

# **Kansas Turnpike Authority**

## **Financial Statements with Supplementary Information**

Years ended December 31, 2010 and 2009  
with  
Independent Auditors' Report

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# Independent Auditors' Report

Board of Directors  
**Kansas Turnpike Authority**



We have audited the accompanying basic financial statements of the Kansas Turnpike Authority as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Turnpike's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in Note 1, the Turnpike does not provide for recognition of depreciation on turnpike facilities; does not capitalize interest costs; capitalizes only the costs of improvements and replacements financed or expected to be financed in part by bond proceeds; and capitalizes bond issuance costs and related premiums and discounts as part of turnpike facilities without amortizing such costs (collectively, the "Exceptions"). These practices are not, in our opinion, in accordance with accounting principles generally accepted in the United States of America. The effects of these practices on the financial statements have not been determined.

In our opinion, except for the effects of the Exceptions as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Kansas Turnpike Authority as of December 31, 2010 and 2009, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were conducted for the purpose of forming an opinion on the Turnpike's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, except for the effects of the accounting methods discussed in the third paragraph of our report on the basic financial statements, such information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The statistical data has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion thereon.

*Allen, Gibbs & Houlik, L.C.*  
CERTIFIED PUBLIC ACCOUNTANTS

February 22, 2011  
Wichita, Kansas

# Management's Discussion and Analysis

Our discussion and analysis of The Kansas Turnpike Authority's (KTA or Turnpike) financial performance provides an overview of the Turnpike's financial activities for the fiscal year ended December 31, 2010. Please read it in conjunction with the Turnpike's financial statements and associated footnotes.

## ***Financial Highlights***

- The Turnpike's net assets increased in 2010 by approximately \$17.0 million or 4.2% compared to 2009.
- Operating income decreased by approximately \$6.7 million or 20% in 2010 compared to 2009. By excluding the cost of improvements, major repairs, and replacements from both years, operating income would have increased over \$5.2 million (11%) in comparison to 2009.
- Long term debt decreased by approximately \$5.5 million or 1.9% in 2010 compared to 2009. \$54 million of bonds originally issued in 2002 were refunded at lower interest rates, resulting in a present-value savings of \$4.4 million.
- During 2010, the KTA's bond rating was upgraded to "Aa3" by Moodys for bonds issued prior to 2009 and "AA-" by Standard and Poors for all outstanding bond issues.

## ***Using this Annual Report***

This discussion and analysis is intended to serve as an introduction to the KTA's financial statements, which are comprised of the basic financial statements and the notes to the financial statements and supplementary information presented. Since the KTA operates like a single enterprise fund, fund level financial statements are not shown.

The basic financial statements are designed to provide readers with a broad overview of the KTA's finances, in a manner similar to a private-sector business. The Turnpike's financial statements consist of three statements – balance sheet; statement of revenues, expenses and changes in net assets; and statement of cash flows. These statements provide information about the activities of the Turnpike, including resources held by the Turnpike but restricted for specific purposes by bond trust indentures. In addition to the basic financial statements, this report also contains other supplementary information concerning the Turnpike's traffic and revenues by vehicle class, as required by bond trust indentures. Supplementary information also includes a Combining Balance Sheet, which reports the assets and liabilities of the KTA's various funds.

## ***The Balance Sheet and Statement of Revenues, Expenses, and Change in Net Assets***

One of the most important questions asked about the Turnpike's finances is, "Is the Turnpike as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Turnpike's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Turnpike's net assets and changes in them. You can think of the Turnpike's net assets – the difference between assets and liabilities – as one way to measure the Turnpike's financial health, or financial position. Over time, increases or decreases in the Turnpike's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Turnpike's customer base and measures of the quality of service it provides, as well as local economic factors to assess the overall health of the Turnpike.

## ***The Statement of Cash Flows***

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning Turnpike traffic and revenues by vehicle class, as required by bond trust indentures.

### **The Turnpike's Balance Sheet**

The Turnpike's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Turnpike's net assets increased in 2010 by approximately \$17.0 million (4.2%).

	<b><u>ASSETS</u></b>		
	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Cash and cash equivalents	\$ <b>22,756,759</b>	\$ 92,666,182	\$ 19,380,776
Short-term investments	<b>94,381,006</b>	49,566,366	52,695,866
Accounts receivable	<b>783,179</b>	689,801	652,439
Other current assets	<b>4,114,450</b>	3,391,659	2,988,741
Capital assets	<b>566,147,160</b>	532,434,006	492,098,524
Other noncurrent assets	<b>31,185,818</b>	30,075,086	42,906,452
Total assets	<b><u>719,368,372</u></b>	<u>708,823,100</u>	<u>610,722,798</u>
	<b><u>LIABILITIES</u></b>		
Long-term debt outstanding	<b>275,755,000</b>	281,310,000	214,220,000
Bond premium	<b>5,656,347</b>	--	--
Deferred refunding	<b>(5,320,453)</b>	--	--
Current liabilities	<b>23,591,579</b>	25,082,503	25,010,250
Other long-term liabilities	<b>2,391,529</b>	2,141,631	2,011,059
Total liabilities	<b><u>302,074,002</u></b>	<u>308,534,134</u>	<u>241,241,309</u>
	<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	<b>302,093,775</b>	306,400,797	267,928,524
Restricted - expendable for debt service	<b>32,368,707</b>	15,867,154	9,114,438
Unrestricted	<b>82,831,888</b>	78,021,015	92,438,527
Total net assets	\$ <b><u>417,294,370</u></b>	\$ <u>400,288,966</u>	\$ <u>369,481,489</u>

Net assets may serve, over time, as a useful indicator of an organization's financial position. In the case of the KTA, assets exceeded liabilities by \$417,294,370 at the close of the most recent year.

Unrestricted net assets increased from \$78,021,015 at December 31, 2009, to \$82,831,888 at December 31, 2010, an increase of \$4,810,873 (6.2%) in unrestricted net assets.

By far, the largest portion of the KTA's net assets reflects its investment in capital assets, such as right-of-way, roads, bridges, and buildings less any related debt used to acquire those assets that is still outstanding. The KTA uses these capital assets to provide services to customers and consequently, these assets are not available to liquidate liabilities or for other future spending. Although the Turnpike's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The KTA's assets are normally only capitalized if the source of funding to purchase or construct the asset is bond proceeds. Further, no depreciation is deducted from the KTA's capital assets and depreciation expense is excluded from operating expenses as defined in the Bond Trust Indenture. The KTA's capital assets are regularly inspected by independent consultants. If repairs or replacements of capital assets are warranted, these repairs or replace-

ments may be completed either with or without the use of bond proceeds. Further, as explained in Note 13 of the Financial Statements, as of the end of 2010, the KTA has committed to pay \$27 million for construction projects.

Another noteworthy change in the Turnpike's assets and liabilities is a decrease in the long-term debt outstanding. In November 2010, the KTA refinanced part of its bonds originally issued in 2002. The KTA was fortunate to be able to do this during one of the lowest interest rate environments of the past decade. Interest rates, as measured by the Bond Buyer 20 index, were higher over 99% of the time between 1987 and the date of the KTA's 2010 bond pricing.

### **Changes in the Turnpike's Net Assets**

In 2010, the Turnpike's net assets increased by approximately \$17.0 million or 4.2%, as shown in the table below.

As mentioned earlier and also in our Independent Auditor's Report, the Turnpike does not depreciate any Turnpike facilities. The practice of immediately expensing the costs of long-term assets rather than spreading those expenses over several years through depreciation, in the Turnpike Authority's opinion, is a more conservative method of reporting our changes in net Assets.

	<b>CHANGES IN NET ASSETS</b>		
	<b>2010</b>	2009	2008
<b>Operating Revenues</b>			
Tolls	<b>\$ 84,586,174</b>	\$ 79,474,841	\$ 78,433,188
Concessionaire rentals	<b>3,620,783</b>	3,338,751	3,098,946
Miscellaneous	<b>2,469,135</b>	1,434,369	1,105,070
Total operating revenues	<b>90,676,092</b>	84,247,961	82,637,204
<b>Operating Expenses</b>			
Administration	<b>6,481,177</b>	6,389,384	6,843,795
Insurance	<b>7,328,581</b>	6,543,458	6,921,590
Toll collection	<b>10,853,635</b>	11,374,749	11,659,275
Patrol	<b>5,344,128</b>	5,205,361	5,457,658
Maintenance	<b>8,430,336</b>	7,779,901	8,606,260
Cost of improvements, major repairs and replacements	<b>25,852,366</b>	13,838,763	28,198,332
Total operating expenses	<b>64,290,223</b>	51,131,616	67,686,910
<b>Operating Income</b>	<b>26,385,869</b>	33,116,345	14,950,294
<b>Nonoperating revenues (expenses)</b>			
Investment revenue	<b>2,605,228</b>	350,235	6,715,396
Interest on long-term debt	<b>(14,265,606)</b>	(10,869,471)	(10,641,623)
Interest expense subsidy - federal	<b>2,016,975</b>	--	--
Contributed capital	<b>262,938</b>	8,210,368	--
Net nonoperating revenues (expenses)	<b>(9,380,465)</b>	(2,308,868)	(3,926,227)
<b>Increase in net assets</b>	<b>\$ 17,005,404</b>	\$ 30,807,477	\$ 11,024,067

### **Operating Income**

The first component of the overall change in the Turnpike's net assets is its operating income – generally, the difference between net toll revenue and the expenses incurred to maintain and patrol the road and collect that revenue. In 2010, the Turnpike reported operating income, which is consistent with the majority of the Turnpike's operating history.

Toll revenue gained \$5.1 million (6.4%), which was fueled by a toll increase implemented on October 1,

2009. A major characteristic of the toll increase was the differentiation between K-TAG customers and customers who stop to pay at the toll booths. The toll for K-TAG customers did not change. In contrast, commercial non-K-TAG customers (class 5-9) experienced an approximate 5% increase in fares, and tolls were increased approximately 15% for non-K-TAG customers driving 2, 3, and 4 axle vehicles. The fare differential helped increase K-TAG transactions almost 10% in 2010 compared to 2009. Over 47% of vehicles traveling the Turnpike in 2010 used the K-TAG electronic toll collection system, up from 43% in 2009. The Turnpike's utilization statistics indicate that overall traffic has increased slightly less than 1% in 2010 compared to 2009. The Turnpike's Service Station and Restaurant rental revenue increased over 8% in 2010 compared to 2009.

Operating expenses listed in Note 2 of the Financial Statements were \$1.1 million (3%) less than budgeted for 2010. Budgeted expenses include the costs of collecting tolls, and administering, insuring, maintaining and patrolling the Turnpike. The Turnpike continues to improve efficiency. As one example, after the opening of our first completely unattended toll plaza at the end of 2009, the KTA expanded the use of self-payment machines to a total of 15 toll lanes in 2010. This expansion included renovating two additional formerly-staffed plazas that now operate almost exclusively in unattended mode.

A second component of Operating Expenses is the cost of improvements, major repairs and replacements. Primarily, these expenses reflect purchases of assets and construction projects which have not been financed with bond proceeds. During 2010, the largest single replacement project expensed in this category, for example, was \$12.2 million for replacement of pavement east of Lawrence, Kansas. The total cost of improvements, major repairs and replacements was \$25.8 million in 2010, but only \$13.8 million in 2009. Operating Income was \$26.3 million in 2010, and \$33.1 million in 2009 - a \$6.7 million (20%) decrease. If the costs of improvements, major repairs and replacements were excluded from operating expenses, operating income would have been \$52.2 million in 2010 versus \$46.9 million in 2009 - over a \$5.2 million (11%) increase.

### **Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of interest revenue/expense and investment earnings. One new item in this category is the interest subsidy from the federal government. This represents a rebate to compensate for the additional interest paid by the KTA on the taxable Build America Bonds issued in 2009.

### **The Turnpike's Cash Flows**

Changes in the Turnpike's operating cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2010, the Turnpike reported \$566,147,160 invested in capital assets. The Turnpike invested approximately \$33 million for replacement of the Kansas River Bridges and the nearby Lawrence interchanges in 2010.

### **Debt**

At the end of 2010, the Turnpike had \$286,560,000 of bonds outstanding. In November 2010, the Turnpike refunded a portion of bonds issued in 2002. In 2010, Moody's Investor Service upgraded the rating of KTA bonds issued prior to 2009 at "Aa3". In conjunction with the 2010 bond issue, Standard & Poors upgraded their rating of the Turnpike's outstanding bonds to "AA-". Because of the fortunate timing of the 2010 issue and the improved bond rating by Standard and Poors, the refunding resulted in a present-value savings of over \$4.4 million.

### **Contacting the Turnpike's Financial Management**

This financial report is designed to provide our customers, suppliers, investors, and creditors with a general overview of the Turnpike's finances and of the Turnpike's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Turnpike's Headquarters at 9401 E. Kellogg, Wichita, KS 67207.

# Balance Sheets

December 31, 2010 and 2009

## **ASSETS**

	<b>2010</b>	<b>2009</b>
<b>Current assets</b>		
Cash and cash equivalents	\$ 15,114,176	\$ 26,141,065
Short-term investments	41,098,261	30,162,009
Accounts receivable	783,179	689,801
Accrued interest receivable	1,053,696	679,175
Material and supply inventory	408,422	365,717
Prepaid expense and other assets	1,493,629	1,317,912
Current portion of note receivable	1,105,741	1,024,486
	<hr/>	<hr/>
Total current assets	61,057,104	60,380,165
	<hr/>	<hr/>
<b>Restricted assets</b>		
Cash and cash equivalents	7,642,583	66,525,117
Investments	53,282,745	19,404,357
Accrued interest receivable	52,962	4,369
	<hr/>	<hr/>
Total restricted assets	60,978,290	85,933,843
	<hr/>	<hr/>
<b>Note receivable long-term</b>	6,317,880	7,185,882
	<hr/>	<hr/>
<b>Other long-term investments</b>	24,867,938	22,889,204
	<hr/>	<hr/>
<b>Capital assets</b>		
Cost of initial turnpike and improvements	566,147,160	532,434,006
	<hr/>	<hr/>
	\$ 719,368,372	\$ 708,823,100
	<hr/>	<hr/>

## **LIABILITIES AND NET ASSETS**

	<b>2010</b>	2009
<b>Current liabilities</b>		
Current maturities of long-term debt	<b>\$ 10,805,000</b>	\$ 10,335,000
Prepaid tolls	<b>2,470,103</b>	2,588,902
Accounts payable	<b>674,451</b>	537,414
Accrued expenses	<b>5,340,328</b>	7,649,871
Accrued interest	<b>4,301,697</b>	3,971,316
	<b>23,591,579</b>	25,082,503
<b>Long-term liabilities</b>		
Turnpike revenue bonds	<b>275,755,000</b>	281,310,000
Bond premium	<b>5,656,347</b>	--
Deferred refunding	<b>(5,320,453)</b>	--
Other long-term liabilities	<b>2,391,529</b>	2,141,631
	<b>278,482,423</b>	283,451,631
	<b>302,074,002</b>	308,534,134
<b>Net assets</b>		
Invested in capital assets, net of related debt	<b>302,093,775</b>	306,400,797
Restricted - expendable for		
Debt service	<b>32,368,707</b>	15,867,154
Unrestricted	<b>82,831,888</b>	78,021,015
	<b>417,294,370</b>	400,288,966
	<b>\$ 719,368,372</b>	\$ 708,823,100

The accompanying notes are an integral part of these financial statements.

# Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues</b>		
Tolls	\$ 84,586,174	\$ 79,474,841
Concessionaire rentals	3,620,783	3,338,751
Miscellaneous	2,469,135	1,434,369
	<u>90,676,092</u>	<u>84,247,961</u>
<b>Operating Expenses</b>		
Administration	6,481,177	6,389,384
Insurance	7,328,581	6,543,458
Toll collection	10,853,635	11,374,749
Patrol	5,344,128	5,205,361
Maintenance	8,430,336	7,779,901
Cost of improvements, major repairs and replacements	25,852,366	13,838,763
	<u>64,290,223</u>	<u>51,131,616</u>
<b>Operating Income</b>	<u>26,385,869</u>	<u>33,116,345</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment revenue	2,605,228	350,235
Interest on long-term debt	(14,265,606)	(10,869,471)
Interest expense subsidy - federal	2,016,975	--
Contributed capital	262,938	8,210,368
	<u>(9,380,465)</u>	<u>(2,308,868)</u>
<b>Change in Net Assets</b>	17,005,404	30,807,477
<b>Net Assets, Beginning of Year</b>	<u>400,288,966</u>	<u>369,481,489</u>
<b>Net assets, End of Year</b>	<u>\$ 417,294,370</u>	<u>\$ 400,288,966</u>

The accompanying notes are an integral part of these financial statements.

# Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Cash received from toll collections	\$ 84,368,256	\$ 79,588,728
Cash received from concessionaire rentals and miscellaneous	6,095,659	4,769,991
Cash paid to suppliers and employees	(67,278,672)	(52,420,809)
Net cash flows from operating activities	<u>23,185,243</u>	<u>31,937,910</u>
<b>Capital and Related Financing Activities</b>		
Proceeds from issuance of long-term debt	59,445,000	77,425,000
Proceeds from bond premium	5,656,347	--
Interest subsidy – federal	2,016,975	--
Interest paid	(13,935,225)	(10,274,023)
Retirement of long-term debt	(69,850,453)	(9,950,000)
Payments for capitalized costs	(32,865,735)	(40,001,575)
Net cash flows from capital and related financing activities	<u>(49,533,091)</u>	<u>17,199,402</u>
<b>Investing Activities</b>		
Proceeds from payment on note receivable	1,049,685	--
Investment revenue realized	2,028,780	(265,642)
Proceeds from sale and maturities of investments	118,521,693	99,017,605
Purchase of investments	(165,161,733)	(74,603,869)
Net cash flows from investing activities	<u>(43,561,575)</u>	<u>24,148,094</u>
<b>Change in Cash and Cash Equivalents</b>	<u>(69,909,423)</u>	<u>73,285,406</u>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>92,666,182</u>	<u>19,380,776</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 22,756,759</u>	<u>\$ 92,666,182</u>
<b>Reconciliation of Net Operating Activities to Net Cash Flows from Operating Activities</b>		
Operating income	\$ 26,385,869	\$ 33,116,345
Changes in operating assets and liabilities		
Accounts receivable and prepaid tolls	(212,177)	58,877
Material and supply inventory	(42,705)	67,435
Accounts payable and accrued expenses	(2,770,027)	(1,207,769)
Prepaid expenses and other assets	(175,717)	(96,978)
Net cash flows from operating activities	<u>\$ 23,185,243</u>	<u>\$ 31,937,910</u>
<b>Noncash investing capital and financing activities:</b>		
Note receivable in exchange for contributed capital assets	<u>\$ 262,938</u>	<u>\$ 8,210,368</u>

The accompanying notes are an integral part of these financial statements.

# Notes to Financial Statements

## 1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Turnpike – The Kansas Turnpike Authority (Turnpike) was created as a public corporation in 1953 by the Kansas Legislature with power to construct, operate and maintain turnpike projects and to issue revenue bonds for any of its corporate purposes, payable solely from the tolls and revenue pledged for their payment.

The Kansas Turnpike Authority consists of five members, two appointed by the Governor, the Secretary of Transportation, the Chairperson of the Senate Committee on Transportation and Utilities and a member of the House of Representatives Committee on Transportation.

The Turnpike extends unsecured credit to certain K-TAG customers.

Basis of Accounting, Capitalized Costs and Depreciation – The Turnpike maintains its accounts in accordance with its interpretation of the Kansas statutes and the 1985 Trust Agreement, as amended. Capitalized costs include the cost of the initial turnpike and subsequent improvements financed with bond proceeds or expected to be financed in part by bond proceeds. Capitalized costs include the cost of acquisition and construction, allocable expense in connection with bond offerings, premium or discount on sale of bonds and certain legal and administrative expenses incurred during the construction period. However, other practices do not conform with generally accepted accounting principles, including: 1) cost of major repairs, replacements and improvements not financed by or expected to be financed in part by bond proceeds are paid by the replacement reserve fund and are not capitalized, 2) interest costs are not capitalized, 3) depreciation is not provided on capital assets, and 4) amortization is not applied to the other costs capitalized. Otherwise, the financial statements of the Turnpike have been prepared on the accrual basis of accounting using the economic resources measurement focus.

Operating Revenues and Expenses – The principal revenues of the Turnpike are toll revenues received from customers. The Turnpike also recognizes as operating revenue rental fees received from concessionaires from operating leases on concession property, rental fees received from right-of-way operating leases and other revenues earned related to the operation of the Turnpike, administrative expenses and Turnpike improvements not funded from bonds. All other revenues and expenses are reported as non-operating revenues and expenses. The Turnpike first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income – Investments are recorded at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income and the net change for the year in the fair value. In accordance with the 1985 Trust Agreement, as amended, interest earned and profits realized from investments in all funds and accounts, except the construction fund, are deposited in the revenue fund. Losses are charged to the fund or account owning the investment.

Inventories – Material and supply inventory is valued at cost determined using the FIFO (first-in, first-out) method.

Prepaid Tolls – The Turnpike collects tolls in advance of actual usage for certain members using the K-TAG program. Customers are allowed a discount from normal toll rates if certain prepaid balances are maintained. Prepaid amounts are recorded as a liability until such amounts are realized through the usage of the Turnpike by its customers.

Cash Equivalents – The Turnpike considers all liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents. At December 31, 2010 and 2009, cash equivalents consisted primarily of commercial paper, money market accounts with brokers and certain U.S. agency obligations.

Proprietary Activity Accounting – As permitted by Governmental Accounting Standards Board Statement No. 20, the Turnpike has elected to apply only those applicable Financial Accounting Standards Board Statements and Interpretations issued prior to December 1, 1989.

Compensated Absences – The Turnpike policies allow full-time employees to earn vacation as follows:

<b>Length of Service</b>	<b>Earnings Rate</b>	<b>Allowed Vacation Earnings</b>
Less than 5 years	4 hours for each two-week period	13 days per year
5 to 15 years	5 hours for each two-week period	16.25 days per year
15 to 25 years	6 hours for each two-week period	19.5 days per year
Greater than 25 years	7 hours for each two-week period	22.75 days per year

The maximum number of vacation days, which may be accumulated as of the first day period ending January, is 30 days. This maximum is increased by five days for each five years of service for employees with lengths of service over 25 years.

Beginning December 20, 1996, the Turnpike discontinued the sick leave policy and created paid time off (PTO). Paid time off can be used at the employee's discretion and is earned at the rate of 2.5 hours (3.5 hours over 25 years) each two-week period. Once each calendar year, the employee can choose to be paid for PTO over 40 hours. The accumulated sick leave balance prior to December 20, 1996, may still be taken after all PTO is used. Employees who have completed eight years of continuous full-time service will be paid 30% of the value of any unused sick leave upon termination.

The Turnpike has recorded these liabilities using the pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date is included in other long-term liabilities.

Net Assets – Net assets of the Turnpike are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction or improvement of those assets. Restricted expendable net assets are non-capital assets, the use of which is limited by external constraints imposed by creditors (such as through debt covenants), grantor or donors, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable net assets.

## 2. BUDGET PROCESS

Each year the Turnpike prepares a preliminary annual budget of operating expenses. Copies are filed with the Trustee, Consulting Engineers and Principal Underwriters on or before November 1. Holders of 25% in the aggregate principal amount of bonds outstanding or a majority of the Principal Underwriters may request a public hearing. On or before December 1, the Consulting Engineers recommend the amount to be transferred to the replacement reserve fund for major repairs and replacements. The budget is adopted on or before January 1. The Turnpike may amend the budget at any time with the approval of the Consulting Engineers.

A comparison of actual expenses in the revenue fund and operations account with the budget for the year ended December 31, 2010, is as follows:

	<b>Budget</b>	<b>Actual</b>	<b>Over (Under)</b>
Administration	\$ 6,453,579	\$ 6,481,177	\$ 27,598
Insurance	7,799,592	7,328,581	(471,011)
Toll Collection	10,601,800	10,853,635	251,835
Patrol	5,487,224	5,344,128	(143,096)
Maintenance	9,251,400	8,430,336	(821,064)
	<u>\$ 39,593,595</u>	<u>\$ 38,437,857</u>	<u>\$ (1,155,738)</u>

## 3. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME

Deposits – Custodial credit risk is the risk that in the event of a bank failure, an entity's deposits may not be returned to it. The Turnpike's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2010 and 2009 none of the Turnpike's bank balances of \$8,063,034 and \$9,552,725, respectively, were exposed to custodial credit risk.

Investments – The Turnpike may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies, U.S. Government Sponsored Enterprises, money market funds, certificates of deposit and other depository accounts.

At December 31, 2010, the Turnpike had the following investments and maturities:

<u>Type</u>	<u>Fair Value</u>	<u>Maturities in Years</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
US Treasury obligations	\$ 4,097,412	\$ --	\$ --	\$ --	\$ 4,097,412
US agency obligations	115,151,532	94,381,006	20,770,526	--	--
Money Market mutual funds	<u>12,726,330</u>	<u>12,726,330</u>	--	--	--
	131,975,274	<u>\$107,107,336</u>	<u>\$ 20,770,526</u>	<u>\$ --</u>	<u>\$ 4,097,412</u>
Less cash equivalents	<u>12,726,330</u>				
Investments per the balance sheet	<u>\$119,248,944</u>				

At December 31, 2009, the Turnpike had the following investments and maturities:

<u>Type</u>	<u>Fair Value</u>	<u>Maturities in Years</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
US Treasury obligations	\$ 3,893,663	\$ --	\$ --	\$ --	\$ 3,893,663
US agency obligations	61,761,907	41,737,616	20,024,291	--	--
Money Market mutual funds	84,445,816	84,445,816	--	--	--
Certificates of deposit	<u>6,800,000</u>	<u>6,800,000</u>	--	--	--
	156,901,386	<u>\$ 132,983,432</u>	<u>\$ 20,024,291</u>	<u>\$ --</u>	<u>\$ 3,893,663</u>
Less cash equivalents	<u>84,445,816</u>				
Investments per the balance sheet	<u>\$72,455,570</u>				

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Turnpike’s investment policy limits investments in mortgage backed security issuers with remaining maturities not exceeding five years, and U.S. dollar denominated deposit accounts maturing no more than 360 days after purchase.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Turnpike’s policy to limit its investments in securities to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). At December 31, 2010 and 2009, the Turnpike’s investments in U.S. agency obligations not directly guaranteed by the U.S. government were rated AAA by Standard & Poor’s and AAA by Moody’s Investors Services.

Concentration of Credit Risk – The Turnpike investment policy limits the amount that may be invested in any one issuer. The limit on any single U.S. Government Sponsored Enterprise may not exceed 35% of the combined portfolio of the Turnpike. Additionally the limit on money market funds and certificates of deposit and other depository accounts may not exceed 50% of each type of the combined portfolio of the Turnpike. At December 31, 2010 and 2009, the Turn-

pike's investment in Federal Home Loan Mortgage Corporation constituted 32.20% and 9.66% of total investments and investments in Federal National Mortgage Association constituted 25.10% and 17.25%, respectively of its total investments.

Summary of Carrying Values – The carrying values of deposits and investments shown above are included in the balance sheet as follows:

	2010	2009
Carrying Value:		
Deposits	\$ 10,030,429	\$ 8,220,366
Investments	131,975,274	156,901,386
	<u>\$ 142,005,703</u>	<u>\$ 165,121,752</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 15,114,176	\$ 26,141,065
Short-term investments	41,098,261	30,162,009
Restricted cash and cash equivalents	7,642,583	66,525,117
Restricted investments	53,282,745	19,404,357
Other long-term investments	24,867,938	22,889,204
	<u>\$ 142,005,703</u>	<u>\$ 165,121,752</u>

Investment Income – Investment income for the year ended December 31, consisted of:

	2010	2009
Interest and dividend income	\$ 2,214,671	\$ 2,500,790
Net change in fair value of investments	390,557	(2,150,555)
	<u>\$ 2,605,228</u>	<u>\$ 350,235</u>

#### 4. **NOTES RECEIVABLE**

In October 2008, the Turnpike entered into an agreement with Leavenworth County, Kansas (County) whereby the County will reimburse the Turnpike for costs incurred to reconstruct a section of County Road 1 in connection with a new interchange that was constructed along the Turnpike. The amount to be reimbursed by the County is \$8,473,306; at December 31, 2010 and 2009 the amount recorded as contributed capital is \$262,938 and \$8,210,368, respectively. Principal payments commenced on January 1, 2010 and total principal received as of December 31, 2010 was \$1,050,010. The total monthly payment is \$113,706. Final principal payments are due December 1, 2016. The County is required to pay interest at a rate of 4.39%. Interest payments commenced on February 1, 2009 and total interest received for the years ended December 31, 2010 and December 31, 2009 was \$348,596 and \$151,816, respectively.

#### 5. **CAPITAL ASSETS**

Capital assets activity for the years ended December 31, 2010 and 2009 was:

	<u>December 31, 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>December 31, 2010</u>
Cost of initial Turnpike and improvements	\$ 532,434,006	\$ 33,713,154	\$ --	\$ --	\$ 566,147,160
	<u>December 31, 2008</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>December 31, 2009</u>
Cost of initial Turnpike and improvements	\$ 492,098,524	\$ 40,736,495	\$ 401,013	\$ --	\$ 532,434,006

## 6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses in current liabilities at December 31, consisted of:

	2010	2009
Payable to suppliers	\$ 674,451	\$ 537,414
Contracts payable and retained amounts	1,566,356	3,905,899
Payable to employees (including payroll taxes and benefits)	2,721,488	2,697,377
Concessionaires deposits	257,484	251,595
Estimated self-insurance costs	795,000	795,000
	<u>\$ 6,014,779</u>	<u>\$ 8,187,285</u>

## 7. LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the Turnpike for the years ended December 31, 2010 and 2009:

	<u>December 31, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2010</u>	<u>Current Portion</u>
Long-term debt					
Revenue bonds	\$ 291,645,000	\$ 59,445,000	\$ 64,530,000	\$ 286,560,000	\$ 10,805,000
Bond premium	--	5,656,347	--	5,656,347	--
Deferred refunding	--	(5,320,454)	--	(5,320,454)	--
Other long-term liabilities					
Accrued compensated absences	3,537,271	1,832,160	1,748,272	3,621,159	1,789,000
Total long-term obligations	<u>\$ 295,182,271</u>	<u>\$ 61,613,053</u>	<u>\$ 66,278,272</u>	<u>\$ 290,517,052</u>	<u>\$ 12,594,000</u>
	<u>December 31, 2008</u>	<u>Additions</u>	<u>Deductions</u>	<u>December 31, 2009</u>	<u>Current Portion</u>
Long-term debt					
revenue bonds	\$ 224,170,000	\$ 77,425,000	\$ 9,950,000	\$ 291,645,000	\$ 10,335,000
Other long-term liabilities					
Accrued compensated absences	3,359,147	1,822,148	1,644,024	3,537,271	1,715,000
Total long-term obligations	<u>\$ 227,529,147</u>	<u>\$ 79,247,148</u>	<u>\$ 11,594,024</u>	<u>\$ 295,182,271</u>	<u>\$ 12,050,000</u>

## 8. REVENUE BONDS PAYABLE

At December 31, 2010 and 2009, Turnpike revenue bonds payable were as follows:

	<u>2010</u>	<u>2009</u>
Series 1993	\$ --	\$ 5,180,000
Series 2002	19,155,000	75,645,000
Series 2003A	79,200,000	82,060,000
Series 2004	51,335,000	51,335,000
Series 2009A	77,425,000	77,425,000
Series 2010A	59,445,000	--
	<u>\$ 286,560,000</u>	<u>\$ 291,645,000</u>

Interest rates on the bonds vary between 2.0% and 6.74%. The debt service requirements as of December 31, 2010, are as follows:

<u>Year Ending December 31,</u>	<u>Total to be Paid</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 24,741,130	\$ 10,805,000	\$ 13,936,130
2012	25,173,292	11,340,000	13,833,292
2013	25,177,041	11,885,000	13,292,041
2014	25,178,942	12,455,000	12,723,942
2015	25,175,741	12,950,000	12,225,741
2016 – 2020	114,329,085	61,535,000	52,794,085
2021 – 2025	86,462,081	45,570,000	40,892,081
2026 – 2030	68,609,582	36,805,000	31,804,582
2031 – 2035	63,854,411	42,240,000	21,614,411
2036 – 2040	48,027,063	40,975,000	7,052,063
	<u>\$ 506,728,368</u>	<u>\$ 286,560,000</u>	<u>\$ 220,168,368</u>

Bonds subject to redemption prior to maturity at the Turnpike's option are as follows:

	<u>Callable on or After</u>	<u>Call Price</u>
Series 2002	September 1, 2012	At 101% of par
	September 1, 2013	At par
Series 2003A	September 1, 2013	At par
Series 2004A-1	September 1, 2014	At par
Series 2004A-2	September 1, 2014	At 101% of par
	September 1, 2015	At 100.50% of par
	September 1, 2016	At par
Series 2009A	September 1, 2019	At par
Series 2010A	September 1, 2010	At par

In November 2010, the Turnpike issued \$59,445,000 in Series 2010A Turnpike Refunding Revenue Bonds at a premium of \$5,656,347 with an average interest cost of 3.2%, to refund a portion of the Turnpike's Series 2002 Bonds. Approximately \$59,515,000 will be irrevocably deposited into an escrow account to refund \$54,195,000 of outstanding Series 2002 bonds with an average interest rate of 4.9%. As a result, a portion of the 2002 bond is defeased and the liability for this portion of the bonds has been removed from the Turnpike's financial statements.

The Turnpike refunded these bonds to reduce total debt payments over the next seventeen years by \$8,116,193. The economic gain (difference between the present value of the old and new debt service payments) is \$4,480,262.

The Series 2009 A bonds were issued as taxable Build America Bonds pursuant to the American Recovery and Reinvestment Act of 2009, which provides that 35% of the interest payments on those bonds will be paid to the Turnpike by the U.S. Treasury. For the year ended December 31, 2020, this subsidy was \$2,016,975.

## **9. DEFINED BENEFIT PENSION PLAN**

The Turnpike participates in the Kansas Public Employees Retirement System (KPERS) which is a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74- 4901, et seq. and administered by the KPERS Board of Trustees. The plan provides retirement, life insurance, disability income and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS at 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869, or by calling KPERS at 1-888-275-5737.

*Funding Policy.* K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer contribution rates for KPERS for 2010, 2009, and 2008 were 6.14%, 5.54%, and 4.93%, respectively. The Turnpike's contributions to KPERS for 2010, 2009, and 2008 were \$1,155,843, \$1,045,950, and \$955,324, respectively, and were equal to the required contributions for each year.

## **10. OTHER POST EMPLOYMENT HEALTHCARE BENEFITS DESCRIPTION**

The Turnpike offers medical and dental insurance to qualifying retirees and their dependents through a single-employer defined benefit healthcare plan. Qualifying retirees are those employees who retire with at least 10 years of full-time employment with the Turnpike, and are eligible to receive pension benefits under the Kansas Public Employees' Retirement System (KPERS). Retirees must pay COBRA rates to continue coverage, which extends until the individuals become eligible for Medicare at age 65. Retirees that meet additional age and service criteria receive free coverage to Medicare eligibility age. In October 2008, the Turnpike started offering free insurance benefits to age 65 to those who retire prior to July 1, 2009 with at least 85 points under KPERS. The medical and dental benefits are provided through a self-insured arrangement, with the subsidy provided from general operating funds.

Funding Policy - The contribution requirements of employees and the Turnpike are established and may be amended by the Turnpike and its board of directors. The Turnpike's funding policy is to pay premiums, claims and administrative costs as they come due. Turnpike retirees not meeting specified age and service criteria contribute 100% of the COBRA premium rate; otherwise, retirees pay \$130 (for single coverage) or \$260 (for family coverage) annually, and the Turnpike pays the remaining cost of coverage. For fiscal 2010 and 2009, the Turnpike paid \$138,249 and \$44,532, respectively, through their required COBRA contributions.

Annual OPEB and Cost and Net OPEB Obligation – The Turnpike’s annual OPEB (other post employment benefit) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table presents the components of the Turnpike’s annual OPEB cost for the year, the amount contributed to the plan, and changes in the Turnpike’s OPEB obligation. The net OPEB obligation is recorded with other long term liabilities on the balance sheet.

Annual required contribution (ARC)	\$ 477,796
Interest on net OPEB obligation	15,968
Adjustment to ARC	(19,786)
Annual OPEB cost (expense)	<u>473,978</u>
Contributions made	<u>(233,970)</u>
Increase in net OPEB obligation	240,008
Net OPEB obligation January 1, 2010	<u>319,361</u>
Net OPEB obligation December 31, 2010	<u>\$ 559,369</u>

The Turnpike’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2010, 2009 and 2008, respectively, are as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Employer Contribution</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
2010	\$ 473,973	\$ 233,970	49.40%	\$ 559,369
2009	\$ 406,308	\$ 294,859	72.57%	\$ 319,361
2008	\$ 395,312	\$ 188,000	47.50%	\$ 207,912

Funded Status and Funding Progress – As of January 1, 2010 the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$5,309,752. The Turnpike’s policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$5,309,752. The covered payroll for 2010 (annual payroll of active employees covered by the plan) was \$15.2 million, and the ratio of the UAAL to the covered payroll was 35 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer 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 following the notes to the financial statement, will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial 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.

In the January 1, 2010 actuarial valuation, the entry age normal (level % of pay) method was applied. The actuarial assumptions included a 5 percent investment rate of return. The valuation assumed annual healthcare cost trend rates of five to eight and half percent in the first eight years and ultimate rate of five percent after eight years. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized on a level dollar basis and on a closed group basis over a period of 30 years, with the remaining amortization period of 28 years.

Plan Report – The plan does not issue a stand-alone audited GAAP-basis report.

## **11. RISK MANAGEMENT**

The Turnpike is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to worker's compensation and employee health benefits. Settled claims have not exceeded such commercial coverage during the past three years.

Liabilities include an accrual for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, frequency of claims and other economic and social factors.

Changes in the balance of claims liabilities during 2010 and 2009 are summarized as follows:

	2010	2009
Balance, beginning of year	\$ 795,000	\$ 795,000
Current year claims and changes in estimates	5,299,135	4,904,202
Claim payments	(5,299,135)	(4,904,202)
Balance, end of year	<u>\$ 795,000</u>	<u>\$ 795,000</u>

## **12. OPERATING LEASES**

The Turnpike has entered into several leasing agreements with service stations, restaurants and communications companies along the Turnpike. The future minimum rental income on these leases are as follows:

2011	\$ 3,253,711
2012	3,281,201
2013	1,048,223
2014	40,675
2015	40,675
Thereafter	<u>610,125</u>
Total	<u>\$ 8,274,610</u>

The leases generally have terms of five years, 10.5 years or 12 years. The five-year service station leases have no renewal options. The Emporia McDonald's restaurant lease has up to three five-year renewal options. Both restaurant and service station leases with 10.5 years have no renewal options, and the 12-year leases have two five-year renewal options if mutually agreed upon by the Turnpike and lessee. All leases are anticipated to renew at the time of expiration or be leased to other parties. The Turnpike is reimbursed for all utility payments and the lessee is responsible for insurance expenses associated with the properties. In certain instances, the Turnpike has agreed to have the lessee construct new buildings. If, at the conclusion of the lease, the lessee is not successful in the bidding for a new lease, the Turnpike is committed to reimburse the lessee for certain costs of construction, net of depreciation, of approximately \$4,132,528. The service station and restaurant leases have base rents and contingent rental payments based on the gallons of gasoline sold, service station nonfuel sales or gross sales for the restaurant.

The lease agreements with communications companies are to operate communication systems within the Turnpike right-of-way. The leases generally have terms of five years or ten years. The five-year leases have anywhere from four to nine five-year renewal options. The Turnpike does not incur any significant costs associated with the maintenance of the communications systems and upon termination of the leases, the communication systems become the property of the Turnpike.

### **13. COMMITMENTS**

The Turnpike has committed to construction contracts for turnpike repair and improvements valued at approximately \$27 million at December 31, 2010.

### **14. PENDING GOVERNMENTAL ACCOUNTING STANDARDS**

The effect on the Turnpike's financial statements of the following statements issued, but not yet adopted, have not yet been determined.

GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions was issued in February 2009. This statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. GASB 54 establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used. Specifically, GASB 54 distinguishes fund balance between amounts that are considered non-spendable and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. The provisions of this statement are effective for the Turnpike's fiscal year ending December 31, 2011.

GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements, was issued in November 2010. This statement is intended to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. GASB 60 applies to those arrangements in which specific criteria determining whether a transferor (a government) has control over the facility are met. provisions of this statement are effective for the Turnpike's fiscal year ending December 31, 2012.

# Required Supplementary Information

December 31, 2010

## Schedule of Funding Progress for Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Values of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
01/01/10	\$ --	\$ 5,309,752	\$ 5,309,752	0%	\$ 15,196,616	34.94%
01/01/08	\$ --	\$ 4,546,135	\$ 4,546,135	0%	\$ 19,377,763	23.46%

# Supplementary Information

## COMBINING BALANCE SHEET

December 31, 2010

	<b>ASSETS</b>		
	<u>Total</u>	<u>Interfund Eliminations Reclassifications</u>	<u>Construction Fund</u>
<b>Current assets</b>			
Cash and cash equivalents	\$ 15,114,176	\$ --	\$ --
Short-term investments	41,098,261	--	--
Interfund receivable	--	(2,325,066)	--
Accounts receivable	783,179	--	--
Accrued interest receivable	1,053,696	--	--
Material and supply inventory	408,422	--	--
Prepaid expense and other assets	1,493,629	--	--
Current portion of note receivable	1,105,741	--	--
Total current assets	<u>61,057,104</u>	<u>(2,325,066)</u>	<u>--</u>
<b>Restricted assets</b>			
Cash and cash equivalents	7,642,583	--	6,121,749
Investments	53,282,745	--	28,521,930
Accrued interest receivable	52,962	--	39,997
Total restricted assets	<u>60,978,290</u>	<u>--</u>	<u>34,683,676</u>
<b>Long-term note receivable</b>	6,317,880	--	--
<b>Other long-term investments</b>	<u>24,867,938</u>	<u>--</u>	<u>--</u>
<b>Capital assets</b>			
Cost of initial turnpike and improvements	<u>566,147,160</u>	<u>--</u>	<u>486,397,889</u>
	<u>\$ 719,368,372</u>	<u>\$ (2,325,066)</u>	<u>\$ 521,081,565</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities</b>			
Current maturities of long-term debt	\$ 10,805,000	\$ --	\$ 10,805,000
Prepaid tolls	2,470,103	--	--
Accounts payable	674,451	--	--
Interfund payable	--	(2,325,066)	--
Accrued expenses	5,340,328	--	1,181,326
Accrued interest	4,301,697	--	--
Total current liabilities	<u>23,591,579</u>	<u>(2,325,066)</u>	<u>11,986,326</u>
<b>Long-term debt</b>			
Turnpike revenue bonds	275,755,000	--	275,755,000
Bond premium	5,656,347	--	5,656,347
Deferred refunding	(5,320,453)	--	--
Other long-term liabilities	2,391,529	--	--
Total long-term liabilities	<u>278,482,423</u>	<u>--</u>	<u>281,411,347</u>
Total liabilities	<u>302,074,002</u>	<u>(2,325,066)</u>	<u>293,397,673</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	302,093,775	--	227,664,957
Restricted - expendable for debt service	32,368,707	--	--
Unrestricted	<u>82,831,888</u>	<u>--</u>	<u>18,935</u>
Total net assets	<u>417,294,370</u>	<u>--</u>	<u>227,683,892</u>
Total liabilities and net assets	<u>\$ 719,368,372</u>	<u>\$ (2,325,066)</u>	<u>\$ 521,081,565</u>

<b>Revenue Fund And Operations Fund</b>	<b>Debt Service Fund</b>	<b>Debt Service Reserve Fund</b>	<b>Replacement Reserve Fund</b>	<b>General Fund</b>
\$ 11,250,782	\$	\$	\$ 1,683,290	\$ 2,180,104
16,398,196	--	--	10,499,240	14,200,825
2,325,066	--	--	--	--
783,179	--	--	--	--
1,039,121	--	--	9,337	5,238
408,422	--	--	--	--
1,493,629	--	--	--	--
--	--	--	1,105,741	--
<u>33,698,395</u>	<u>--</u>	<u>--</u>	<u>13,297,608</u>	<u>16,386,167</u>
--	311,347	1,209,487	--	--
--	8,109,606	16,651,209	--	--
--	5,985	6,980	--	--
<u>--</u>	<u>8,426,938</u>	<u>17,867,676</u>	<u>--</u>	<u>--</u>
--	--	--	6,317,880	--
--	--	--	1,995,600	22,872,338
--	--	--	79,535,894	213,377
<u>\$ 33,698,395</u>	<u>\$ 8,426,938</u>	<u>\$ 17,867,676</u>	<u>\$101,146,982</u>	<u>\$ 39,471,882</u>
\$ --	\$ --	\$ --	\$ --	\$ --
2,470,103	--	--	--	--
674,451	--	--	--	--
--	165,574	99,542	1,237,443	822,507
3,773,972	--	--	385,030	--
--	4,301,697	--	--	--
<u>6,918,526</u>	<u>4,467,271</u>	<u>99,542</u>	<u>1,622,473</u>	<u>822,507</u>
--	--	--	--	--
--	--	--	--	--
--	(5,320,453)	--	--	--
2,391,529	--	--	--	--
<u>2,391,529</u>	<u>(5,320,453)</u>	<u>--</u>	<u>--</u>	<u>--</u>
9,310,055	(853,182)	99,542	1,622,473	822,507
--	(5,320,453)	--	79,535,894	213,377
--	14,600,573	17,768,134	--	--
24,388,340	--	--	19,988,615	38,435,998
<u>24,388,340</u>	<u>9,280,120</u>	<u>17,768,134</u>	<u>99,524,509</u>	<u>38,649,375</u>
<u>\$ 33,698,395</u>	<u>\$ 8,426,938</u>	<u>\$ 17,867,676</u>	<u>\$101,146,982</u>	<u>\$ 39,471,882</u>

# COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2010

	<u>Total</u>	<u>Construction Fund</u>	<u>Revenue Fund And Operations Fund</u>
<b>Operating Revenues</b>			
Tolls	\$ 84,586,174	\$ --	\$ 84,586,174
Concessionaire rentals	3,620,783	--	3,620,783
Miscellaneous	2,469,135	--	2,120,539
	<u>90,676,092</u>	<u>--</u>	<u>90,327,496</u>
<b>Operating Expenses</b>			
Administration	6,481,177	--	6,481,177
Insurance	7,328,581	--	7,328,581
Toll collection	10,853,635	--	10,853,635
Patrol	5,344,128	--	5,344,128
Maintenance	8,430,336	--	8,430,336
Cost of improvements, major repairs and replacements	25,852,366	--	--
	<u>64,290,223</u>	<u>--</u>	<u>38,437,857</u>
<b>Operating Income (Loss)</b>	<u>26,385,869</u>	<u>--</u>	<u>51,889,639</u>
<b>Nonoperating Revenues (Expenses)</b>			
Transfers between funds	--	(191,389)	(54,041,373)
Investment revenue	2,605,228	158,820	3,244,856
Interest subsidy	2,016,975	--	2,016,975
Interest on long-term debt	(14,265,606)	--	--
Contributed capital	262,938	--	--
	<u>(9,380,465)</u>	<u>(32,569)</u>	<u>(48,779,542)</u>
<b>Change in net assets</b>	17,005,404	(32,569)	3,110,097
<b>Net assets, beginning of year</b>	<u>400,288,966</u>	<u>227,716,461</u>	<u>21,278,243</u>
<b>Net assets, end of year</b>	<u>\$ 417,294,370</u>	<u>\$ 227,683,892</u>	<u>\$ 24,388,340</u>

Debt Service Fund	Debt Service Reserve Fund	Replacement Reserve Fund	General Fund
\$ --	\$ --	\$ --	\$ --
--	--	--	--
--	--	348,596	--
--	--	348,596	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	25,852,366	--
--	--	25,852,366	--
--	--	(25,503,770)	--
20,294,467	5,205,936	27,345,480	1,386,879
(58)	(53,639)	(144,678)	(600,073)
--	--	--	--
(14,265,606)	--	--	--
--	--	262,938	--
6,028,803	5,152,297	27,463,740	786,806
6,028,803	5,152,297	1,959,970	786,806
3,251,317	12,615,837	97,564,539	37,862,569
\$ 9,280,120	\$ 17,768,134	\$ 99,524,509	\$ 38,649,375

# SUMMARY OF TOLL REVENUE

Year Ended December 31, 2010

<u>Class</u>	<u>Toll Revenue</u>	<u>Vehicles</u>
2-axle vehicles	\$ 54,203,457	29,313,392
3-axle vehicles	1,401,425	447,492
4-axle vehicles	2,900,066	565,907
5-axle vehicles	23,336,413	2,812,234
6-axle vehicles	1,130,657	96,299
7-axle vehicles	1,060,251	37,127
8-axle vehicles	803,546	25,654
9-axle vehicles	552,914	14,867
Discounts and Adjustments	(802,555)	346,477
	<u>\$ 84,586,174</u>	<u>33,659,449</u>

# Statistical Data

## OPERATING SUMMARIES - VEHICLES, MILEAGE AND REVENUE

Years Ended December 31, 2010 and 2009

(Unaudited)

	<u>2010</u>	<u>2009</u>	<b>2010 Increase (Decrease) as a Percent of 2009</b>
<b>Number of Vehicles:</b>			
Passenger cars	29,313,392	29,037,552	0.95%
Commercial vehicles	3,999,580	3,961,623	0.96%
Discounts and adjustments	<u>346,477</u>	<u>353,223</u>	(1.91%)
Total	<u><u>33,659,449</u></u>	<u><u>33,352,398</u></u>	0.92%
<b>Percentage of Vehicles:</b>			
Passenger cars	87.09%	86.96%	0.14%
Commercial vehicles	11.88%	11.98%	(0.80%)
<b>Number of Miles:</b>			
Passenger cars	1,177,624,632	1,171,552,369	0.52%
Commercial vehicles	<u>250,803,943</u>	<u>248,365,031</u>	0.98%
Total	<u><u>1,428,428,575</u></u>	<u><u>1,419,917,400</u></u>	0.60%
<b>Percentage of Miles:</b>			
Passenger cars	82.44%	82.51%	(0.08%)
Commercial vehicles	17.56%	17.49%	0.38%
<b>Toll Revenue (Gross):</b>			
Passenger cars	\$ 54,203,457	\$ 50,222,244	7.93%
Commercial vehicles	31,185,273	30,088,602	3.64%
Discounts and adjustments	<u>(802,556)</u>	<u>(836,002)</u>	(4.00%)
Total	<u><u>\$ 84,586,174</u></u>	<u><u>\$ 79,474,845</u></u>	6.43%
<b>Percentage of Toll Revenue:</b>			
Passenger cars	64.08%	63.19%	1.41%
Commercial vehicles	36.87%	37.86%	(2.62%)
<b>Miles Per Trip:</b>			
Passenger cars	40.17	40.35	(0.43%)
Commercial vehicles	62.71	62.69	0.02%
<b>Revenue Per Trip:</b>			
Passenger cars	\$ 1.85	\$ 1.73	6.91%
Commercial vehicles	\$ 7.80	\$ 7.60	2.66%
<b>Revenue Per Mile:</b>			
Passenger cars	\$ 0.04603	\$ 0.04287	7.37%
Commercial vehicles	\$ 0.12434	\$ 0.12115	2.64%
Discounts and adjustments	\$ (0.00056)	\$ (0.00059)	(4.57%)



## SCHEDULE OF ACTIVITY BY INTERCHANGE

Years Ended December 31, 2010 and 2009  
(Unaudited)

No.	Interchange Location	2010			2009			Percent Increase (Decrease)
		Entering Vehicles	Exiting Vehicles	Total Vehicles	Entering Vehicles	Exiting Vehicles	Total Vehicles	
004	Southern Terminal	2,782,218	2,885,852	5,668,070	2,762,161	2,863,066	5,625,227	0.76%
019	Wellington: US 160	780,927	732,039	1,512,966	767,227	726,366	1,493,593	1.30%
033	Mulvane: K-53	586,109	539,519	1,125,628	561,714	515,273	1,076,987	4.52%
039	Haysville-Derby: 71st St.	952,953	889,477	1,842,430	815,655	797,225	1,612,880	14.23%
042	Wichita: I-135, I-235, 47th St.	3,327,159	3,411,430	6,738,589	3,317,179	3,414,095	6,731,274	0.11%
045	Wichita: K-15	809,405	879,184	1,688,589	779,166	855,404	1,634,570	3.30%
050	Wichita: US 54/400, Kellogg Ave.	1,599,081	1,598,780	3,197,861	1,528,995	1,513,636	3,042,631	5.10%
053	Wichita: K-96	904,937	934,445	1,839,382	921,539	904,953	1,826,492	0.71%
057	Andover: 21st St.	478,309	465,221	943,530	466,278	445,958	912,236	3.43%
071	El Dorado: US 254	1,030,198	999,960	2,030,158	1,039,294	1,012,757	2,052,051	(1.07%)
076	El Dorado: US 77	236,605	234,119	470,724	233,757	226,433	460,190	2.29%
092	Cassoday: K-177	91,942	96,240	188,182	93,392	101,466	194,858	(3.43%)
127	Emporia: I-35N	1,944,732	1,868,717	3,813,449	1,931,204	1,840,356	3,771,560	1.11%
147	Council Grove, Osage City: US 56	127,556	128,541	256,097	129,313	129,273	258,586	(0.96%)
177	Topeka: I-470W, US 75, Topeka Blvd.	2,369,013	2,400,957	4,769,970	2,336,988	2,376,581	4,713,569	1.20%
182	Topeka: Valley Falls: K-4/I-70W	484,501	424,682	909,183	480,869	415,060	895,929	1.48%
183	Topeka: I-70	4,655,882	4,682,801	9,338,683	4,601,175	4,632,816	9,233,991	1.13%
197	Lecompton, Lawrence: K-10	1,851,135	1,839,174	3,690,309	1,794,669	1,764,783	3,559,452	3.68%
202	Lawrence: US 59, S. Iowa St.	2,098,535	2,036,526	4,135,061	1,844,440	1,712,554	3,556,994	16.25%
204	Lawrence: US 59, US40	401,640	466,085	867,725	1,116,972	1,244,621	2,361,593	(63.26%)
212	Tonganoxie/Eudora	341,979	359,333	701,312	1,006	1,718	2,724	
224	Bonner Springs	229,156	120,376	349,532	220,280	171,105	391,385	(10.69%)
236	Eastern Terminal	5,062,332	5,152,846	10,215,178	5,116,903	5,194,677	10,311,580	(0.93%)

## SCHEDULE OF MONTHLY VEHICLES, MILEAGE AND TOLL REVENUE

Years Ended December 31, 2010 and 2009  
(Unaudited)

Month	Vehicles	Mileage	Gross Revenue		Average Miles Per Vehicle	Average Revenue Per Vehicle
			Passenger	Commercial		
January	2,404,594	99,346,740	\$ 3,723,712	\$ 2,358,197	41.32	\$ 2.53
February	2,319,184	94,364,008	\$ 3,522,887	\$ 2,273,043	40.69	2.50
March	2,826,300	120,660,366	\$ 4,565,870	\$ 2,717,957	42.69	2.58
April	2,758,579	115,437,876	\$ 4,335,753	\$ 2,639,991	41.85	2.53
May	2,922,098	127,129,558	\$ 4,860,683	\$ 2,665,046	43.51	2.58
June	2,903,544	126,555,593	\$ 4,807,308	\$ 2,728,221	43.59	2.60
July	3,015,925	134,792,926	\$ 5,195,823	\$ 2,691,728	44.69	2.62
August	2,906,531	125,886,208	\$ 4,770,990	\$ 2,723,740	43.31	2.58
September	2,794,782	118,480,637	\$ 4,462,060	\$ 2,622,179	42.39	2.53
October	2,939,158	124,738,858	\$ 4,725,659	\$ 2,715,162	42.44	2.53
November	2,797,064	121,945,828	\$ 4,670,940	\$ 2,545,104	43.60	2.58
December	2,725,213	119,089,977	\$ 4,561,772	\$ 2,504,906	43.70	2.59
	<u>33,312,972</u>	<u>1,428,428,575</u>	<u>\$ 54,203,457</u>	<u>\$ 31,185,273</u>	42.89	\$ 2.56
		Total Gross Toll Revenue		\$ 85,388,730		
		Discounts and Adjustments		(802,556)		
		Total Adjusted Revenue		<u>\$ 84,586,174</u>		

## SUMMARY OF TURNPIKE TRAFFIC

Years Ended December 31, 2010 and 2009

(Unaudited)

	Turnpike		K-TAG	
	2010	2009	2010	2009
<b>Vehicles</b>	33,312,972	32,999,175	15,724,620	14,275,774
Passenger	29,313,392	29,037,552	13,832,508	12,438,282
Commercial	3,999,580	3,961,623	1,892,112	1,837,492
<b>Miles Traveled</b>	1,428,428,575	1,419,917,400	567,450,365	513,630,830
Passenger	1,177,624,632	1,171,552,369	454,310,750	404,491,981
Commercial	250,803,943	248,365,031	113,139,615	109,138,849
<b>Toll Revenue</b>	\$ 85,388,730	\$ 80,310,847	\$ 34,392,239	\$ 31,613,473
Passenger	\$ 54,203,457	\$ 50,222,244	\$ 19,683,693	\$ 17,300,443
Commercial	\$ 31,185,273	\$ 30,088,602	\$ 14,708,546	\$ 14,313,030
<b>Average Toll</b>	\$ 2.56	\$ 2.43	\$ 2.19	\$ 2.21
Passenger	\$ 1.85	\$ 1.73	\$ 1.42	\$ 1.39
Commercial	\$ 7.80	\$ 7.60	\$ 7.77	\$ 7.79
<b>Average Trip Miles</b>	43	43	36	36
Passenger	40	40	33	33
Commercial	63	63	60	59

## SUMMARY OF AVERAGE DAILY TRAFFIC BETWEEN INTERCHANGES

Year Ended December 31, 2010

(Unaudited)

	Southbound	Northbound	Southbound	Northbound
236	14,497	14,447	76	6,682
212	14,748	14,745	71	6,768
204	14,649	14,823	57	6,996
202	14,202	14,206	53	7,633
197	17,975	17,946	50	7,318
183	5,170	5,215	45	5,999
182	6,496	6,378	42	12,176
177	3,545	3,514	39	10,420
147	3,364	3,335	33	9,574
127	6,497	6,260	19	7,906
92	6,556	6,331	4	7,623
76				