation	<u>210,426</u>	12,184,313
Other deferred outflows of resources are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Pension contributions	10,469	
Loss on refunding	13,269	
Accumulated decrease in fair value of hedging derivatives	<u>12,072</u>	35,810
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Bonds payable (including unamortized premiums)	\$ (1,745,105)	
Accrued interest	(25,403)	
Claims	(16,140)	
Compensated absences	(8,439)	
Derivative instruments (including net interest rate swap positions and change in fair value of hedging derivatives)	(21,111)	
Net pension liability	(149,527)	
Other post employment benefits obligation	<u>(13,563)</u>	(1,979,288)
Other deferred inflows of resources are not due and payable in the current period and therefore are not reported in the funds.		
Experience gain	(3,542)	
Investment earnings more than expected	(17,801)	
Proportionate share decrease (service life minus 1 yr)	<u>(8,477)</u>	(29,820)
Some revenues will be collected after year-end, but are not available soon enough to pay the current year's expenditures and therefore are deferred in the funds.		<u>17,375</u>
Net Position of Governmental Activities	\$	<u><u>10,647,648</u></u>

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, 2015
(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	\$ 288,303	\$ 0	\$ 0	\$ 0	\$ 288,303
Vehicle registrations and permits	218,788	0	0	0	218,788
Operating grants	189,343	0	0	2,504	191,847
Capital grants	208,085	0	0	0	208,085
Sales and use taxes	512,360	0	0	0	512,360
Investment earnings	831	103	4	121	1,059
Other	5,886	0	0	1,967	7,853
Appropriations from other state funds	2,196	0	0	0	2,196
Total revenues	<u>1,425,792</u>	<u>103</u>	<u>4</u>	<u>4,592</u>	<u>1,430,491</u>
Expenditures					
Current operating:					
Maintenance	131,975	0	0	1,633	133,608
Preservation	432,941	0	0	0	432,941
Modernization	19,528	0	0	0	19,528
Expansion and enhancement	344,574	0	0	0	344,574
Communication system	5,508	0	0	0	5,508
Local Support	151,616	0	0	355	151,971
Rail, air and public transportation	0	0	0	16,556	16,556
Management	53,081	0	0	362	53,443
Distributions to other state funds	430,499	0	0	20	430,519
Debt service:					
Principal	0	90,065	0	0	90,065
Interest and fees	0	72,708	0	0	72,708
Total expenditures	<u>1,569,722</u>	<u>162,773</u>	<u>0</u>	<u>18,926</u>	<u>1,751,421</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(143,930)</u>	<u>(162,670)</u>	<u>4</u>	<u>(14,334)</u>	<u>(320,930)</u>
Other financing sources (uses)					
Issuance of debt	0	0	462,875	0	462,875
Premium on issuance of debt	0	0	48,629	0	48,629
Transfers-in	297,972	178,738	23,340	21,000	521,050
Transfers-out	<u>(198,978)</u>	<u>(23,439)</u>	<u>(298,633)</u>	<u>0</u>	<u>(521,050)</u>
Total other financing sources (uses)	<u>98,994</u>	<u>155,299</u>	<u>236,211</u>	<u>21,000</u>	<u>511,504</u>
Net change in fund balances	<u>(44,936)</u>	<u>(7,371)</u>	<u>236,215</u>	<u>6,666</u>	<u>190,574</u>
Fund balances - beginning of year	457,933	121,317	(383,215)	33,167	229,202
Change in reserve for materials and supplies	<u>(518)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(518)</u>
Fund balances - end of year	<u>\$ 412,479</u>	<u>\$ 113,946</u>	<u>\$ (147,000)</u>	<u>\$ 39,833</u>	<u>\$ 419,258</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, 2015
(amounts in thousands)

Net change in fund balances - governmental funds	\$	190,574
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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		277,271	
net of value of infrastructure assets replaced	\$	34,244	
Cost of acquisition or construction of other capital assets		(28,813)	
Depreciation expense		282,702	282,702

In governmental funds, the proceeds of the sale of capital assets are reported as an increase in financial resources (revenue), but in the statement of activities, only the gain on the sale of those assets is reported. The difference is the book value of the assets sold or otherwise replaced.	(6,747)
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The issuance of long-term debt (bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. However, neither of these transactions has any effect on the net position of the government taken as a whole. Also, governmental funds report the effect of premiums, discounts and similar items when the debt is issued.

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

Issuance of long-term debt		(462,875)	
Bond principal payments	\$	90,065	
Amortization of deferred charges and other bond related costs		(35,781)	(408,591)

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, claims, and other post employment benefits.	(10,634)
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Revenues recorded on the Statement of Activities that do not provide current financial resources are not recorded in governmental funds.	702
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Change in net position of governmental activities	\$	48,006
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The notes to the financial statements are an integral part of this statement.

Kansas Department of Transportation
Statement of Revenues, Expenditures, and Other Financing Sources (Uses)
State Highway Fund (Agency's General fund)
Budget and Actual – Budgetary Basis
For the Year Ended June 30, 2015
(amounts in thousands)

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Motor fuel taxes	\$ 289,643	\$ 288,240	\$ 289,386	\$ 1,146
Vehicle registrations and permits	218,093	218,840	219,153	313
Intergovernmental	354,512	345,246	453,958	108,712
Sales and use taxes	519,672	515,879	511,724	(4,155)
Investment earnings	2,109	583	3,193	2,610
Other	9,016	12,932	86,278	73,346
Transfers from other state funds	1,399	1,396	2,196	800
Total revenues	1,394,444	1,383,116	1,565,888	182,772
Expenditures, with legal limits:				
Current operating:				
Maintenance	140,090	136,978	133,810	3,168
Construction	66,960	65,888	61,897	3,991
Local support	7,296	7,222	5,968	1,254
Management	54,615	51,900	47,698	4,202
Expenditures with legal limits	268,961	261,988	249,373	12,615
Expenditures, without legal limits:				
Current operating:				
Maintenance	540	440	437	3
Construction	577,571	641,152	495,392	145,760
Local support	32,285	42,078	56,881	(14,803)
Management	1,114	8,172	3,474	4,698
Transfers to other state funds	262,909	424,688	424,688	(0)
Expenditures without legal limits	874,419	1,116,530	980,872	135,658
Total expenditures	1,143,380	1,378,518	1,230,245	148,273
Excess (deficiency) of revenues over expenditures	251,064	4,598	335,643	331,045
Other financing sources (uses):				
Transfers-in	210,000	298,659	297,972	(687)
Transfers-out	(218,646)	(210,846)	(198,978)	11,868
Total other financing sources (uses)	(8,646)	87,813	98,994	11,181
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ 242,418	\$ 92,411	\$ 434,637	\$ 342,226

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

Kansas Department of Transportation
Reconciliation of
Statement of Revenues, Expenditures, and Other Financing Sources (Uses)
State Highway Fund (Agency's general fund)
Budget and Actual -- Budgetary Basis
to
Statement of Revenues, Expenditures, and Changes in Fund Balance
State Highway Fund (Agency's general fund)
For the Year Ended June 30, 2015
(amounts in thousands)

Excess (deficiency) of revenues and other sources over expenditures and other uses - Budgetary Basis	\$ 434,637
Budgetary basis revenues and transfers from other state funds are adjusted to GAAP basis (Budgetary basis is on a cash basis for certain revenue streams such as taxes, investment earnings, and intergovernmental revenue)	(140,096)
Net encumbrances are reported as expenditures for budgetary reporting purposes	(226,109)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis (Budgetary basis is on a cash basis for certain expenditure streams such as maintenance, construction, and management)	<u>(113,368)</u>
Net Change in Fund Balance as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances	<u>\$ (44,936)</u>

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

Kansas Department of Transportation
Statement of Net Position
Proprietary Funds
June 30, 2015
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
ASSETS			
Current assets:			
Cash:			
Unrestricted	\$ 19,842	\$ 2,588	\$ 22,430
Restricted	34,577	0	34,577
Interest and other receivables	791	0	791
Current portion of loans and leases receivable	4,627	449	5,076
Total current assets	<u>59,837</u>	<u>3,037</u>	<u>62,874</u>
Noncurrent assets			
Loans and leases receivable	29,973	1,756	31,729
Investments	15,277	0	15,277
Total noncurrent assets	<u>45,250</u>	<u>1,756</u>	<u>47,006</u>
Total assets	<u>105,087</u>	<u>4,793</u>	<u>109,880</u>
LIABILITIES			
Current liabilities:			
Vouchers payable	157	0	157
Interest payable	473	12	485
Current portion of bonds payable	5,425	209	5,634
Total current liabilities	<u>6,055</u>	<u>221</u>	<u>6,276</u>
Noncurrent liabilities			
Bonds payable	40,571	787	41,358
Arbitrage rebate liability	237	0	237
Unearned lease revenue	0	975	975
Total noncurrent liabilities	<u>40,808</u>	<u>1,762</u>	<u>42,570</u>
Total liabilities	<u>46,863</u>	<u>1,983</u>	<u>48,846</u>
NET POSITION			
Restricted for debt service and bond reserves	38,382	0	38,382
Unrestricted	19,842	2,810	22,652
Total net position	<u>\$ 58,224</u>	<u>\$ 2,810</u>	<u>\$ 61,034</u>

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

Kansas Department of Transportation
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2015
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
Operating revenues:			
Interest on loans	\$ 1,326	\$ 0	\$ 1,326
Service fees	93	9	102
Lease income	0	224	224
Total operating revenues	<u>1,419</u>	<u>233</u>	<u>1,652</u>
Operating expenses:			
Professional fees	19	3	22
Arbitrage rebate expense	113	0	113
Commodities	0	11	11
Total operating expenses	<u>132</u>	<u>14</u>	<u>146</u>
Operating income	<u>1,287</u>	<u>219</u>	<u>1,506</u>
Nonoperating revenues (expenses):			
Investment earnings	766	3	769
Amortization of premium (net)	98	0	98
Interest expense on bonds	(1,949)	(55)	(2,004)
Total nonoperating revenues (expenses)	<u>(1,085)</u>	<u>(52)</u>	<u>(1,137)</u>
Change in Net Position	202	167	369
Total net position - beginning	58,022	2,643	60,665
Total net position - ending	<u>\$ 58,224</u>	<u>\$ 2,810</u>	<u>\$ 61,034</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, 2015
(amounts in thousands)

	Transportation Revolving Fund	Nonmajor Communication System Revolving Fund	Total
Cash flows from operating activities:			
Principal collections on loans	\$ 9,586	\$ 0	\$ 9,586
Interest on loans collected	1,456	0	1,456
Service fees collected	101	43	144
Collection on leases	0	493	493
Loan and lease advances	(292)	0	(292)
Payments for inventory	0	0	0
Proceeds from sale of inventory	0	0	0
Professional and contractual fees paid	(19)	(3)	(22)
Arbitrage expenses paid	0	0	0
Net cash provided by operating activities	10,832	533	11,365
Cash flows from noncapital financing activities:			
Debt service on bonds	(7,736)	(257)	(7,993)
Net cash used in noncapital financing activities	(7,736)	(257)	(7,993)
Cash flows from investing activities:			
Interest received on investments	761	3	764
Net cash provided by investing activities	761	3	764
Net increase in cash	3,857	279	4,136
Cash - beginning	50,562	2,309	52,871
Cash - ending	\$ 54,419	\$ 2,588	\$ 57,007
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 1,287	\$ 219	\$ 1,506
Adjustments to reconcile operating income to net cash provided by operating activities:			
Change in loans receivable	9,294	0	9,294
Change in interest and service fees receivable	138	0	138
Change in leases receivable	0	469	469
Change in unearned lease revenue	0	(155)	(155)
Change in vouchers payable	113	0	113
Total adjustments	9,545	314	9,859
Net cash provided by operating activities	\$ 10,832	\$ 533	\$ 11,365

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

Kansas Department of Transportation
Statement of Fiduciary Net Position
Agency Funds
June 30, 2015
(amounts in thousands)

ASSETS

Cash	\$ 35,949
Receivables	<u>12,951</u>
Total assets	<u><u>\$ 48,900</u></u>

LIABILITIES

Due to cities and counties	<u>\$ 48,900</u>
Total liabilities	<u><u>\$ 48,900</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, 2015
(amounts expressed in thousands)

Note 1. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Cash and investments – Cash includes amounts in the “common cash pool” in the State Treasury, which is invested by the Pooled Money Investment Board (PMIB). Interest is allocated to the Department based on the average daily cash balance in the State Highway Fund, the Rail Service Improvement Fund, the Capital Projects Fund, the Highway Bond Debt Service Fund, the Transportation Revolving Fund and the Communication System Revolving Fund. The State General Fund retains earnings on cash in other Departmental funds. In compliance with GASB Statement No. 31, investments are reported at fair value and any change in fair value is reported as an adjustment to investment earnings. Fair value is based on quoted market prices. Long-term investments are expected to be held to maturity and redeemed at face value.

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

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

G. Capital assets – Capital assets which include land, buildings, equipment, infrastructure and construction in progress are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$250,000 for software assets and \$5,000 for all other assets (amounts not rounded and not expressed in thousands) and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if constructed prior to June 30, 2001. Donated capital assets are recorded at estimated fair value at the date of donation.

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

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

Buildings and equipment are depreciated using the straight-line method over the following estimated 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 No. 34. When using the modified approach, only those projects that add efficiency or capacity to the highway system are capitalized. Infrastructure assets are not depreciated. Expenditures that preserve those assets are expensed.

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

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

J. Fund balance reporting and classifications – GASB Statement No. 54 established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Under this standard, the fund balance classifications are: nonspendable, restricted, committed, assigned, and unassigned.

Fund balance classification policies and procedures

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

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

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

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

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

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

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

L. Pension plan – For the year ended June 30, 2015, the Department implemented the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions". For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

M. Future Governmental Accounting Standards Board Statements – At June 30, 2015, GASB has issued statements not yet required to be implemented by the Department. The following statements might impact the Department:

GASB Statement No. 72, "Fair Value Measurement and Application", was issued February 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this statement are effective for the Department for fiscal years beginning after June 15, 2015.

GASB Statement No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68", was issued in June 2015. The statement establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by GASB Statements No. 67 and 68). The requirements in Statement No. 73 for reporting pensions generally are the same as in Statement No. 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements. The

provisions of this statement are effective for the Department for fiscal years beginning after June 15, 2015.

GASB Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”, was issued June 2015. This statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and RSI related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement No. 74 also sets forth note disclosure requirements for defined contribution OPEB plans. The provisions of this statement are effective for the Department for fiscal years beginning after June 15, 2016.

GASB Statement No. 75, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”, was issued in June 2015. This statement addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. This statement replaces the requirements of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”. Statement No. 75 requires governments to report a liability on the face of the financial statements for the OPEB. Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments. Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan. The provisions of this statement are effective for the Department for fiscal years beginning after June 15, 2017.

Note 2. Budgeting, Budgetary Control and Legal Compliance

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

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

FY 2015 appropriated budgets subject to legal limitations were adopted by the State Legislature for the agency operations portion of the State Highway Fund. This includes: regular maintenance, construction (internal payroll and other operating expenditures for design, right of way and inspection), local planning support (excluding local aid programs), management (excluding claims and contracts with other state agencies), payment for city connecting links and capital improvements for buildings, and certain transfers to other state funds. The legal level of budgetary control is the cumulative total of appropriations of the State Highway Fund (the agency’s general fund) subject to legal limitations.

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

Throughout the fiscal year, the Department updates budgetary data. Those budgets are subject to legal limitations by the State Legislature and can only be amended with the Legislature's approval. The Department can amend the budgets without legal limitations without legislative approval. For the year ended June 30, 2015, several individual expenditure groups without legal limitations exceeded the budget established by the Department's internal budgeting process in the State Highway, Traffic Records Enhancement and Other Federal Grants Funds.

Note 3. Cash and Investments

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

Custodial Credit Risk – Deposits and Investments

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

Cash, other than imprest and petty cash funds, is part of the common cash pool of the State Treasury. The PMIB invests funds in the common cash pool. Collateral is required for deposits made by the common cash pool that are not covered by federal deposit insurance. The market value of the collateral must equal 100% of the uninsured deposit and is held by the State Treasurer or an independent third party in the State Treasurer's name. In addition, securities are segregated for the benefit of the Department. The Department's deposits and investments are not exposed to custodial credit risk. At June 30, 2015, the Department's share in the State's common cash pool is summarized in the table on the next page.

Notes to the Financial Statements

Total cash	
Statement of Net Position:	
Unrestricted Cash	\$ 387,468
Restricted Cash	165,871
Agency Funds Statement	35,949
Less:	
Goldman Sachs Collateral	(17,500)
Imprest and Petty Cash Funds	(32)
Department's Share in State's Common Cash Pool	<u>\$ 571,756</u>

Credit Risk

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

The Standard & Poor's Corporation's ratings of the debt securities in the Department's investment portfolio as of June 30, 2015 are summarized in the following table.

Quality Rating	Government Agency Securities	Commercial Paper	Guaranteed Investment Contracts	Total
AA+ (Long-term)	\$ 21	\$ -	\$ -	\$ 21
A1 (Short-term)	-	79,943	-	79,943
Not rated	-	-	15,277	15,277
	<u>\$ 21</u>	<u>\$ 79,943</u>	<u>\$ 15,277</u>	<u>\$ 95,241</u>

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, 2015:

BNP Paribas NY	\$19,989
Bank of Nova Scotia	19,989
ING Funding	19,989
Credit Suisse	19,989
Guaranteed Investment Contracts	15,277

Interest Rate Risk

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

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

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

Investments administered by PMIB for the governmental funds as of June 30, 2015 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		
Agency Securities	21	1.8
Commercial Paper	79,943	0.3
	<u>\$ 79,964</u>	
Portfolio Weighted Average Maturity		
* - Weighted Average Maturity (years)		

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>More Than 10 Years</u>
Guaranteed Investment Contracts					
2005 TR Series	\$ 9,485	\$ -	\$ -	\$ -	\$ 9,485
2006 TR Series	5,792	-	-	-	5,792
	<u>\$ 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 table on the next page summarizes the FY 2015 appropriations from other state funds and distributions to other state funds.

Appropriations from:	
Department of Administration (a)	\$ 1,409
Kansas Corporation Commission (b)	643
Highway Patrol (c)	143
Other transfers	<u>1</u>
Appropriations to governmental funds from other state funds	<u>\$ 2,196</u>
Distributions to:	
State General Fund (d)	\$ 176,989
Department of Education (e)	107,498
Highway Patrol (c)	56,307
Department of Revenue (f)	45,935
Department of Administration (g)	22,990
Department of Aging and Disability Services (h)	9,750
Department of Commerce (i)	5,038
Wildlife, Parks and Tourism (j)	2,791
University of Kansas (k)	1,256
Kansas State University (k)	577
Other state funds	<u>1,388</u>
Total distributions to other state funds	<u>\$ 430,519</u>

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

(b) The Department received a transfer from the Kansas Corporation Commission for Motor Carrier License Fees.

(c) The Department received a transfer from Kansas Highway Patrol due to a reduction in the funding of operations. Transfers to the Kansas Highway Patrol are for the purpose of funding the operations of the Kansas Highway Patrol, financing the Motor Carrier Inspection Program, and other highway safety programs.

(d) Transfers were made to the State General Fund (SGF) to assist in alleviating budget shortfalls, for the savings incurred by the Department partnering with KTA, for IT savings, and to pay overhead for the Division of Purchasing.

(e) Transfers were made to the Department of Education to fund the transportation weighting piece of the school finance formula for General State Aid and Special Education State Aid and to provide revenues required to regulate the design and operation of school buses in Kansas.

(f) 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.

(g) Transfers were made to the Department of Administration for Statehouse renovations and debt service.

(h) A transfer was made to the Department of Aging and Disability Services for mental health grants.

(i) A transfer was made to the State Affordable Airfare Fund in the Department of Commerce. Transfers were also made to the Department of Commerce for interest earnings and for Federal Liaison Services.

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

(k) The Department contracts with state universities to conduct transportation related research studies.

B. Intra-agency fund transfers – Monthly transfers are made from the State Highway Fund to the Debt Service Fund to fund the debt service requirements for the Department.

As mandated by the Legislature, annual transfers are made from the State Highway Fund to fund the activities of the non-major Rail Service Improvement Fund, Public Use General Aviation Airport Development Fund, Coordinated Public Transportation Assistance Fund, and the Other Federal Grants Fund.

Transfers were made from the Debt Service Fund to the State Highway Fund for interest earnings.

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

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

	State Highway	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Transfer out:					
State Highway Fund	\$ -	\$ 177,978	\$ -	\$ 21,000	\$ 198,978
Debt Service Fund	99	-	23,340	-	23,439
Capital Projects Fund	297,873	760	-	-	298,633
	<u>\$ 297,972</u>	<u>\$ 178,738</u>	<u>\$ 23,340</u>	<u>\$ 21,000</u>	<u>\$ 521,050</u>

Note 5. Capital Assets

Capital asset activity related to governmental activities for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not being depreciated:				
Land	\$ 201,226	\$ 5,388	\$ (950)	\$ 205,664
Infrastructure	10,859,928	354,014	(75,410)	11,138,532
Construction in progress	631,024	342,089	(343,422)	629,691
Total capital assets not being depreciated	11,692,178	701,491	(419,782)	11,973,887
Capital assets being depreciated:				
Buildings	98,690	11,215	(8,617)	101,288
Machinery & equipment	363,890	17,642	(8,817)	372,715
Total capital assets being depreciated	462,580	28,857	(17,434)	474,003
Less accumulated depreciation:				
Buildings	(53,538)	(6,764)	3,809	(56,493)
Machinery & equipment	(192,863)	(22,049)	7,828	(207,084)
Total accumulated depreciation	(246,401)	(28,813)	11,637	(263,577)
Total capital assets being depreciated, net	216,179	44	(5,797)	210,426
Total capital assets, net	\$ 11,908,357	\$ 701,535	\$ (425,579)	\$ 12,184,313

Depreciation expense was charged to the functions as follows:

Maintenance and preservation	\$ 19,444
Communications system	3,646
General government	5,723
	<u>\$ 28,813</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 \$2,205 and unearned lease revenue at June 30, 2015 was \$975.

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

Fiscal year ending June 30	
2016	\$ 449
2017	439
2018	440
2019	306
2020	276
2021-2025	271
2026-2030	10
2031-2035	10
2036-2037	4
	<u>\$ 2,205</u>

Note 7. Compensated Absences

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

	<u>Governmental Activities</u>
Beginning balance	\$ 8,666
Retired	(7,070)
Increase in leave balance	6,843
Ending balance	<u>\$ 8,439</u>
Amount due within one year	<u>\$ 7,162</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, 2015 is comprised of the following amounts:

Series	Final Scheduled Maturity	Original Principal Amount	6/30/2014 Balance	Additions	Reductions	Principal Amount Outstanding	Amount due Within One Year
Governmental Funds							
State of Kansas Highway Revenue Bonds:							
Series 2002B, Refunding*	09/01/19	\$ 170,005	\$ 125,485	\$ 0	\$ 125,485	\$ 0	\$ 0
Series 2002C, Refunding*	09/01/19	150,000	110,730	0	110,730	0	0
Series 2004A	03/01/19	250,000	76,235	0	0	76,235	0
Series 2004B	09/01/24	200,000	200,000	0	0	200,000	0
Series 2004C*	09/01/24	147,000	147,000	0	0	147,000	0
Series 2009A, Refunding	09/01/20	176,680	176,680	0	0	176,680	20,445
Series 2010A	09/01/35	325,000	325,000	0	0	325,000	0
Series 2012A, Refunding	09/01/15	151,365	128,290	0	90,065	38,225	38,225
Series 2012B, Refunding	09/01/22	144,885	144,885	0	0	144,885	0
Series 2012C	09/01/32	200,000	200,000	0	0	200,000	7,000
Series 2014A	09/01/30	250,000	0	250,000	0	250,000	0
Series 2014B, Refunding	09/01/19	212,875	0	212,875	0	212,875	37,000
Total before adjustments						\$ 1,770,900	\$ 102,670
Adjustments							
*Less - Bonds payable on demand						(147,000)	0
Net unamortized premium (discount)						121,205	0
Total after adjustments			\$ 1,634,305	\$ 462,875	\$ 326,280	\$ 1,745,105	\$ 102,670
Proprietary Funds							
Transportation Revolving Fund							
Series 2005-TR	10/01/25	\$ 32,690	\$ 17,690	\$ 0	\$ 2,295	\$ 15,395	\$ 1,805
Series 2006-TR	10/01/26	24,755	12,630	0	1,960	10,670	2,070
Series 2009-TR	10/01/27	30,950	20,970	0	1,475	19,495	1,550
Communications System Revolving Fund							
Series 2008-CRF	04/01/23	14,200	1,196	0	200	996	209
Total before adjustments						\$ 46,556	
Adjustments							
Net unamortized premium (discount)						436	
Total after adjustments			\$ 52,486	\$ 0	\$ 5,930	\$ 46,992	\$ 5,634

In July 2014, the Department issued Highway Revenue Bonds Series 2014A, in the amount of \$250,000. The purpose of these bonds was to pay a portion of the costs of construction, reconstruction, maintenance

or improvement of highways in the State. The bonds were issued as premium bonds with interest rates of 5.0% and annual maturities from September 2025 to September 2030.

In August 2014, the Department issued Highway Revenue Refunding Index Bonds Series 2014B, in the amount of \$212,875. The purpose of these bonds was to refund the Series 2002B&C Bonds. The Series 2014B Bonds were issued in adjustable interest rate mode with interest rates determined on a monthly basis at 67% of the One-Month LIBOR Rate plus the applicable spread. Spreads to the 67% of the One-Month Libor Rate range from -0.01% to 0.40% and maturities of the Series 2014B Bonds range from September 2015 to September 2019. The 2014B series bonds replaced the liquidity providers that would have expired in September 2014. This transaction was undertaken to reduce total debt service payments by an estimated \$4,168 and results in an estimated economic gain of \$3,362.

In August 2010, the Department issued \$325,000 Highway Revenue Bonds Series 2010A (Build America Bonds – Direct Payment to Issuer) for the purpose of paying a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. The bonds have a stated interest rate of 4.596% and maturities in fiscal years 2032 through 2036. After deducting the 32.45% Federal subsidy of interest, the net interest cost to the Department is 3.10%.

The Highway Revenue bonds are special obligations of the State, secured by and payable from a gross pledge of all revenues in the State Highway Fund (the Agency's general fund). The Transportation Revolving Fund and the Communications System Revolving Fund bonds are secured by a pledge of the revenues to be received from the loans (principal and interest) and leases which were issued as part of the revolving loan fund programs. Annual principal and interest payments on the Highway Revenue bonds are expected to require approximately 12.4% of the pledged revenue. The total principal and interest remaining to be paid on the Highway Revenue bonds is \$2,426,101. Annual principal and interest payments on the Transportation Revolving Fund and the Communications System Revolving Fund bonds are expected to require approximately 152.3% of the pledged revenue. The total principal and interest remaining to be paid on the Transportation Revolving Fund and the Communications System Revolving Fund bonds is \$56,682.

The coupon interest rate on outstanding fixed rate bonds varies from 2.25% to 5.50%. In addition, various bonds were issued as variable rate instruments whose rates change on a weekly basis. During the year, interest rates ranged from 0.01% to 0.52% on the weekly adjustable bonds.

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

The 2010 Legislature authorized the Secretary to issue additional highway revenue bonds so long as the Secretary certifies that, as of the date of issuance of any such bonds, the maximum annual debt service on all outstanding bonds and on such bonds proposed to be issued will not exceed 18% of the revenues projected for the then-current or any future fiscal year. This 18% requirement was suspended for FY 2016 & 2017 by the 2015 Legislature.

The 2004C bonds (indicated by * in the previous table) are demand obligations and are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, various liquidity providers have agreed to purchase the bonds and hold them for a maximum of 180 days. The contract with the liquidity provider has an expiration date of September 2017 and requires an annual commitment fee of 0.325%.

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

Calculation of Revenue Bond Coverage				
Adjusted GAAP Revenues	Principal	Bond Service Charges	Total	Bond Coverage
\$ 1,390,809	\$ 113,405	\$ 80,252	\$ 193,657	718 %

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

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

Fiscal Year Ending June 30	Principal	Interest	Total Debt Service
Governmental Funds			
2016	\$ 102,670	74,281	176,951
2017	107,310	69,956	177,266
2018	108,285	66,007	174,292
2019	116,635	60,793	177,428
2020	114,115	54,443	168,558
2021 - 2025	566,885	190,974	757,859
2026 - 2030	252,085	99,847	351,932
2031 - 2035	333,975	37,830	371,805
2036	68,940	1,070	70,010
	<u>\$ 1,770,900</u>	<u>\$ 655,201</u>	<u>\$ 2,426,101</u>
Proprietary Funds			
2016	\$ 5,634	1,842	7,476
2017	5,689	1,622	7,311
2018	5,194	1,403	6,597
2019	4,197	1,211	5,408
2020	4,263	1,033	5,296
2021 - 2025	16,889	2,767	19,656
2026 - 2028	4,690	248	4,938
	<u>\$ 46,556</u>	<u>\$ 10,126</u>	<u>\$ 56,682</u>

For the Highway Revenue bonds, the Department is required to make monthly transfers to the Debt Service Fund equal to one-sixth of the amount due on the next semi-annual interest payment date. In addition, monthly transfers equal to one-twelfth of the principal due on the next principal payment date

must be transferred to the Debt Service Fund. Accrued interest is paid on the variable rate bonds on a monthly basis. Monthly transfers are made from the State Highway Fund in amounts sufficient to meet these obligations. Debt service for the Transportation Revolving Fund bonds and the Communications System Revolving Fund bonds is accumulated from principal and interest and lease payments received from the loans and leases issued as part of the revolving loan fund programs.

As of June 30, 2015, aggregate debt service requirements of the Department's variable rate debt and net receipts/payments on associated hedging derivative instruments are in the following table. This table assumes that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their entire term. However, these rates will vary. This will require interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments to also vary. Refer to Note 9 for information on derivative instruments.

Fiscal Year Ended June 30			Hedging Derivative Instruments (Net)	Total
	Principal	Interest		
2016	\$ 37,000	\$ 864	\$ 7,904	\$ 45,768
2017	38,145	756	5,776	44,677
2018	39,520	616	4,045	44,181
2019	49,945	408	2,752	53,105
2020	48,265	162	1,741	50,168
2021-2025	147,000	333	3,479	150,812
Total	<u>\$ 359,875</u>	<u>\$ 3,139</u>	<u>\$ 25,697</u>	<u>\$ 388,711</u>

Note 9. Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2015, classified by type, and the changes in fair value of such derivative instruments for the year then ended are as follows debit (credit):

	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2015</u>		
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	<u>Notional</u>
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ (10,952)	Debt	\$ (12,072)	\$ 284,875
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	905	Investment	(9,039)	113,100

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

accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the Statement of Net Position as a deferral, or in the Statement of Activities as investment revenue or loss. Most derivatives are stand-alone instruments. At certain instances, as outlined in GASB 53, for those that have an additional embedded instrument, or hybrid instruments, the statement calls for bifurcating and accounting for the transaction as two separate components.

In June 2011, the GASB issued Statement No. 64 (GASB 64) as an amendment of GASB 53, addressing the application of hedge accounting termination provisions. GASB 64 requires for hedge accounting to cease upon the replacement of a swap counterparty unless the counterparty has committed or experienced an act of default or a termination event as both are described in the swap agreement.

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

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

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

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

(ii) Reduce interest expense from expected benefit resulting from the difference between short-term and long-term rates. This is the function of a swap where the Department receives floating amounts based on a longer term index with the expectation of receiving an ongoing net benefit compared to short-term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which the Department pays on the variable bonds. Therefore, when shorter term interest rates came close to, or exceeded longer term rates, the Department entered into a swap whose receipts on the receive floating leg are based on a longer term index that is expected to outperform the payments on the Department's variable debt. Part of the fair value of this swap is determined by the prevailing level of short-term versus long-term rates or the steepness of the yield curve. The higher the level of long-term rates compared to shorter term rates, the higher the expected benefit to the Department. Therefore, the

higher the mark-to-market value of the swap. The Department pays a fixed rate on one part of the swap transaction and the other part of the value of this swap is determined by the prevailing level of interest rates compared to when the Department entered into the swap transaction. Since interest rates have trended lower since inception, the mark-to-market value will be more negative to the Department, even though the Department may be receiving a net benefit from the receipts based on the 10 Year CMS Index. Since the long-term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem such transactions investment instruments.

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

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2015.

Associated Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Ratings
* Series 2014 B	\$200,000	\$133,045	10/23/02	9/1/2019	3.164% Contractual; 0.8192% GASB 53 At-the-Market	67% of USD-LIBOR	(\$701)	Goldman Sachs Bank USA	A1/A-/A
* Series 2014 B	\$120,005	\$79,830	3/1/12	9/1/2019	3.1640% Contractual; 0.8183% GASB 53 At-the-Market	67% of USD-LIBOR	(\$422)	The Bank of New York Mellon	Aa2/AA-/AA-
** Series 2012 A	\$150,275	\$38,100	5/7/12	9/1/2015	3.3590% Contractual; 0.2254% GASB 53 At-the-Market	Lesser of ABR/71% of USD-LIBOR 'til 9/2010; 71% of USD-LIBOR thereafter	(\$34)	Merrill Lynch Derivative Products AG	Aa3/A+/NR
* Series 2004 C	\$147,000	\$72,000	11/23/04	9/1/2024	3.571%	63.5% of USD-LIBOR + 0.29%	(\$10,949)	Goldman Sachs Bank USA	A1/A-/A
** Series 2004 C	\$75,000	\$75,000	7/1/07	9/1/2024	3.571%	62.329% of 10 Year CMS	(\$9,005)	Goldman Sachs Bank USA	A1/A-/A
Total Fair Value							(\$21,111)		
* - Considered fair value hedge									
** - Considered investment derivative									

Detailed Discussion

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

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2015, are shown in the table above. The Department's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

2014 B Swaps (Formerly 2002B and C Swaps) - In connection with the issuance of \$320,005 of variable-rate Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002, the Department competitively bid a floating-to-fixed 67% of LIBOR interest rate swap. Goldman Sachs was awarded \$200,000 of notional principal and Salomon Smith Barney was awarded \$120,005 of notional principal.

The executed transaction consisted of a \$320,005 17-year amortizing interest rate swap under which the Department pays Goldman/Citibank a fixed rate of 3.164% and receives 67% of LIBOR. The Department was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

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

On September 2, 2014, the Department issued Series 2014B Bonds to refund the outstanding principal amounts of the Series 2002B & C Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and new bonds. This can result in a hybrid instrument that consists of an at-the-market fixed rate swap with a pay fixed rate computed on the date of the refunding and an imputed borrowing that is considered a cost of refunding. This is amortized over the shorter of the life of the new bonds or refunded bonds.

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

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

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

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

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

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

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, 2015, the Department has no credit risk exposure on the swap transactions. This is due to the swaps having 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, 2015 were \$660,734. These contractual commitments will be funded by revenues from various Federal, State, and local sources. These revenues will be primarily in the form of matching Federal highway construction funds, motor fuel tax monies and vehicle registrations and permits. This revenue is expected to be received in time to meet cash requirements as the obligations become due. The following table provides a summary of the contractual commitments encumbered as of June 30, 2015.

<u>Fund</u>	<u>Commitments</u>
State Highway (agency's general fund)	\$ 648,772
Debt Service	298
Rail Service Improvement	2,784
Interagency Motor Vehicle Fuel Sales	4
Traffic Records Enhancement	834
Public Use General Aviation Airport Development	2,573
Other Special Revenue Funds	5,469
Total Commitments	<u>\$ 660,734</u>

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 2015, the Department's contribution rate is 2.378% 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, 2015, the amount of these liabilities included in accounts payable of the government-wide Statement of Net Position was \$16,140 and is the Department's best estimate based on available information. Changes in the reported liability since June 30, 2014, 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>
2014	25,467	(14,900)	445	10,122
2015	10,122	6,058	40	16,140

Note 12. Pension Plan

A. Plan description - The Department participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at www.kpers.org or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

B. Benefits provided – KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 "points".

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump-sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas. The retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

C. Contributions – K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. Effective July 1, 2009, KPERS has two benefit structures and contribution rates depend on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing member hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 member and 6% of covered salary for Tier 2 members through December 31, 2014. On January 1, 2015, Kansas law increased the KPERS member-employee contribution rate to 6% of covered salary for Tier 1 members; however, the Tier 2 member-employee contribution rate remained at 6% of covered salary. Member employee's contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for the Death and Disability Program) and the statutory contribution rate was 15.12% and 10.27%, respectively, for the fiscal year ended June 30, 2014. The actuarially determined employer contribution rate was 15.41% for the fiscal year ended June 30, 2015. The statutory contribution rate was 11.27% from July 1, 2014 to December 31, 2014 and 8.65% from January 1, 2015 to June 30, 2015. Contributions to the pension plan from the Department were \$10,469 for the year ended June 30, 2015.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the Department reported a liability of \$149,527 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. The Department's proportion of the net pension liability was based on the ratio of the Department actual contributions to KPERS, relative to the total employer and non-employer contributions of the State/School subgroup within KPERS for the fiscal year ended June 30, 2014. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2014, the Department's proportion was 2.34%, which was a decrease of 0.14% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Department recognized pension expense of \$9,684. At June 30, 2015, the Department reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 0	\$ 3,542
Net difference between projected and actual earnings on pension plan investments	0	17,801
Changes in proportion (and difference between contributions and proportionate share of contributions)	0	8,477
Contributions subsequent to measurement	10,469	0
Total	<u>\$ 10,469</u>	<u>\$ 29,820</u>

A total of \$10,469 was reported as deferred outflows of resources related to pensions resulting from the Department's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2016	\$ 6,944
2017	6,944
2018	6,944
2019	6,944
2020	2,044
Thereafter	0
Total	<u>\$ 29,820</u>

E. Actuarial assumptions – The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Percent Inflation	3.00%
Wage Inflation	4.00%
Salary increases, including wage increases	4.00% to 12.50%, including inflation
Long-term rate of return net of investment expense, and including price of inflation	8.00%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study conducted for the three year period beginning December 31, 2009.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.00%
Fixed income	14%	0.85%
Yield driven	8%	5.50%
Real return	11%	3.75%
Real estate	11%	6.65%
Alternatives	8%	9.50%
Short-term investments	1%	0.00%
Total	100%	

F. Discount rate – The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the Department will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Sensitivity of the Department proportionate share of the net pension liability to changes in the discount rate – The following presents the Department's proportionate share of the net pension liability calculated

using the discount rate of 8.00%, as well as what the Department's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Department's proportionate share of the net pension liability	\$ 195,176	\$ 149,527	\$ 110,766

H. Pension plan fiduciary net position – Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

Note 13. Other Postemployment Healthcare Benefits

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

B. Funding policy – The State provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 75-6511). Kansas statutes, which may be amended by the State Legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs. In August 2011, the State announced a Voluntary Retirement Incentive Program (VRIP) which was intended to generate salary and benefit savings. The program offered to pay either: a one-time lump sum payment of \$6,500 to an employee, the employer's share of Post-Retirement Group Health Insurance Coverage member-only coverage for the lesser of 60 months or until the employee reaches age 65, or to pay the employer's share of Post-Retirement Group Health Insurance Coverage for member-plus-dependent coverage for 42 months. The Department is responsible for paying the employer's share of health coverage applicable to 128 retirees. The dollar amount of subsidy for 2015 is \$582.92 (dollar amount not in thousands) for single coverage and \$852.72 (dollar amount not in thousands) for member-plus-dependent coverage. However, the Department made a lump sum payment of \$1,096 for the amount remaining related to the VRIP in FY 2014. Therefore, no changes to employee data and plan assumptions related to the VRIP were included in the most recent actuarial valuation since it has been paid in full. For FY 2015, \$391 is prepaid for the VRIP.

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

C. Annual OPEB cost and net OPEB obligation – The Department's annual OPEB (Other Post-Employment Benefits) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each

year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the Department's annual OPEB cost for the year, the amount contributed to the plan, and changes in the net OPEB obligation.

Annual required contribution:	
Amortization of unfunded actuarial accrued liability (UAAL)	\$ 1,200
Normal cost (with interest)	967
Annual required contribution (ARC) - Annual OPEB Cost	2,167
Interest on Net OPEB Obligation	494
Adjustment to the ARC	(728)
Annual OPEB Cost	<u>\$ 1,933</u>
Claims and Admin Paid on Behalf of Retirees	2,536
Contributions made	(1,342)
Net Employer Contributions	<u>\$ 1,194</u>
Other post employment benefits obligations at July 1, 2014	12,824
Annual OPEB Cost	1,933
Net Employer Contributions	(1,194)
Other post employment benefits obligations at June 30, 2015	<u>\$ 13,563</u>

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

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2013	2,657	1,870	70%	11,926
2014	2,245	1,347	60%	12,824
2015	1,933	1,194	62%	13,563

D. Funded status and funding progress - As of June 30, 2015 (the most recent actuarial valuation date), the actuarial accrued liability for benefits was \$21,554. The Department's policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$21,554. The covered payroll (annual payroll of active employees covered by the plan) was \$106,434 and the ratio of the UAAL to the covered payroll was 20%.

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

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

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

In the June 30, 2015 actuarial valuation, the Projected Unit Credit Method was applied. The actuarial assumptions included a 3.85% discount (inflation) rate and a 3.85% investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 6.5% for medical costs and 10.0% for prescription costs in 2015 decreasing to 5% in 2024 for medical costs and decreasing to 5% in 2029 for prescription costs. The UAAL is being amortized over a 30 year open period in level dollar amounts. The valuation assumes no increase in salary benefit or cost-of-living (post-retirement benefits) adjustments.

The employer contribution, according to GASB Statement No. 45, is the aggregate amount of the subsidies, which is calculated into the employer contribution for active employees.

Note 14. Relationship with Other State Agencies

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

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

Note 15. Subsequent Events

A. Bonds Payable - In August 2015, the Department issued Highway Revenue Refunding Bonds Series 2015A, in the amount of \$185,785. The purpose of these bonds was to refund the Series 2004B Bonds and pay the cost associated with their issuance. The bonds were issued as premium bonds with interest rates of 5.0% and maturities ranging from 2022 to 2025.

B. Pension Plan - Under the budgetary allotment process for the State of Kansas, the Kansas governor has authority to reduce the approved budget for purposes of balancing the budget. For the State's fiscal year ending June 30, 2015, the KPERS employer contribution to the State/School group was reduced by \$58 million. It is unknown at the time whether this reduction will have a significant effect on the Department's proportionate share of the KPERS collective net pension liability, or an effect on any actuarial assumptions used by KPERS to calculate the net pension liability.

During the 2015 state legislative session, Senate Bill 228 was passed authorizing the issuance of one or more series of revenue bonds to provide deposits to KPERS in a total amount not to exceed \$1 billion. The purpose of such bond issuance would be for financing a portion of the unfunded actuarial pension liability of KPERS, which would also have an effect on the collective net pension liability. Final issuance of such bonds must be approved by a resolution of the State Finance Council. As of the date of this report, no such bonds under Senate Bill 228 had been issued. The effect of any potential bond issuance on the Department's proportionate share of the KPERS collective net pension liability is unknown at this time.

Note 16. Prior Period Adjustment

For the year ended June 30, 2015, the Department adopted the provisions of GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" (GASB 68), which is effective for financial statements for periods beginning after June 15, 2014. GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. GASB 68 requires cost-sharing employers participating in KPERS, to record their proportionate share, as defined in GASB 68, of KPERS' unfunded pension liability.

For the Department, the effect of implementing this standard was to change how it accounts and reports the net pension liability. Implementation of the standard resulted in a restatement of the prior period Net Position as follows:

	Governmental Activities
Net position - June 30, 2014	\$ 10,769,306
Net Pension Liability	(180,215)
	10,551
Deferred outflow of resources due to pension	10,551
Net Position - beginning of year (as restated)	<u>\$ 10,599,642</u>

**Kansas Department of Transportation
Required Supplementary Information
For the Year Ended June 30, 2015**

Infrastructure (amounts in thousands):

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

Roadway Pavement

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

PL-1 Roadway surface is in good condition and needs only routine or light preventative maintenance.

PL-2 Roadway surface needs at least routine maintenance.

PL-3 Roadway surface is in poor condition and needs significant work.

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

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum Acceptable Condition Level*	Actual Condition Level*	Minimum Acceptable Condition Level*	Actual Condition Level*
2013	85	96	80	83
2014	85	98	80	89
2015	85	98	80	90
* - Percent of miles in PL-1				

The Department's goal is to continually maintain and improve the condition of the State Highway System. To achieve this goal it is necessary to perform maintenance activities and replace those assets that can no longer be economically maintained. The Department concentrates resources on items that are measured. To maintain the Interstate Highways at or above the stated minimum condition level, it was estimated that annual preservation and replacement expenditures must exceed \$93 million in fiscal year 2015. To maintain the Non-interstate Highways at or above the stated minimum condition level, it was estimated that annual preservation and replacement

expenditures must exceed \$231 million in fiscal year 2015. The estimated expenditure amounts are based on the projected T-WORKS program funding levels for preservation that are anticipated to be needed to maintain the system. The actual expenses are based on these project expenditures during the fiscal year. The following table compares the estimated expenditures needed to maintain the system at a minimum acceptable condition level with actual amounts spent for the current and prior years.

Fiscal Year	Interstate Highways		Non-interstate Highways	
	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Condition Level*	Actual Expenses*	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Condition Level*	Actual Expenses*
2011	\$110,000	\$57,550	\$260,000	\$395,726
2012	84,000	112,600	208,000	442,608
2013	87,000	119,170	215,000	412,050
2014	90,000	126,485	223,000	375,772
2015	93,000	144,777	231,000	423,375
* - amounts in \$1,000				

Bridges

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

The Performance Metric is the percent of state-owned bridges in Good Condition, with the condition state of a bridge being defined as follows:

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

The table on the following page compares the actual percentage of bridges in good condition to the minimum acceptable percent of bridges in good condition. An overall state-wide condition level of 85 has been defined as the minimum acceptable percentage of bridges in good condition. This table compares the minimum acceptable percentage of bridges in good health with the actual measure of bridges in good health for the current and prior years.

Required Supplementary Information

Fiscal Year	Minimum Acceptable Condition Level	Actual Condition Level
2013	85	88
2014	85	87
2015	85	86

The Department's goal is to continually improve the condition of the State's bridge system. To achieve this goal, it is necessary to perform maintenance activities and to replace those bridges that can no longer be economically maintained. To maintain the State's bridges at or above the stated minimum acceptable percentage of bridges in good condition, it is estimated that annual preservation and replacement expenditures must be approximately \$81 million for fiscal year 2015. The following table compares the estimated annual expenditures with the actual expenditures for the current and prior years.

Fiscal Year	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable % Bridges in Good Condition*	Actual Expenses*
2011	\$75,000	\$69,620
2012	73,000	87,890
2013	76,000	82,046
2014	78,000	92,372
2015	81,000	129,420
*- amounts in \$1,000		

Other Post Employment Benefits (amounts in thousands):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
06/30/13	0	\$ 29,595	\$ 29,595	0%	\$ 109,460	27%
06/30/14	0	25,329	25,329	0%	104,484	24%
06/30/15	0	21,554	21,554	0%	106,434	20%

Pension Plan (amounts in thousands):

Changes in benefit terms. Effective January 1 2014, KPERS Tier 1 member's employee contribution rate increased to 5.0% and then on January 1, 2015, will increase to 6.00%, with an increase in benefit multiplier to 1.85% for future years of service. For Tier II members retiring after July 1, 2012, the cost of living adjustment (COLA) is eliminated, but members will receive a 1.85% multiplier for all years of service.

	2014	2015
Proportion of the net pension liability (asset)	2.48%	2.34%
Proportionate share of the net pension liability (asset)	\$ 180,215	\$ 149,527
Covered-employee payroll	\$ 104,484	\$ 106,434
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	172.48%	140.49%
Plan fiduciary net position as a percentage of the total pension liability	22.52%	21.73%

	2014	2015
Contractually required contribution	\$ 10,067	\$ 10,551
Contributions in relation to the contractually required contribution	10,067	10,551
Contribution deficiency (excess)	\$ 0	\$ 0
Covered-employee payroll	\$ 104,484	\$ 106,434
Contributions as a percentage of covered employee payroll	9.63%	9.91%

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APPENDIX C

Information Concerning Sources of Funds in State Highway Fund

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

Motor Fuels Taxes

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

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

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

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

Tax Rates. The table set forth in this Appendix C and captioned “State of Kansas, Department of Transportation Motor Fuels Taxes Consumption Quantities, Rates, Receipts and Distributions” shows the Kansas motor fuel tax rates for the Fiscal Years 2005 – 2020. 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 2005 through 2015, \$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 2020.

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 2005-2015. The table also includes estimated receipts and distributions of Motor Fuel Taxes for the Fiscal Years 2016 through 2020. 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, 2005 – 2015
and Department Estimates for Fiscal Years 2016 – 2020

	2005	2006	2007	2008	2009	2010	2011	2012
Consumption Quantities								
Gasoline, millions of gallons	1,311	1,291	1,311	1,293	1,276	1,292	1,307	1,289
Diesel, millions of gallons	454	476	480	489	462	467	486	497
Liquid Petroleum, millions of gallons	2	2	2	1	1	1	1	1
Carrier Trip Permit	10	13	19	20	19	23	24	25
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	\$ 314,584	\$ 309,832	\$ 314,751	\$ 310,198	\$ 306,060	\$ 310,240	\$ 313,865	\$ 309,316
Diesel	118,112	123,853	124,678	127,062	119,993	121,395	126,333	129,264
Liquid Petroleum	260	255	226	208	208	182	155	163
Carrier Trip Permit	131	165	243	263	247	295	318	327
Total Amount	\$ 433,087	\$ 434,105	\$ 439,898	\$ 437,732	\$ 426,508	\$ 432,112	\$ 440,671	\$ 439,070
Less: Refunds	6,827	5,939	5,851	6,424	5,237	7,540	4,440	4,021
Net Receipts	\$ 426,260	\$ 428,166	\$ 434,047	\$ 431,308	\$ 421,271	\$ 424,572	\$ 436,231	\$ 435,049
Net Year End Accruals	556	927	(1,036)	(28)	0	1,847	(4,835)	(1,318)
Net Revenue	<u>\$ 426,816</u>	<u>\$ 429,093</u>	<u>\$ 433,011</u>	<u>\$ 431,280</u>	<u>\$ 421,271</u>	<u>\$ 426,419</u>	<u>\$ 431,396</u>	<u>\$ 433,731</u>
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	139,674	139,815	142,293	141,372	137,913	139,106	143,027	142,630
County Equalization and Adjustment	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
State Highway	280,586	281,851	285,754	283,936	277,358	279,466	287,204	286,419
Total	<u>\$ 426,260</u>	<u>\$ 428,166</u>	<u>\$ 434,047</u>	<u>\$ 431,308</u>	<u>\$ 421,271</u>	<u>\$ 424,572</u>	<u>\$ 436,231</u>	<u>\$ 435,049</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, 2005 – 2015
and Department Estimates for Fiscal Years 2016 – 2020

	2013	2014	2015	Estimated				
				2016	2017	2018	2019	2020
Consumption Quantities								
Gasoline, millions of gallons	1,238	1,287	1,296	1,297	1,297	1,297	1,297	1,297
Diesel, millions of gallons	470	523	505	507	512	517	522	527
Liquid Petroleum, millions of gals	1	1	2	3	3	3	3	3
Carrier Trip Permit	22	24	26	26	26	26	26	26
Rates (in dollars)								
Gasoline/Gasohol	\$.024	\$ 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	\$ 297,033	\$ 308,889	\$ 311,101	\$ 311,125	\$ 311,125	\$ 311,125	\$ 311,125	\$ 311,125
Diesel	122,090	136,002	131,422	133,120	134,420	135,720	137,020	138,320
Liquid Petroleum	201	313	464	575	575	575	575	575
Carrier Trip Permit	285	277	340	338	338	338	338	338
Total Amount	\$ 419,609	\$ 445,481	\$ 443,326	\$ 445,158	\$ 446,458	\$ 447,758	\$ 449,058	\$ 450,358
Less: Refunds	4,256	3,640	3,768	3,825	3,825	3,825	3,825	3,825
Net Receipts	\$ 415,353	\$ 441,841	\$ 439,558	\$ 441,333	\$ 442,633	\$ 443,933	\$ 445,233	\$ 446,533
Net Year End Accruals	4,071	580	(476)	0	0	0	0	0
Net Revenue	<u>\$ 419,424</u>	<u>\$ 442,421</u>	<u>\$ 439,082</u>	<u>\$ 441,333</u>	<u>\$ 442,633</u>	<u>\$ 443,933</u>	<u>\$ 445,233</u>	<u>\$ 446,533</u>
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	136,007	144,914	144,146	144,743	145,180	145,618	146,055	146,492
County Equalization and Adjustment	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
State Highway	273,346	290,927	289,412	290,590	291,453	292,315	293,178	294,041
Net Receipts	<u>\$ 415,353</u>	<u>\$ 441,841</u>	<u>\$ 439,558</u>	<u>\$ 441,333</u>	<u>\$ 442,633</u>	<u>\$ 443,933</u>	<u>\$ 445,233</u>	<u>\$ 446,533</u>

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.

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

Vehicle Registration Fee Schedule

<u>Vehicle Category</u>	<u>Lowest</u>		<u>Highest</u>	
	<u>Fee</u>	<u>Weight Class</u>	<u>Fee</u>	<u>Weight Class</u>
Passenger Vehicles	\$30	0-4,500 lbs.	\$ 40	4,500 + lbs.
Regular trucks, operated more than 6,000 miles per year	40	0-12,000 lbs.	2,070	80-85,500 lbs.
Regular trucks, operated less than 6,000 miles per year	162	12-16,000 lbs.	1,145	80-85,500 lbs.
Local trucks	162	12-16,000 lbs.	1,145	80-85,500 lbs.
Farm trucks	57	12-16,000 lbs.	745	66,000 + lbs.
Custom harvesting farm trucks	82	12-16,000 lbs.	1,145	80-85,500 lbs.
Trailers, mobile homes	35	0-8,000 lbs.	55	12,000 + lbs.

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

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

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

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

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

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

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

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

Revenues. The following table sets forth for Fiscal Years 2005 through 2015 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 2016 through 2020.

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>
2005	\$ 154,107	\$ 9,043	\$ 610	\$ 163,760
2006	155,833	9,056	684	165,573
2007	161,644	9,153	778	171,575
2008	163,504	7,982	867	172,353
2009	162,655	6,761	840	170,256
2010	166,178	7,490	1,623	175,291
2011	167,386	8,999	2,107	178,492
2012	166,316	8,844	2,489	177,649
2013	186,962	8,755	2,403	198,120
2014	201,051	7,960	2,634	211,644
2015	208,935	7,090	2,763	218,788
2016 ¹	206,000	7,090	2,763	215,853
2017 ¹	206,000	7,090	2,763	215,853
2018 ¹	206,000	7,090	2,763	215,853
2019 ¹	206,000	7,090	2,763	215,853
2020 ¹	206,000	7,090	2,763	215,853

Totals may not add due to rounding.

- 1 Vehicle registration fees for Fiscal Years 2016-2020 are estimates developed by the Highway Revenue Estimating Group as of November 12, 2015 (see the caption "THE STATE HIGHWAY FUND-Basis of Projections" in the Official Statement). The estimates also assume that rates currently provided by statute and the distribution of amounts collected will remain in effect throughout the period.

Sales Tax and Compensating Use Tax

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

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

The current State Sales Tax and Compensating Use Tax rates, effective July 1, 2015, are 6.50%, a portion of which is credited directly to the State Highway Fund in accordance with State law.

Prior to July 1, 2006, 5/106ths of the 5.30%, the equivalent of a .25% tax rate, was credited directly to the State Highway Fund. The 2004 Legislature changed the statute to 19/265ths of the 5.30% effective July 1, 2006, and 13/106ths of the 5.30% effective July 1, 2007, the equivalent of .38% for Fiscal Year 2007 and .65% for Fiscal Year 2008 and thereafter. The 2010 Legislature amended the statute to credit 11.427% of the revenue collected at the rate of 6.30% to the State Highway Fund effective July 1, 2010, 11.26% of the revenue collected to the State Highway Fund effective July 1, 2011, and 11.233% of the revenue collected to the State Highway Fund effective July 1, 2012, and beginning July 1, 2013, and thereafter, 18.421% of the revenue collected at the rate of 5.70% to the State Highway Fund. The 2013 Legislature amended the statute to credit 17.073% of the revenue collected at the rate of 6.15% to the State Highway Fund effective July 1, 2013, and thereafter. The 2015 Legislature amended the statute to credit 16.226% of the revenue collected at the rate of 6.50% to the State Highway Fund effective July 1, 2015. Effective July 1, 2016, and thereafter, the statute is amended to credit 16.154% of the revenue collected at the rate of 6.50% to the State Highway Fund. Such portion of the Sales Tax and State Compensating Use Tax (after refunds) is designated to be credited directly 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. The 2013 Legislature amended the statute to credit 17.073% of the revenue collected at the rate of 6.15% to the State Highway Fund effective July 1, 2013, and thereafter. The 2015 Legislature amended the statute to credit 16.226% of the revenue collected at the rate of 6.50% to the State Highway Fund effective July 1, 2015. Effective July 1, 2016, and thereafter, the statute is amended to credit 16.154% of the revenue collected at the rate of 6.50% to the State Highway Fund. Such portion of the Sales Tax and State Compensating Use Tax (after refunds) is designated to be credited directly 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, 2013, is 6.15% (decreased from the 6.30% tax rate previously in effect). Prior to July 1, 2006, 5/106ths of the 5.30%, the equivalent of a .25% tax rate, was credited directly to the State Highway Fund. The 2004 Legislature changed the statute to 19/265ths of the 5.30% effective July 1, 2006, and 13/106ths of the 5.30% effective July 1, 2007, the equivalent of .38% for Fiscal Year 2007 and .65% for Fiscal Year 2008 and thereafter. The 2010 Legislature amended the statute to credit 11.427% of the revenue collected at the rate of 6.30% to the State Highway Fund effective July 1, 2010, 11.26% of the revenue collected to the State Highway Fund effective July 1, 2011, and 11.233% of the revenue collected to the State Highway Fund effective July 1, 2012, and beginning July 1, 2013, and thereafter, 18.421% of the revenue collected at the rate of 5.70% to the State Highway Fund. The 2013 Legislature amended the statute to credit 17.073% of the revenue collected at the rate of 6.15% to the State Highway Fund effective July 1, 2013, and thereafter. The 2015 Legislature amended the statute to credit 16.226% of the revenue collected at the rate of 6.50% to the State Highway Fund effective July 1, 2015. Effective July 1, 2016, and thereafter, the statute is amended to credit 16.154% of the revenue collected at the rate of 6.50% to the State Highway Fund. Such portion of the Sales Tax and State Compensating Use Tax (after refunds) is designated to be credited directly 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.

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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 2005 through 2015 and estimates for Fiscal Years 2016 through 2020. Deposits to the State General Fund for Fiscal Years 2005 through 2015 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 Revenue 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 Revenue 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
2005	\$ 1,647,663	\$ 244,755	\$ 94,208
2006	1,736,048	269,250	99,938
2007	1,766,768	284,981	162,525
2008	1,711,398	246,277	283,597
2009	1,697,522	225,000	268,259
2010	1,652,037	205,540	259,899
2011	1,965,388	287,730	295,989
2012	2,136,353	325,339	312,934
2013	2,184,573	340,044	320,756
2014	2,102,239	344,017	501,291
2015	2,132,777	352,176	512,360
2016 ¹	2,300,000	375,000	518,253
2017 ¹	2,380,000	395,000	534,771
2018 ²	2,469,250	409,813	554,820
2019 ²	2,561,847	425,180	575,621
2020 ²	2,657,916	441,125	597,201

Totals may not add due to rounding.

1. Amounts for Fiscal Years 2016 – 2017 were based on estimates developed by the State Consensus Revenue Estimating Group as of November 6, 2015.
2. Amounts for Fiscal Years 2018-2020 reflect the Highway Revenue Estimating Group's November 12, 2015, projection that annual growth in Sales Tax and Compensating Use Tax collections will be 3.75 percent in Fiscal Year 2018 and thereafter.

APPENDIX D

SUMMARY OF 1992 RESOLUTION

The following is a brief summary of certain provisions of the 1992 Resolution (the “1992 Resolution”) and is qualified in its entirety by reference thereto, copies of which may be obtained from the Secretary. See “THE SERIES 2015B BONDS” and “SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS” herein for a summary of certain additional provisions of the 1992 Resolution. Capitalized terms used and not otherwise defined in this “SUMMARY OF THE 1992 RESOLUTION” are defined in **Appendix E** hereto and in the 1992 Resolution.

1992 Resolution to Constitute Contract

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

Pledge of Revenues

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

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

Maintenance of State Highway Fund and Revenues

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

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

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

Records

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

Report Requirements

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

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

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

Annual Budget and Multi-year Program Report

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

Tax Covenant

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

Defeasance

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

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

certification will be filed with the Paying Agent together with an Opinion of Counsel to the effect that (1) all legal conditions of the 1992 Resolution to the defeasance and discharge of such Bonds will have been met and fulfilled, and (2) as a result thereof there is no adverse effect with respect to the exclusion from gross income for federal income tax purposes of the interest on any of the tax-exempt Bonds or the Secretary's right to receive Government Interest Subsidy Payments with respect to each payment of interest on any series of Governmental Interest Subsidy Bonds. At such time as Bonds will be deemed to be paid, such Bonds will no longer be secured by the 1992 Resolution and the appropriate Supplemental Resolution, and the Owner or Owners thereof will no longer be entitled to the benefits of the 1992 Resolution, except for the purposes of any such payment from such moneys or Defeasance Securities and except for the purposes of registration, transfer and exchange of such Bond or series of Bonds.

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

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

Events of Default

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

- (a) *Nonpayment of Principal.* If payment of the principal of any of the Bonds is not made when the same will become due and payable, either at maturity, or by prior redemption (including mandatory sinking fund redemption), or otherwise;
- (b) *Nonpayment of Interest.* If payment of any installment of interest on any Bonds is not made when the same will become due and payable;
- (c) *Failure to Make Required Sinking Fund Deposit.* If there will occur a failure to make any deposit into the Interest Account or the Principal Account in the time and manner required by any Supplemental Resolution with respect to any series of Bonds and such failure continues beyond any grace or cure period provided in any such Supplemental Resolution; and
- (d) *Failure to Comply with Other Provisions.* If there continues any failure in the observance or performance of any covenant, agreement, condition or provision contained in the Bonds or in the 1992 Resolution (other than as described in clauses (a), (b) or (c) hereof) and such failure continues for a period of thirty (30) days after written notice specifying such failure and requiring the same to be remedied shall have been given to the Secretary, or to the Bond Registrar, by the Owners of at least ten percent (10%) in aggregate principal amount of the Initial Series and any Additional Bonds then Outstanding; provided, with respect to any such failure under this clause (d), no Event of Default will be deemed to have occurred so long as a

course of action adequate to remedy such failure shall have been commenced within such thirty (30) day period and will thereafter be diligently pursued to completion and the failure will be remedied thereby.

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

Remedies for Defaults

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

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

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

Trustee Appointment Upon Event of Default

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

Majority of Bondowners May Control Proceedings

Notwithstanding anything in the 1992 Resolution to the contrary, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, or the Trustee, if appointed, shall have the right, at any time, to the extent permitted by law, by instrument(s) in writing, executed and delivered to the Bond Registrar, to direct the time, method and place of conducting all proceedings to be taken in connection with the

enforcement of the terms and conditions of the 1992 Resolution and any other proceeding hereunder; provided that such direction will not be otherwise than in accordance with the provisions hereof.

Rights and Remedies of Bondowners

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

Waivers of Events of Default

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

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

Supplemental Resolutions Not Requiring Consent of Bondowners

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

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

Supplemental Resolutions Requiring Consent of Bondowners

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

- (a) An extension of the maturity of, or a reduction of the principal amount of, or a reduction of the rate of, or extension of the time of payment of interest on, or a reduction of a premium payable upon any redemption of, any Bond; or
- (b) The deprivation of the Owner of any Bond then Outstanding of the lien created by the 1992 Resolution (other than as permitted hereby when such Bond was initially issued); or

- (c) A privilege or priority of any Bond(s) over any other Bond(s); or
- (d) A reduction in the aggregate principal amount of the Bonds required for consent to any Supplemental Resolution.

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

Bond Counsel Opinion on Supplemental Resolutions

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

APPENDIX E

DEFINITIONS OF CERTAIN TERMS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

“Debt Service Requirements” shall mean during the applicable period and as of any date of calculation (a) with respect to any series of Outstanding Bonds, the aggregate of the Bond Service Charges on such series. For purposes of this definition, the scheduled principal and interest portions of the Accreted Value

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

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

“Defeasance Securities” shall mean:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed as to 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 all Rating Agencies;

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

(vii) certificates or other instruments that evidence ownership of the right to payments of principal of or interest on obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision, provided that such obligations shall be held in custody by a bank or trust company or a national banking association

having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, and provided further that the payments of all principal of and interest on such certificates or such obligations shall be fully insured or unconditionally guaranteed as to payment pursuant to a credit support arrangement provided by one or more financial institutions or insurance companies or associations which shall be rated in the highest Rating Categories by two or more Rating Agencies, or, in the case of an insurer providing municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bonds, such insurance policy shall result in such municipal bonds being so rated at the time of purchase hereunder;

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

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

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

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

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

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

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

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

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

“KDOT” shall mean the Kansas Department of Transportation.

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

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

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

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

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

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

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

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

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

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

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

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

“Qualified Swap Agreement” shall mean an interest rate exchange, hedge or similar agreement entered into by the Secretary and a Swap Provider, expressly identified in a certificate of the Secretary as having been entered into in order to hedge the interest rate payable on all or any portion of any Bonds, which agreement (i) may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g., a call, put, cap, floor or collar) and (ii) does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof. Anything in the 1992 Resolution to the contrary notwithstanding, any Bonds for which a

Qualified Swap Agreement has been entered into by the Secretary shall be deemed to bear interest for the period of time that such Qualified Swap Agreement is in effect at a net rate which takes into account the interest payments made by the Secretary with respect to such Bonds and the payments made or received by the Secretary with respect to such Qualified Swap Agreement; provided that the long-term credit rating of the Swap Provider (or any guarantor thereof) is in one of the two highest rating categories of any Rating Agency (without regard to any refinements of gradation of any rating category by numerical modifier or otherwise) then rating such Bonds unless such Bonds are secured by a Credit Enhancement, in which case such Qualified Swap Agreement shall be approved in writing by the provider of such Credit Enhancement. For purposes of the Additional Bonds provisions of the 1992 Resolution described in the Official Statement under the caption "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES 2015B BONDS -- Additional Bonds" and the rate covenant provisions of the 1992 Resolution described in **Appendix D** under the caption "SUMMARY OF THE 1992 RESOLUTION -- Maintenance of State Highway Fund and Revenues", so long as any Bonds are deemed to bear interest at a rate taking into account a Qualified Swap Agreement, any payments made by the Secretary with respect to such Qualified Swap Agreement shall be *excluded* from the calculation of Adjusted Debt Service Requirements and Bond Service Charges and any payments received by the Secretary with respect to such Qualified Swap Agreement shall be excluded from Revenues.

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

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

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

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

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

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

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

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

“State” shall mean the State of Kansas.

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

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

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

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

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

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

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

APPENDIX F

PROPOSED FORM OF OPINION OF BOND COUNSEL

December 10, 2015

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

Re: Kansas Department of Transportation
Highway Revenue Bonds, Series 2015B

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 2015B Bonds (the “Series 2015B Bonds”), pursuant to the 1992 Resolution (the “1992 Resolution”) adopted by the Secretary, as supplemented by the Thirty-Second Supplemental Resolution adopted by the Secretary with respect to the Series 2015B Bonds (the “Thirty-Second 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 2015B Bonds and the Series 2015B Bonds have been duly authorized, executed and delivered by the Secretary and are valid and legally binding special obligations of the State of Kansas, payable and collectible solely from, and are secured by a valid first lien and claim on, the Revenues and moneys in certain funds and accounts as provided in the Resolution on parity with the Outstanding Series 2004A Bonds, Series 2004C Bonds, Series 2009A Bonds, Series 2010A Bonds, Series 2012B Bonds, Series 2012C Bonds, Series 2014A Bonds, Series 2014B Bonds, Series 2015A Bonds and any Additional Bonds that may hereafter be issued under the Resolution. The Series 2015B 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 Thirty-Second 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 Thirty-Second Supplemental Resolution, and the execution and delivery by the Secretary of the Series 2015B Bonds, and all instruments furnished to the Bond Registrar in connection with the issuance of the Series 2015B Bonds conform to the requirements of the 1992 Resolution and constitute sufficient authority thereunder for the Bond Registrar to authenticate and deliver the Series 2015B Bonds.

4. The interest on the Series 2015B Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; but the interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinion set forth in this paragraph is subject to the condition that the Secretary comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be satisfied subsequent to the issuance of the Series 2015B Bonds in order to preserve the exclusion of the interest on the Bonds from gross income for federal income tax purposes. The Secretary has covenanted to comply with all of these requirements. Failure to comply with certain of these requirements may cause the interest on the Series 2015B Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2015B Bonds. The Series 2015B Bonds have not been designated as “qualified tax-exempt obligations” for purposes of Section 265(b) of the Code.

5. The Series 2015B 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 2015B Bonds (except to the extent, if any, stated in the Official Statement).

The rights of the owners of the Series 2015B Bonds and the enforceability of the Series 2015B Bonds and the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights generally and by equitable principles, whether considered at law or in equity.

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

Very truly yours,

APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

\$400,000,000
State of Kansas
Department of Transportation
Highway Revenue Bonds
Series 2015B

Dated: December 10, 2015

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 2015B 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 2015B 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 2015B 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 2015B 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 2015B Bonds (including persons holding Series 2015B Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2015B Bonds for federal income tax purposes.

“**Bond Resolution**” means, collectively, the 1992 Resolution, adopted March 31, 1992, as amended and supplemented, specifically including the Thirty-Second Supplemental Resolution.

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

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

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

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

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

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

“GASB” means the Governmental Accounting Standards Board.

“Issue Date” shall mean December 10, 2015.

“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 December 2, 2015, relating to the issuance of the Series 2015B 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 2015B Bonds required to comply with the SEC Rule in connection with the offering of the Series 2015B 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 2015B Bonds” shall mean the State of Kansas Department of Transportation Highway Revenue Bonds, Series 2015B, 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 2016 Fiscal Year, provide to the MSRB, through EMMA, the CAFR, which shall contain the Financial Information and Operating Data (collectively, the “Annual Report”) as follows:

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

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

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

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

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

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

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

Section 3. Reporting of Material Events.

(a) Not more than 10 business days after the occurrence of any of the following events, the Secretary shall give, or cause the Dissemination Agent, if any, to give to the MSRB, through EMMA, notice of the occurrence of any of the following events with respect to the Series 2015B Bonds ("Material Events"):

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;

- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series 2015B Bonds, or other material events affecting the tax status of the Series 2015B Bonds;
- (7) modifications to rights of bondholders, if material;
- (8) bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Series 2015B Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the State;
- (13) the consummation of a merger, consolidation, or acquisition involving the State or the sale of all or substantially all of the assets of KDOT, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional trustee or the change of name of the trustee, if material.

Section 4. Dissemination Agent.

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

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

(c) **Material Event Notices.**

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

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

(3) If the Dissemination Agent has been given written instructions by the Secretary to report the occurrence of a Material Event, the Dissemination Agent shall promptly file a notice of such occurrence with the MSRB, with copies to the Secretary. Notwithstanding the foregoing, notice of Material Events described in **Sections 3(a)(4)** and **(5)** need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected Series 2015B 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 2015B 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 2015B 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 2015B 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 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 2015B Bonds, or the type of business conducted; and (c) the amendment or waiver is either (1) approved by the Owners of the Series 2015B 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 2015B 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 2015B 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 2015B 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 2015B 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.

[Signature Omitted]

SCHEDULE I

NOTICE OF FAILURE TO FILE ANNUAL REPORT

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

Name of Bond Issue: \$400,000,000 State of Kansas, Department of Transportation
Highway Revenue Bonds, Series 2015B, dated as of the Issue Date

Issue Date: December 10, 2015

NOTICE IS HEREBY GIVEN that the Secretary has not provided an Annual Report with respect to the above-named bonds (the “Series 2015B Bonds”) as required by the Bond Resolution authorizing the Series 2015B Bonds and the Continuing Disclosure Certificate regarding the Series 2015B 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 H

INFORMATION CONCERNING THE OFFICE OF THE STATE TREASURER

State Treasurer

Ron Estes was sworn in as the 39th Treasurer of the State of Kansas on January 10, 2011. Treasurer Estes oversees an office that currently handles over \$24 billion and an annual operating budget of \$3.5 million. Key programs in the office are Bonds Services, Cash Management, Unclaimed Property, the Ag Loan and Housing Loan Deposit Programs and the Kansas 529 Education Savings Program.

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; administering the distribution of various state and local funds to Kansas municipalities; and administration of the Kansas 529 Education Savings Program which, as of June 30, 2015, reported over 198,000 accounts with approximately \$4.86 billion in assets. 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 90% 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 2,418 issues and nearly 185 active 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 2015, over \$2.5 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 that are traced from receipt through disbursement.

There are 40.5 authorized full-time equivalent positions in the State Treasurer's Office as of June 1, 2015, and 39 of these positions are currently filled. Their functions are as follows:

Administration (12 full-time positions, all currently filled): Responsible for general administration, personnel, budget, audit and information technology functions.

Bond Services (8 full-time positions and 1 part-time position; 7 full-time positions currently filled): Responsible for registration of all Kansas municipal bonds. Acts as registrar and paying agent for 92% of the municipal bonds issued in the State.

Cash Management (8 full-time positions, all 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 full-time position, currently filled): Responsible for the administration and oversight of the 529 Education Savings Program.

Unclaimed Property (11 full-time positions, all currently filled): Responsible for the administration of the Kansas Unclaimed Property Act.

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