KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

WITH

INDEPENDENT AUDITOR'S REPORT

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AGH CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kansas Turnpike Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Kansas Turnpike Authority (Turnpike), a component unit of the State of Kansas, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Turnpike'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 the 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kansas Turnpike Authority as of June 30, 2017 and 2016, and the respective changes in its financial position and its cash flows for the years ended June 30, 2017 and 2016 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 and required supplementary information listed on the table of contents be presented to supplement the basic financial statements. Such information, although not part of the 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Turnpike's basic financial statements. The supplementary information and statistical data as listed on the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The statistical data has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2017 on our consideration of the Turnpike's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Turnpike's internal control over financial reporting and compliance.

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

September 13, 2017
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 period ended June 30, 2017. Please read it in conjunction with the Turnpike's financial statements and associated footnotes.

Financial Highlights

- The Turnpike's net position increased in the year ended June 30, 2017 by approximately $46.2 million or 8.3% compared to 2016.

- Long term debt decreased by $13.6 million in the year ended June 30, 2017 compared to 2016.

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 only shown as supplementary information.

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 position; 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, and by interchange. 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 Position

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 Position 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 position and changes in net position. You can think of the Turnpike's net position – 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 position is 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.

Required Supplementary Information

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

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.

The Turnpike's Balance Sheet

The Turnpike's net position is the difference between its assets, deferred outflows of resources, liabilities and deferred inflows of resources reported in the Balance Sheet. The Turnpike's net position increased for the year ended June 30, 2017 by approximately $46.2 million (8.3%).

	June 30, 2017	June 30, 2016	June 30, 2015
ASSETS			
Cash and cash equivalents	**$ 48,247,461**	$ 86,444,950	$ 37,882,827
Short-term investments	**62,303,372**	64,468,181	60,706,571
Intergovernmental receivables	**1,072,595**	3,821,526	6,433,505
Accounts receivable	**8,773,607**	1,566,145	1,058,966
Other current assets	**3,131,546**	2,856,393	2,956,874
Capital assets	**623,512,363**	594,504,905	580,535,253
Other noncurrent assets	**73,770,646**	28,415,280	69,447,709
Total assets	**820,811,590**	782,077,380	759,021,705
DEFERRED OUTFLOWS OF RESOURCES			
Deferred refunding	**2,544,616**	3,664,396	4,784,176
Deferred outflows - pensions	**3,702,583**	1,731,011	1,721,487
Total deferred outflows of resources	**6,247,199**	5,395,407	6,505,663
LIABILITIES			
Current liabilities	**32,270,587**	26,142,717	24,900,209
Long-term debt outstanding	**167,795,000**	181,415,000	194,490,000
Bond premium	**7,269,785**	8,689,256	10,108,727
Net pension liability	**16,732,544**	14,751,631	14,383,900
Other long-term liabilities	**2,258,301**	1,512,042	2,584,088
Total liabilities	**226,326,217**	232,510,646	246,466,924
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pensions	**1,462,003**	1,859,272	3,120,006
Total deferred inflows of resources	**1,462,003**	1,859,272	3,120,006
NET POSITION			
Net investment in capital assets	**437,371,388**	394,989,239	368,180,702
Restricted - expendable for debt service	**34,041,477**	33,529,100	33,080,245
Unrestricted	**127,857,704**	124,584,530	114,679,491
Total net position	**$ 599,270,569**	$ 553,102,869	$ 515,940,438

Net position may serve, over time, as a useful indicator of an organization's financial position. In the case of the KTA, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $599,270,569 at the close of the most recent year.

Restricted net position of $34,041,477 represents amounts in the debt service and debt service reserve funds. These are therefore restricted from an accounting perspective. The unrestricted assets may also include other designated funds. For example, the bond trust indenture requires the replacement reserve fund be maintained at the level of the replacement reserve requirement, which was $26,400,000 during the 2017 reporting period, and the operating fund balance is required to be maintained at 30% of the annual budget amount. The Turnpike's unrestricted resources may be used for capital replacement and improvement requirements.

By far, the largest portion of the KTA's net position reflects its investment in capital assets, such as right-of-way, roads, bridges, buildings, and equipment less any related debt used to acquire those assets that are 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.

Changes in the Turnpike's Net Position

For the year ended June 30, 2017, the Turnpike's net position increased by approximately $46.2 million, as shown in the table below. The prior period adjustment recorded during fiscal year 2015 was to restate beginning net position as of July 1, 2014 for the adoption of GASB 68: *Accounting and Financial Reporting for Pensions.*

	CHANGES IN NET POSITION		
	June 30, 2017	June 30, 2016	June 30, 2015
Operating Revenues			
Tolls	**$ 112,525,112**	$ 108,455,441	$ 100,324,558
Concessionaire rentals	**5,350,824**	5,504,521	5,064,598
Miscellaneous	**723,511**	794,709	996,190
Total operating revenues	**118,599,447**	114,754,671	106,385,346
Operating Expenses			
Administration	**9,225,249**	11,612,922	8,570,895
Insurance	**9,240,350**	8,505,554	7,088,348
Toll collection	**8,251,846**	9,207,166	9,993,839
Patrol	**6,252,369**	5,542,888	5,493,479
Maintenance	**6,782,748**	8,526,600	9,246,858
Depreciation	**3,529,126**	2,989,297	2,890,482
Cost of repairs and improvements	**22,169,890**	24,493,380	14,908,216
Total operating expenses	**65,451,578**	70,877,807	58,192,117
Operating Income	**53,147,869**	43,876,864	48,193,229
Nonoperating Revenues (Expenses)			
Investment revenue	**901,511**	1,380,500	1,682,512
Interest on long-term debt	**(9,436,500)**	(10,038,728)	(10,540,464)
Interest expense subsidy	**1,682,780**	1,681,315	1,675,294
Gain (loss) on disposal of asset	**(127,960)**	262,480	316,754
Capital contribution	**--**	--	570,782
Net nonoperating revenues (expenses)	**(6,980,169)**	(6,714,433)	(6,295,122)
Prior period adjustment	**--**	--	(16,341,592)
Increase in net position	**$ 46,167,700**	$ 37,162,431	$ 25,556,515

Operating Income

The first component of the overall change in the Turnpike's net position 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 fiscal year 2017, the Turnpike reported operating income, which is consistent with the majority of the Turnpike's operating history.

Toll revenue was over $112.5 million for the year ended June 30, 2017. When compared to fiscal year 2016 statistics, toll revenue was up 3.75% and traffic was up .09%.

The Turnpike's Convenience and Fuel Store and Restaurant rental revenue was over $5 million for the year ended June 30, 2017.

Operating expenses listed in Note 2 of the Financial Statements were approximately $7.6 million (16.1%) less than budgeted for 2017. Budgeted expenses include the costs of collecting tolls, and administering, insuring, maintaining and patrolling the Turnpike.

A second component of Operating Expenses listed in the Changes in Net Position is the cost of repairs and improvements. $22.2 million was spent in Fiscal Year 2017 on construction projects which were deemed to be repair or maintenance to improve or preserve infrastructure assets.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of interest paid on long-term debt and investment earnings. Another 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. In 2017, the total interest subsidy received by the KTA was $1,682,780. Interest subsidy payments were subject to sequestration reductions by the Federal government starting in 2013. In 2017, the subsidies are reduced by 6.9%, or over $123,000 per semi-annual subsidy payment.

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 2017, the Turnpike reported $623,512,363 invested in capital assets. The Turnpike's infrastructure assets are made up of two networks: Roadway system network and Bridge system network. As of the June 30, 2017 condition assessment, the Turnpike's roadway system and bridge system both exceeded the established condition level set by the Turnpike. For the year ended June 30, 2017, the Turnpike's actual costs to maintain the roadway system was more than estimated by approximately $4.1 million and bridge system was more than estimated by approximately $3.8 million. For additional information on capital assets see Note 4 and required supplementary information.

Debt

At the end of 2017, the Turnpike had $181,415,000 of bonds outstanding. Of the total, $13,620,000 is payable in fiscal year 2018, and the remainder is listed as Long-term liabilities. For additional information on debt, see Note 6.

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, please contact Kent Olson, Chief Financial Officer at 9401 E. Kellogg, Wichita, KS 67207.

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

BALANCE SHEETS

June 30, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS

	2017	2016
Current assets		
Cash and cash equivalents	**$ 23,700,543**	$ 75,703,152
Short-term investments	**49,335,301**	38,028,205
Intergovernmental receivables	**1,072,595**	3,821,526
Accounts receivable, net of allowance for uncollectible accounts of $3,072,062 and $0 respectively	**8,773,607**	1,566,145
Accrued interest receivable	**1,124,446**	1,230,680
Material and supply inventory	**1,665,220**	328,706
Prepaid expense and other assets	**326,487**	1,275,142
Total current assets	**85,998,199**	121,953,556
Restricted assets		
Cash and cash equivalents	**24,546,918**	10,741,798
Investments	**12,968,071**	26,439,976
Accrued interest receivable	**15,393**	21,865
Total restricted assets	**37,530,382**	37,203,639
Other long-term investments	**73,770,646**	28,415,280
Capital assets		
Capital assets, not being depreciated	**591,052,461**	564,248,885
Capital assets, net of accumulated depreciation	**32,459,902**	30,256,020
Total capital assets	**623,512,363**	594,504,905
Deferred outflows of resources		
Deferred refunding	**2,544,616**	3,664,396
Deferred outflows - pensions	**3,702,583**	1,731,011
Total deferred outflows of resources	**6,247,199**	5,395,407
Total assets and deferred outflows of resources	**$ 827,058,789**	$ 787,472,787

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	2017	2016
Current liabilities		
Current maturities of long-term debt	**$ 13,620,000**	$ 13,075,000
Prepaid tolls	**1,930,324**	1,579,887
Accounts payable	**7,572,541**	469,523
Accrued expenses	**6,027,879**	7,658,272
Accrued interest	**3,119,843**	3,360,035
Total current liabilities	**32,270,587**	26,142,717
Long-term liabilities		
Turnpike revenue bonds	**167,795,000**	181,415,000
Bond premium	**7,269,785**	8,689,256
Net pension liability	**16,732,544**	14,751,631
Other long-term liabilities	**2,258,301**	1,512,042
Total long-term liabilities	**194,055,630**	206,367,929
Total liabilities	**226,326,217**	232,510,646
Deferred inflows of resources		
Deferred inflows - pensions	**1,462,003**	1,859,272
Net position		
Net investment in capital assets	**437,371,388**	394,989,239
Restricted - expendable for debt service	**34,041,477**	33,529,100
Unrestricted	**127,857,704**	124,584,530
Total net position	**599,270,569**	553,102,869
Total liabilities, deferred inflows of resources and net position	**$ 827,058,789**	$ 787,472,787

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

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years Ended June 30, 2017 and 2016

	2017	2016
Operating Revenues		
Tolls	**$ 112,525,112**	$ 108,455,441
Concessionaire rentals	**5,350,824**	5,504,521
Miscellaneous	**723,511**	794,709
	118,599,447	114,754,671
Operating Expenses		
Administration	**9,225,249**	11,612,922
Insurance	**9,240,350**	8,505,554
Toll collection	**8,251,846**	9,207,166
Patrol	**6,252,369**	5,542,888
Maintenance	**6,782,748**	8,526,600
Depreciation	**3,529,126**	2,989,297
Cost of repairs and improvements	**22,169,890**	24,493,380
	65,451,578	70,877,807
Operating Income	**53,147,869**	43,876,864
Nonoperating Revenues (Expenses)		
Investment revenue	**901,511**	1,380,500
Interest on long-term debt	**(9,436,500)**	(10,038,728)
Interest expense subsidy - federal	**1,682,780**	1,681,315
Loss on disposal of assets	**(127,960)**	262,480
	(6,980,169)	(6,714,433)
Change in net position	**46,167,700**	37,162,431
Net position, beginning of year	**553,102,869**	515,940,438
Net position, end of year	**$ 599,270,569**	$ 553,102,869

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

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	2017	2016
Operating Activities		
Cash received from toll collections	**$ 105,564,486**	$ 107,473,269
Cash received from concessionaire rentals and miscellaneous	**6,177,936**	6,272,443
Cash paid to suppliers	**(36,028,479)**	(45,195,234)
Cash paid to employees	**(17,701,945)**	(20,439,868)
Net cash flows from operating activities	**58,011,998**	48,110,610
Capital and Related Financing Activities		
Interest subsidy - federal	**1,682,780**	1,681,315
Interest paid	**(9,976,383)**	(10,516,547)
Payments on bonds	**(13,075,000)**	(12,540,000)
Proceeds from sale of capital assets	**2,860,146**	565,886
Payments for capitalized costs	**(35,524,690)**	(17,262,355)
Net cash flows from capital and related financing activities	**(54,033,147)**	(38,071,701)
Investing Activities		
Investment revenue realized	**821,026**	529,046
Proceeds from sale and maturities of investments	**115,247,358**	74,992,000
Purchase of investments	**(158,244,724)**	(36,997,832)
Net cash flows from investing activities	**(42,176,340)**	38,523,214
Change in Cash and Cash Equivalents	**(38,197,489)**	48,562,123
Cash and Cash Equivalents, Beginning of Year	**86,444,950**	37,882,827
Cash and Cash Equivalents, End of Year	**$ 48,247,461**	$ 86,444,950
Reconciliation of Operating Income to Net Cash Flows from Operating Activities		
Operating income	**$ 53,147,869**	$ 43,876,864
Depreciation	**3,529,126**	2,989,297
Changes in operating assets and liabilities		
Accounts receivable, lease receivable and prepaid tolls	**(4,108,094)**	1,603,020
Material and supply inventory	**(1,336,514)**	118,894
Deferred outflows - pension	**(1,971,572)**	(9,524)
Accounts payable and accrued expenses	**6,218,884**	315,370
Net pension liability	**1,980,913**	367,731
Prepaid expenses and other assets	**948,655**	109,692
Deferred inflows - pension	**(397,269)**	(1,260,734)
Net cash flows from operating activities	**$ 58,011,998**	$ 48,110,610
Noncash investing capital and financing activities:		
Amortization of bond premium and deferred refunding	**$ (299,261)**	$ (299,691)

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Turnpike & Reporting Entity - 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. Its enabling statutes are found in K.S.A 68-2001 et seq., as amended and supplemented. The Kansas Legislature has authority to modify the statutes related to the Turnpike, and thus modify the structure and operating activities of the Turnpike.

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.

K.S.A. 68-2003 was amended during the State of Kansas' 2013 and 2015 legislative sessions. The amendments named the Secretary of Transportation of the State of Kansas as the director of the Turnpike, effective July 1, 2013. The director is responsible for the daily administration of the toll roads, bridges, structures and facilities constructed, maintained or operated by the Turnpike. While the Turnpike retains its separate identity, powers and duties as an instrumentality of the State, the amendment requires duplication of effort, facilities, and equipment between the Kansas Department of Transportation and the Turnpike be minimized in operation and maintenance of turnpikes and highways of the State.

Due to the amendments to K.S.A. 68-2003, the Turnpike became financially accountable to the State, as the State has oversight responsibility of day-to-day operations and administration of the Turnpike. The State also has the ability to significantly influence operations and accountability for fiscal matters, special financing relationships, and scope of public service. The Turnpike is therefore included in the State's financial reporting entity, and the Turnpike's transactions are reported in the State's financial statements as a component unit.

The Turnpike extends unsecured credit to certain K-TAG 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 June 30, 2017, cash equivalents consisted primarily of commercial paper, money market accounts with brokers and certain U.S. agency obligations.

Investments and Investment Income - Money market investments are measured at amortized cost. Other investments are recorded at fair value. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. Investment income includes dividend and interest income and the net change for the year in the fair value. In accordance with the 2009 First Amended and Restated Trust Indenture, 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.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts receivable - Accounts receivable is reported net of an allowance for uncollectible accounts based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for uncollectible accounts by identifying known accounts that will not be collected and by estimating the remaining accounts that are likely not to be collected. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

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.

Capital Assets - All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The Turnpike utilizes a capitalization threshold of $50,000 for buildings and IT equipment and $5,000 for all other equipment. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Buildings and equipment are depreciated using the straight-line method over the following useful lives:

Asset Class	Estimated Useful Lives
Buildings	40 years
Machinery and Equipment	7 years

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

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Length of Service	Earnings Rate	Allowed Vacation Earnings
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 pay 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 Position - Net position of the Turnpike is classified in three components. The net investment in capital assets consists 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 position is 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 position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable net position.

Deferred Inflows of Resources/Deferred Outflows of Resources - In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Turnpike has two types of items, deferred charge on refunding and deferred outflows for pensions that qualify for reporting in this category. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. See Note 8 for more information on the deferred outflows for pensions.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Turnpike has one item that qualifies for reporting in this category. It is the deferred inflows for pensions. See Note 8 for more information on this deferred inflow.

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, and operating expenses for 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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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.

Pensions - The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of employee service and the plan's fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liability.

For purposes of measuring the collective 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.

2. BUDGET PROCESS

Each year the Turnpike prepares a preliminary annual budget of operating expenses. Copies are filed with the Trustee. The Consulting Engineer recommends the amount to be transferred to the replacement reserve fund for major repairs and replacements. The budget is adopted on or before July 1. The Turnpike may amend the budget at any time.

A comparison of actual expenses in the revenue fund and operations account with the budget for the year ended June 30, 2017, is as follows:

	Budget	Actual	Over (Under)
Administration	$ 10,313,175	$ 9,225,249	$ (1,087,926)
Insurance	10,507,000	9,240,350	(1,266,650)
Toll Collection	10,446,475	8,251,846	(2,194,629)
Patrol	6,623,045	6,252,369	(370,676)
Maintenance	9,509,451	6,782,748	(2,726,703)
	$ 47,399,146	$ 39,752,562	$ (7,646,584)

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 June 30, 2017 and 2016, none of the Turnpike's bank balances of $24,926,516 and $73,191,723, 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.

3. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME (CONTINUED)

At June 30, 2017, the Turnpike had the following investments and maturities:

		Maturities in Years			Fair Value
Type	Fair Value	Less than 1	1-5	6-10	Hierarchy
US Treasury obligations	$ 81,937,004	$ 29,961,870	$ 51,975,134	$ --	Level 1
US agency obligations	54,137,014	33,335,879	20,801,135	--	Level 2
Money Market mutual funds	31,060,118	31,060,118	--	--	N/A
	167,134,136	$ 94,357,867	$ 72,776,269	$ --	
Less cash equivalents	31,060,118				
Investments per balance sheet	$ 136,074,018				

At June 30, 2016, the Turnpike had the following investments and maturities:

		Maturities in Years			Fair Value
Type	Fair Value	Less than 1	1-5	6-10	Hierarchy
US Treasury obligations	$ 36,110,950	$ 28,825,604	$ 3,001,758	$ 4,283,588	Level 1
US agency obligations	56,772,511	32,095,960	24,676,551	--	Level 2
Money Market mutual funds	71,635,086	71,635,086	--	--	N/A
	164,518,547	$ 132,556,650	$ 27,678,309	$ 4,283,588	
Less cash equivalents	71,635,086				
Investments per balance sheet	$ 92,883,461				

Fair Value Measurements - Following is a description of the valuation methodologies used for assets measured at fair value in the table above.

An investment's categorization within the valuation hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

US Treasury obligations are valued at Level 1 using quoted prices in active markets for identical assets.

US Agency obligations are valued at Level 2 using pricing models that maximize the use of observable inputs for similar securities.

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.

3. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME (CONTINUED)

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 diversify investments so that potential losses on individual securities will be minimized. At June 30, 2017 and 2016, the Turnpike's investments in U.S. agency obligations not directly guaranteed by the U.S. government were rated AA+ by Standard & Poor's.

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 June 30, 2017 and 2016, the Turnpike had the following concentrations:

	2017	2016
Federal Home Loan Mortgage Corporation	9.73%	46.39%
Federal National Mortgage Association	9.09%	10.75%
Federal Home Loan Bank	28.97%	35.81%
Federal Farm Credit Bank	5.81%	7.04%
Bank of Tokyo Mitsubishi	6.96%	0.00%
BNP Paribas NY Branch Comm Paper	5.17%	0.00%
Canadian Imperial Holding Comm Paper	5.15%	0.00%
Cooperative Rabobank U.A. Comm Paper	5.17%	0.00%
ING Funding LLC Comm Paper	5.17%	0.00%

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

	2017	2016
Carrying Value:		
Deposits	$ 17,187,343	$ 14,809,864
Investments	167,134,136	164,518,547
	$ 184,321,479	$ 179,328,411
Included in the following balance sheet captions:		
Cash and cash equivalents	$ 23,700,543	$ 75,703,152
Short-term investments	49,335,301	38,028,205
Restricted cash and cash equivalents	24,546,918	10,741,798
Restricted investments	12,968,071	26,439,976
Other long-term investments	73,770,646	28,415,280
	$ 184,321,479	$ 179,328,411

3. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME (CONTINUED)

Investment Income - Investment income for the periods ended June 30, consisted of:

	2017	2016
Interest and dividend income	$ 1,581,142	$ 1,474,482
Net change in fair value of investments	(679,631)	(93,982)
	$ 901,511	$ 1,380,500

4. CAPITAL ASSETS

Capital assets activity for the periods ended June 30, 2017 and 2016 was:

	June 30, 2016	Increases	Decreases	June 30, 2017
Capital assets, not being depreciated:				
Land	$ 22,171,584	$ 140,140	$ 2,237,877	$ 20,073,847
Building CIP	839,019	--	839,019	--
Infrastructure, including CIP	541,238,282	30,145,560	405,228	570,978,614
Total capital assets, not being depreciated	564,248,885	30,285,700	3,482,124	591,052,461
Capital assets, being depreciated:				
Buildings and improvements	33,657,096	839,019	--	34,496,115
Machinery and equipment	24,640,868	5,238,993	1,493,795	28,386,066
Total capital assets being depreciated	58,297,964	6,078,012	1,493,795	62,882,181
Less accumulated depreciation for:				
Buildings and improvements	13,289,243	862,403	--	14,151,646
Machinery and equipment	14,752,701	2,666,723	1,148,791	16,270,633
Total accumulated depreciation	28,041,944	3,529,126	1,148,791	30,422,279
Total capital assets, being depreciated, net	30,256,020	2,548,886	345,004	32,459,902
Capital assets, net	$ 594,504,905	$ 32,834,586	$ 3,827,128	$ 623,512,363

4. CAPITAL ASSETS (CONTINUED)

	June 30, 2015	Increases	Decreases	June 30, 2016
Capital assets, not being depreciated:				
Land	$ 14,020,663	$ 8,150,921	$ --	$ 22,171,584
Building CIP	--	839,019	--	839,019
Infrastructure, including CIP	536,910,373	4,327,909	--	541,238,282
Total capital assets, not being depreciated	550,931,036	13,317,849	--	564,248,885
Capital assets, being depreciated:				
Buildings and improvements	33,657,096	--	--	33,657,096
Machinery and equipment	21,542,741	3,944,506	846,379	24,640,868
Total capital assets being depreciated	55,199,837	3,944,506	846,379	58,297,964
Less accumulated depreciation for:				
Buildings and improvements	12,463,987	825,256	--	13,289,243
Machinery and equipment	13,131,633	2,164,041	542,973	14,752,701
Total accumulated depreciation	25,595,620	2,989,297	542,973	28,041,944
Total capital assets, being depreciated, net	29,604,217	955,209	303,406	30,256,020
Capital assets, net	$ 580,535,253	$ 14,273,058	$ 303,406	$ 594,504,905

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses in current liabilities at June 30, consisted of:

	2017	2016
Payable to suppliers	$ 7,572,541	$ 469,523
Contracts payable and retained amounts	2,441,771	2,258,575
Payable to employees (including payroll taxes and benefits)	2,148,106	3,838,642
Concessionaires deposits	268,002	391,055
Estimated self-insurance costs	1,170,000	1,170,000
	$ 13,600,420	$ 8,127,795

6. LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the Turnpike for the periods ended June 30, 2017 and 2016:

	June 30, 2016	Additions	Deductions	June 30, 2017	Current Portion
Long-term debt					
Revenue bonds	$ 194,490,000	$ --	$ 13,075,000	$ 181,415,000	$ 13,620,000
Bond premium	8,689,256	--	1,419,471	7,269,785	--
Other long-term liabilities					
Accrued compensated absences	3,512,000	1,924,000	1,998,000	3,438,000	1,514,000
Total long-term obligations	$ 206,691,256	$ 1,924,000	$ 16,492,471	$ 192,122,785	$ 15,134,000

	June 30, 2015	Additions	Deductions	June 30, 2016	Current Portion
Long-term debt					
Revenue bonds	$ 207,030,000	$ --	$ 12,540,000	$ 194,490,000	$ 13,075,000
Bond premium	10,108,727	--	1,419,471	8,689,256	--
Other long-term liabilities					
Accrued compensated absences	3,518,000	1,054,000	1,060,000	3,512,000	2,458,000
Total long-term obligations	$ 220,656,727	$ 1,054,000	$ 15,019,471	$ 206,691,256	$ 15,533,000

7. REVENUE BONDS PAYABLE

At June 30, 2017 and 2016, Turnpike revenue bonds payable were as follows:

	2017	2016
Series 2002	$ 3,125,000	$ 6,090,000
Series 2009A	77,425,000	77,425,000
Series 2010A	59,445,000	59,445,000
Series 2012A	23,665,000	25,830,000
Series 2013A	17,755,000	25,700,000
	$ 181,415,000	$ 194,490,000

7. REVENUE BONDS PAYABLE (CONTINUED)

Interest rates on the bonds vary between 2.0% and 6.74%. The debt service requirements as of June 30, 2017, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2018	$ 22,979,528	$ 13,620,000	$ 9,359,528
2019	21,355,588	12,645,000	8,710,588
2020	18,881,906	10,745,000	8,136,906
2021	18,471,156	10,785,000	7,686,156
2022	15,807,881	8,515,000	7,292,881
2023 – 2027	70,739,205	39,910,000	30,829,205
2028 – 2032	46,464,741	22,375,000	24,089,741
2033 – 2037	48,375,009	31,440,000	16,935,009
2038 – 2041	34,612,841	31,380,000	3,232,841
	$ 297,687,855	$ 181,415,000	$ 116,272,855

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

	Callable on or After	Call Price
Series 2002	September 1, 2012	At 101% of par
	September 1, 2013	At par
Series 2009A	September 1, 2019	At par
Series 2010A	September 1, 2010	At par
Series 2012A	September 1, 2020	At par

The Series 2009A bonds were issued as taxable Build America Bonds pursuant to the American Recovery and Reinvestment Act of 2009, which provides that 32% of the interest payments on those bonds will be paid to the Turnpike by the U.S. Treasury. The subsidy was $1,682,780 and $1,681,315 for the years ended June 30, 2017 and 2016, respectively.

The bond trust indenture of the Turnpike requires, among other things, that special reserve accounts be established and maintained. Additionally, the indenture requires the Turnpike to charge such tolls for the use of the Turnpike, that, together with any other available funds, will produce revenues at least equal to the greater of: a) an amount sufficient to pay operating, maintenance, and debt service costs, and to satisfy deposits to the debt service reserve fund and the replacement reserve fund as defined by the bond trust indenture; or b) an amount sufficient to enable the Turnpike to have in each fiscal year a debt service coverage ratio that will not be less than 1.25. The Turnpike was in compliance with the above requirements as of June 30, 2017.

8. DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan description. The Turnpike 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.

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 chose 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 2012 Legislature made changes affecting new hires, current member employees and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 years with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas

8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

law established the KPERS member-employee contribution rate at 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. Member 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 for KPERS 1, KPERS 2 and KPERS 3 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 1.00% contribution rate for Death and Disability Program) and the statutory contribution rate were 9.48% from July 1, 2015 through December 31, 2015 and 9.18% from January 1, 2016 through June 30, 2016. The actuarially determined employer contribution rate and the statutory contribution rate were 9.18% from July 1, 2016 through December 31, 2016 and 8.46% From January 1, 2017 through June 30, 2017. Contributions to the pension plan from the Turnpike were $1,628,854 and $1,731,011 for the periods ended June 30, 2017 and 2016, respectively.

<u>Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

Net pension liability activity for the years ended June 30 was as follows:

	June 30, 2017	June 30, 2016
Net pension liability	$ 16,732,544	$ 14,751,631
Measurement date	June 30, 2016	June 30, 2015
Valuation date	December 31, 2015	December 31, 2014
Proportion	1.082%	1.123%
Change in proportion	-0.042%	-0.046%

The collective net pension liability is measured by KPERS each June 30, and the total pension liability used to calculate the collective net pension liability is determined by an actuarial valuation as of each December 31, rolled forward to June 30. The Turnpike's proportion of the collective net pension liability was based on the ratio of the Turnpike's actual contributions to KPERS, relative to the total employer and nonemployer contributions of the Local subgroup within KPERS for the fiscal years ended June 30, 2016 and 2015. The contributions used exclude contributions made for prior service, excess benefits and irregular payments.

For the years ended June 30, 2017 and 2016, the Turnpike recognized pension expense of $1,325,559 and $836,285. At June 30, 2017 and 2016, the Turnpike reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

	June 30, 2017		June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 97,116	$ 302,005	$ --	$ 417,586
Net difference between projected and actual earnings on pension plan investments	1,976,613	--	--	574,230
Changes in proportionate share	--	1,003,478	--	661,286
Changes in assumptions	--	156,520	--	206,170
Turnpike contributions subsequent to measurement date	1,628,854	--	1,731,011	--
Total	$ 3,702,583	$ 1,462,003	$ 1,731,011	$ 1,859,272

The $1,628,854 reported as deferred outflows of resources related to pensions resulting from the Turnpike contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2018. 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:	
2018	$ (99,776)
2019	(99,776)
2020	515,897
2021	342,552
2022	(47,174)
	$ 611,723

Actuarial assumptions. The total pension liability for KPERS in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	3.00%
Wage inflation	4.00%
Salary increases, including wage increases	4.00% to 16.00%, including inflation
Long-term rate of return, net of investment expense, and including price 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, 2015 valuation were based on the results of an actuarial experience study conducted for the three year period beginning December 31, 2012.

8. DEFINED BENEFIT PENSION PLAN (CONTINUED)

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, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.80%
Fixed income	13	1.25
Yield driven	8	6.55
Real return	11	1.71
Real estate	11	5.05
Alternatives	8	9.85
Short-term investments	2	(0.25)
Total	100%	

Discount rate. The discount rate used by KPERS 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 contractually required rate. The Local employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' Board of Trustees for this group may not increase by more than the statutory cap. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in the future. 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.

Sensitivity of the Turnpike's proportionate share of the collective net pension liability to changes in the discount rate. The following presents the Turnpike's proportionate share of the collective net pension liability calculated using the discount rate of 8.00%, as well as what the Turnpike's proportionate share of the collective 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%)
June 30, 2017	$ 22,934,663	$ 16,732,544	$ 11,473,637
June 30, 2016	$ 20,940,722	$ 14,751,631	$ 9,504,497

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

9. 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 coverage to Medicare eligibility age as described in the Funding Policy below. In October 2008, the Turnpike offered health 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 $585 (for single coverage) or $1,300 (for family coverage) annually, and the Turnpike pays the remaining cost of coverage. The Turnpike retirees paid $70,989 and $56,243 for the years ended June 30, 2017 and 2016, respectively, through their required 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)	$ 555,660
Interest on net OPEB obligation	16,031
Adjustment to ARC	(24,062)
Annual OPEB cost (expense)	547,629
Contributions made	(671,370)
Decrease in net OPEB obligation	(123,741)
Net OPEB obligation June 30, 2016	458,042
Net OPEB obligation June 30, 2017	$ 334,301

9. OTHER POST EMPLOYMENT HEALTHCARE BENEFITS DESCRIPTION (CONTINUED)

The Turnpike's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017, 2016 and 2015, respectively, are as follows:

Fiscal Period Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2017	$ 547,629	$ 671,370	122.60%	$ 334,301
June 30, 2016	$ 544,841	$ 703,887	129.19%	$ 458,042
June 30, 2015	$ 510,795	$ 674,578	132.06%	$ 617,088

Funded Status and Funding Progress - As of January 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $7,420,702. 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 $7,420,702. The covered payroll for 2016 (annual payroll of active employees covered by the plan) was $15.6 million, and the ratio of the UAAL to the covered payroll was 48%.

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, 2016 actuarial valuation, the entry age normal (level % of pay) method was applied. The actuarial assumptions included a 3.5% investment rate of return and a 2.75% inflation rate. The valuation assumed annual healthcare cost trend rates of 7.0% grading down to an ultimate rate of 5.0% over six 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 an open group basis over a period of 30 years, with the remaining amortization period of 30 years.

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

10. 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 2017 and 2016 are summarized as follows:

	2017	2016
Balance, beginning of period	$ 1,170,000	$ 795,000
Current year claims and changes in estimates	5,908,101	7,137,139
Claim payments	(5,908,101)	(6,762,139)
Balance, end of period	$ 1,170,000	$ 1,170,000

11. 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 is as follows:

2018	$ 5,116,279
2019	4,852,507
2020	4,605,591
2021	4,629,566
2022	4,363,130
Thereafter	2,752,370
Total	$ 26,319,443

The leases generally have terms of five years, 10.5 years or 12 years. The leases have various renewal options. 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. Such leases were successfully rebid by the existing lessee in December 2012, which extended the agreements to 2023. As of June 30, 2017, the cost of construction, net of depreciation was $280,000. 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.

11. OPERATING LEASES (CONTINUED)

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.

12. COMMITMENTS

The Turnpike has committed to construction contracts for turnpike repair and improvements valued at approximately $130,710,125 at June 30, 2017.

13. COST-SHARING AGREEMENTS

The Turnpike participates in various cost-sharing agreements with Kansas Department of Transportation (KDOT) in order minimize duplication of effort, facilities, and equipment. For example, certain costs pertaining to renovation of a shared facility will be reimbursed by KDOT, and the Turnpike recorded a receivable from KDOT at June 30, 2017 and 2016 for $0 and $1,030,246. Additionally, the Turnpike is the project lead on a cost-sharing construction project with KDOT and the City of Wichita. The Turnpike will be reimbursed from KDOT and the City of Wichita for their portion of the project costs. At June 30, 2017 and 2016, the Turnpike recorded a $1.1 million and $2.8 million receivable from these parties for costs incurred.

14. PENDING GOVERNMENTAL ACCOUNTING STANDARDS

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The provisions of this statement are effective for financial statements for the Turnpike's fiscal year ending June 30, 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations,* addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and a corresponding deferred outflow of resources

14. PENDING GOVERNMENTAL ACCOUNTING STANDARDS (CONTINUED)

for AROs when the liability is incurred and reasonable estimable. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for estimating the liability and the estimated remaining useful life of the associated tangible capital asset. The provisions of this statement are effective for financial statements for the Turnpike's fiscal year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities,* improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when demands for resources has been made or when no further action, approval or condition is required to be taken or met by the beneficiary to release the assets. The provisions of this statement are effective for financial statements for the Turnpike's fiscal year ending June 30, 2020.

GASB Statement No. 85, *Omnibus 2017,* addresses practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The provisions of this statement are effective for financial statements for the Turnpike's fiscal year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues,* improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt-are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to the financial statements for debt that is defeased in substance. The provisions of this statement are effective for financial statements for the Turnpike's fiscal year ending June 30, 2018.

GASB Statement No. 87, *Leases,* improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resource based on the payment provisions of the contract. It establishes a single model for lease accounting based on foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Provisions of this statement are effective for financial statements for the Turnpike's fiscal year ending June 30, 2021.

REQUIRED SUPPLEMENTARY INFORMATION

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2017

Schedule of Funding Progress
for Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value 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)
01/01/16	$ --	$ 7,420,702	$ 7,420,702	0%	$ 15,564,740	47.67%
01/01/14	$ --	$ 6,398,598	$ 6,398,598	0%	$ 16,428,840	38.95%
01/01/12	$ --	$ 6,713,231	$ 6,713,231	0%	$ 16,105,464	41.68%

Note 1: Significant Factors Affecting Trends in Actuarial Information for the Kansas Turnpike's Other Post-Employment Benefits other than Pensions

The major items of impact in the actuarial valuation dated January 1, 2016 relative to the prior valuation are as follows:

- The retirement and turnover assumptions were updated when applicable to reflect the latest statistics available from KPERS.
- The assumed mortality was updated to reflect the Society of Actuaries Adjusted RPH-2014 Total Dataset Mortality Table with MP-2015 full generational improvement.
- Per capita retiree costs, trend rates and retiree contribution premiums were updated as part of the ongoing valuation analysis. Per capita retiree costs increased greater than expected.
- Employees hired after July 31, 2013 may not receive retiree coverage at active rates at any age or level of service.

KANSAS TURNPIKE AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

Share of the Collective Net Pension Liability
Kansas Public Employees Retirement System

Last Four Years*^

	2017	2016	2015	2014
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Turnpike's proportion of the collective net pension liability	1.082%	1.123%	1.169%	1.179%
Turnpike's proportionate share of the net pension liability	$ 16,732,544	$ 14,751,631	$ 14,383,900	$ 17,950,769
Turnpike's covered-employee payroll	$ 18,554,529	$ 18,756,731	$ 9,503,355	$ 19,270,991
Turnpike's proportionate share of the net pension liability as a percentage of its covered-employee payroll	90%	79%	151%	93%
Plan fiduciary net position as a percentage of the total pension liability	65.10%	64.95%	66.60%	59.94%

1. Covered-employee payroll for the fiscal year ended June 30, 2014 only includes the six month period January 1 - June 30, 2014.

* GASB 68 requires presentation of ten years. As of June 30, 2017, only four years of information is available.

^ Covered payroll is measured as of the measurement date.

KANSAS TURNPIKE AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Turnpike's Contributions
Kansas Public Employees Retirement System

Last Ten Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 1,628,854	$ 1,731,011	$ 1,721,487	$ 832,233	$ 1,530,117	$ 1,390,719	$ 1,250,160	$ 1,155,843	$ 1,045,950	$ 955,324
Contributions in relation to the contractually required contribution	(1,628,854)	(1,731,011)	(1,721,487)	(832,233)	(1,530,117)	(1,390,719)	(1,250,160)	(1,155,843)	(1,045,950)	(955,324)
Contribution deficiency (excess)	--	--	--	--	--	--	--	--	--	--
Turnpike's covered-employee payroll	$19,080,744	$18,554,529	$18,756,731	$ 9,503,355	$19,270,991	$18,947,123	$18,548,405	$18,827,406	$18,879,970	$19,343,217
Contributions as a percentage of covered-employee payroll	8.54%	9.33%	9.18%	8.76%	7.94%	7.34%	6.74%	6.14%	5.54%	4.94%

Note: In January 2014, the Turnpike changed from a fiscal year ending December 31, to June 30. For years 2006-2013, information covers a period from January 1 to December 1. For 2014, six months of information is presented from January 1 to June 30. For all subsequent years, a full fiscal year from July 1 to June 30 is presented.

Changes in benefit terms for KPERS. 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 6.0% 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 adjustments (COLA) is eliminated, but members will receive a 1.85% multiplier for all years of service.

January 1, 2015, the KPERS 3 cash balance plan became effective. Members enrolled in this plan are ones first employed in a KPERS covered position on or after January 1, 2015, or KPERS 1 or KPERS 2 members who left employment before vesting and returned to employment on or after January 1, 2015. The retirement benefit is an annuity based on the account balance at retirement.

Changes in assumptions.

The major items of impact in the actuarial valuation dated December 31, 2014 relative to the prior valuation are as follows:

- Reduce disability rates by 20% for all three KPERS groups.
- Increase the termination of employment rates for State Males and Local Males and Females.
- Modify the election of a deferred benefit by Local vested members who terminate employment in future years.
- Modify the retirement rates for the C60 group.
- Increase the load for the impact of final average salary provisions for Local, C55 and C60 members hired before July 1, 1993.
- Establish an interest crediting rate of 6.50% for KPERS 3 members.

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

Roadway Pavement

The Turnpike toll road consists of 236 centerline miles of interstate highway. Roadway Pavement is also referred to as Roadway. The condition of the roadway pavement 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 condition of the pavement surface is used to classify the roadway 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 Turnpike has goals to maintain the roadway at a level 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 pavement at levels above minimum acceptable condition requires a pavement management strategy that accounts for life-cycle costs. The Turnpike has defined the minimum acceptable condition level as having at least 90 percent of the roadway miles in PL-1. The following table compares the minimum acceptable condition level with the actual condition for the current year.

Interstate Highways		
Fiscal Year	Minimum Acceptable Condition Level*	Actual Condition Level*
June 30, 2017	90%	95.7%
June 30, 2016	90%	94.6%
December 31, 2013	90%	98.5%
* - Percent of miles in PL-1		

The Turnpike's goal is to continually maintain and improve the condition of the roadway. To achieve this goal, it is necessary to perform maintenance activities and replace those assets that can no longer be economically maintained. To maintain the turnpike roadway at or above the stated minimum condition level, it was estimated that preservation expenditures must exceed $8.0 million for the fiscal period ended June 30, 2017. The estimated expenditure amount is based on the projected funding levels for preservation projects that are anticipated to be needed to maintain the system. The actual expenses are based on those project expenditures during the fiscal year.

The following table compares the estimated expenditures needed to maintain the system at a minimum acceptable condition level with actual amounts spent for the current and prior years.

Interstate Highways		
Fiscal Year	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Condition Level	Actual Expenses
December 31, 2013	$ 12,900,000	$ 10,683,069
June 30, 2014	5,300,000	6,155,355
June 30, 2015	7,700,000	6,530,706
June 30, 2016	9,450,000	10,057,420
June 30, 2017	8,000,000	12,135,069

Bridges

Federal law (Title 23 CFR 650) requires that each bridge be inspected at least every 24 months. In 2016, the Turnpike Bridge condition data for key elements (deck, superstructure, substructure, culvert, etc.) was collected during inspections and stored within the Pontis Bridge Management System maintained by the Kansas Department of Transportation. In February 2017, FHWA published the National Performance Management Measures Final Rule, 23 CFR Part 490, which requires each state to submit performance measures data based on the calculated deck area of each bridge. Each bridge is represented by its deck area. Bridges with a minimum condition rating of 7 or higher are considered to be in “Good” condition and bridges with element condition ratings of 4 or less are considered “Poor”.

The bridge Performance Measure is the percent of the Turnpike bridges (represented by deck area) in Good Condition, with the condition state of a bridge being defined as follows (Elements considered are Deck, Superstructure, Substructure and Culvert):

Good Condition	Minimum Element Rating = 7
Fair Condition	Element Rating 5 or 6
Poor Condition	Any Element Rating = 4 or Less

The goal of the Turnpike is to maintain bridges at a high level. Beginning in fiscal year 2017, the Turnpike has defined the minimum acceptable condition level as having at least 75% of the bridges in good condition. Prior to that, the minimum was 85%. The following table compares the minimum acceptable condition level with the actual condition level for the current year.

Fiscal Year	Minimum Acceptable Condition Level*	Actual Condition Level*
June 30, 2017	75%	75.3%
June 30, 2016	85%	89.4%
December 31, 2013	85%	90.7%
*- Percent of bridges with a Bridge Health Index in Good Condition		

The KTA's goal is to continually improve the condition of the turnpike'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 KTA's bridges at or above the stated minimum acceptable condition level, it is estimated that annual preservation and replacement expenditures must be approximately $2.2 million for fiscal period ended June 30, 2017.

The following table compares the estimated annual expenditures needed to maintain the bridges system with the actual expenditures for the current and prior years.

Fiscal Year	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Health Index	Actual Expenses
December 31, 2013	$ 2,500,000	$ 315,187
June 30, 2014	1,300,000	297,193
June 30, 2015	5,530,000	3,513,391
June 30, 2016	6,270,000	3,744,054
June 30, 2017	2,220,000	6,063,273

SUPPLEMENTARY INFORMATION

KANSAS TURNPIKE AUTHORITY
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COMBINING BALANCE SHEET

June 30, 2017

ASSETS AND DEFERRED OUTFLOWS

	Total	Interfund Eliminations Reclassifications	Construction Fund
Current assets			
Cash and cash equivalents	$ 23,700,543	$ --	$ --
Short-term investments	49,335,301	--	--
Interfund receivable	--	42,757,656	--
Intergovernmental receivables	1,072,595	--	--
Accounts receivable, net of allowance	8,773,607	--	--
Accrued interest receivable	1,124,446	--	--
Material and supply inventory	1,665,220	--	--
Prepaid expense and other assets	326,487	--	--
Total current assets	85,998,199	42,757,656	--
Restricted assets			
Cash and cash equivalents	24,546,918	--	--
Investments	12,968,071	--	--
Accrued interest receivable	15,393	--	--
Total restricted assets	37,530,382	--	--
Other long-term investments	73,770,646	--	--
Capital assets			
Capital assets, not being depreciated	591,052,461	--	460,406,273
Capital assets, net of accumulated depreciation	32,459,902	--	--
Total capital assets	623,512,363	--	460,406,273
Deferred outflows of resources			
Deferred refunding	2,544,616	--	--
Deferred outflows - pensions	3,702,583	--	--
Total deferred outflows	6,247,199	--	--
Total assets and deferred outflows of resources	$ 827,058,789	$ 42,757,656	$ 460,406,273

LIABILITIES, DEFERRED INFLOWS AND NET POSITION

	Total	Interfund Eliminations Reclassifications	Construction Fund
Current liabilities			
Current maturities of long-term debt	$ 13,620,000	$ --	$ 13,620,000
Prepaid tolls	1,930,324	--	--
Accounts payable	7,572,541	--	--
Interfund payable	--	42,757,656	806
Accrued expenses	6,027,879	--	--
Accrued interest	3,119,843	--	--
Total current liabilities	32,270,587	42,757,656	13,620,806
Long-term debt			
Turnpike revenue bonds	167,795,000	--	167,795,000
Bond premium	7,269,785	--	7,269,785
Net pension liabilitiy	16,732,544	--	--
Other long-term liabilities	2,258,301	--	--
Total long-term liabilities	194,055,630	--	175,064,785
Total liabilities	226,326,217	42,757,656	188,685,591
Deferred inlows of resources			
Deferred inflows - pensions	1,462,003	--	--
Net position			
Net investment in capital assets	437,371,388	--	271,720,682
Restricted - expendable for debt service	34,041,477	--	--
Unrestricted	127,857,704	--	--
Total net position	599,270,569	--	271,720,682
Total liabilities, deferred inflows of resources and net position	$ 827,058,789	$ 42,757,656	$ 460,406,273

Revenue Fund And Operations Fund	Debt Service Fund	Debt Service Reserve Fund	Replacement Reserve Fund	General Fund
$ 18,118,236	$ --	$ --	$ 624,567	$ 4,957,740
3,487,572	--	--	4,486,369	41,361,360
--	9,433,636	--	33,324,020	--
--	--	--	1,072,595	--
8,773,607	--	--	--	--
1,124,446	--	--	--	--
1,665,220	--	--	--	--
326,487	--	--	--	--
33,495,568	9,433,636	--	39,507,551	46,319,100
--	1,886,315	22,660,603	--	--
--	12,968,071	--	--	--
--	15,393	--	--	--
--	14,869,779	22,660,603	--	--
5,499,251	--	--	10,236,515	58,034,880
--	--	--	130,646,188	--
--	--	--	32,459,902	--
--	--	--	163,106,090	--
--	2,544,616	--	--	--
3,702,583	--	--	--	--
3,702,583	2,544,616	--	--	--
$ 42,697,402	$ 26,848,031	$ 22,660,603	$ 212,850,156	$ 104,353,980
$ --	$ --	$ --	$ --	$ --
1,930,324	--	--	--	--
968,224	--	--	6,604,317	--
31,725,281	--	9,802,698	--	1,228,871
3,586,108	--	--	2,441,771	--
--	3,119,843	--	--	--
38,209,937	3,119,843	9,802,698	9,046,088	1,228,871
--	--	--	--	--
--	--	--	--	--
16,732,544	--	--	--	--
2,258,301	--	--	--	--
18,990,845	--	--	--	--
57,200,782	3,119,843	9,802,698	9,046,088	1,228,871
1,462,003	--	--	--	--
--	2,544,616	--	163,106,090	--
--	21,183,572	12,857,905	--	--
(15,965,383)	--	--	40,697,978	103,125,109
(15,965,383)	23,728,188	12,857,905	203,804,068	103,125,109
$ 42,697,402	$ 26,848,031	$ 22,660,603	$ 212,850,156	$ 104,353,980

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended June 30, 2017

	Total	Construction Fund	Revenue Fund And Operations Fund
Operating Revenues			
Tolls	$ 112,525,112	$ --	$ 112,525,112
Concessionaire rentals	5,350,824	--	5,350,824
Miscellaneous	723,511	--	723,511
	118,599,447	--	118,599,447
Operating Expenses			
Administration	9,225,249	--	9,225,249
Insurance	9,240,350	--	9,240,350
Toll collection	8,251,846	--	8,251,846
Patrol	6,252,369	--	6,252,369
Maintenance	6,782,748	--	6,782,748
Depreciation	3,529,126	--	--
Cost of repairs and improvements	22,169,890	--	--
	65,451,578	--	39,752,562
Operating Income (Loss)	53,147,869	--	78,846,885
Nonoperating Revenues (Expenses)			
Transfers between funds	--	13,209,103	(104,637,867)
Investment revenue	901,511	--	1,100,492
Interest subsidy - federal	1,682,780	--	1,682,780
Interest on long-term debt	(9,436,500)	1,419,471	--
Gain on disposal of assets	(127,960)	--	587,177
	(6,980,169)	14,628,574	(101,267,418)
Change in net position	46,167,700	14,628,574	(22,420,533)
Net position, beginning of year	553,102,869	257,092,108	6,455,150
Net position, end of year	$ 599,270,569	$ 271,720,682	$ (15,965,383)

Debt Service Fund	Debt Service Reserve Fund	Replacement Reserve Fund	General Fund
$ --	$ --	$ --	$ --
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	3,529,126	--
--	--	22,169,890	--
--	--	25,699,016	--
--	--	(25,699,016)	--
19,984,759	(9,736,191)	74,015,532	7,164,664
--	--	(51,732)	(147,249)
--	--	--	--
(10,855,971)	--	--	--
--	--	(715,137)	--
9,128,788	(9,736,191)	73,248,663	7,017,415
9,128,788	(9,736,191)	47,549,647	7,017,415
14,599,400	22,594,096	156,254,421	96,107,694
$ 23,728,188	$ 12,857,905	$ 203,804,068	$ 103,125,109

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

SUMMARY OF TOLL REVENUES

Fiscal Year Ended June 30, 2017

Class	Toll Revenue	Vehicles
2-axle vehicles	$ 82,925,282	35,214,044
3-axle vehicles	2,022,089	471,885
4-axle vehicles	4,723,012	693,024
5-axle vehicles	37,120,846	3,235,407
6-axle vehicles	1,869,638	117,623
7-axle vehicles	935,661	28,646
8-axle vehicles	947,681	22,937
9-axle vehicles	398,389	8,983
Discounts and Adjustments	(18,417,486)	402,022
	$ 112,525,112	40,194,571

STATISTICAL DATA

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

OPERATING SUMMARIES - VEHICLES, MILEAGE AND REVENUE

Fiscal Years Ended June 30, 2017 and 2016
(Unaudited)

	2017	2016	2017 Increase (Decrease) as a Percent of 2016
Number of Vehicles:			
Passenger cars	35,214,044	35,603,881	-1.09%
Commercial vehicles	4,578,505	4,159,264	10.08%
Discounts and adjustments	402,022	397,011	1.26%
Total	40,194,571	40,160,156	0.09%
Number of Miles:			
Passenger cars	1,409,794,953	1,431,865,579	-1.54%
Commercial vehicles	313,152,610	278,340,343	12.51%
Total	1,722,947,563	1,710,205,922	0.75%
Toll Revenue (Gross):			
Passenger cars	$ 82,925,282	$ 72,776,627	13.94%
Commercial vehicles	48,017,316	37,330,698	28.63%
Discounts and adjustments	(18,417,486)	(1,651,854)	1014.96%
Total	$ 112,525,112	$ 108,455,471	3.75%

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

SCHEDULE OF SERVICE AREA TRAFFIC AND SALES

Fiscal Years Ended June 30, 2017 and 2016
(Unaudited)

	2017			Per Vehicle Passing Area	
Service Area	**Vehicles Passing Area**	**Gallons Motor Fuel Sold**	**Restaurant Gross Sales**	**Gallons Motor Fuel**	**Restaurant Sales**
Belle Plaine	7,680,476	8,074,919	$ 3,040,671	1.05	$ 0.40
Towanda	5,864,251	4,443,498	2,072,329	0.76	$ 0.35
Matfield Green	5,455,007	4,763,075	2,166,644	0.87	$ 0.40
Emporia	3,104,755	3,044,936	1,769,438	0.98	$ 0.57
Topeka	15,777,577	8,072,194	4,731,534	0.51	$ 0.30
Lawrence	13,519,673	7,804,341	3,934,887	0.58	$ 0.29
	51,401,739	36,202,963	$ 17,715,503		
	2016				
Belle Plaine	7,611,112	8,462,417	$ 3,083,874	1.11	$ 0.41
Towanda	5,864,479	4,352,567	2,229,182	0.74	$ 0.38
Matfield Green	5,324,105	4,804,174	2,424,250	0.90	$ 0.46
Emporia	2,970,929	3,085,666	1,756,932	1.04	$ 0.59
Topeka	15,379,648	7,909,691	4,762,699	0.51	$ 0.31
Lawrence	13,778,523	7,934,252	3,996,983	0.58	$ 0.29
	50,928,796	36,548,767	$ 18,253,920		

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNIT OF THE STATE OF KANSAS)

SCHEDULE OF ACTIVITY BY INTERCHANGE

Fiscal Year Ended June 30, 2017
(Unaudited)

Interchange		2017		
No.	Location	Entering Vehicles	Exiting Vehicles	Total Vehicles
004	Southern Terminal	3,149,512	3,138,525	6,288,037
019	Wellington: US 160	856,232	815,755	1,671,987
032	Mulvane: Casino	879,929	1,047,652	1,927,581
033	Mulvane: K-53	532,038	383,618	915,656
039	Haysville-Derby: 71st St.	797,737	753,751	1,551,488
042	Wichita: I-135, I-235, 47th St.	3,833,939	3,896,076	7,730,015
045	Wichita: K-15	768,760	822,388	1,591,148
050	Wichita: US 54/400, Kellogg Ave.	1,593,168	1,510,907	3,104,075
053	Wichita: K-96	1,240,166	1,307,359	2,547,525
057	Andover: 21st St.	634,557	634,866	1,269,423
071	El Dorado: US 254	1,145,620	1,136,738	2,282,358
076	El Dorado: US 77	275,286	270,404	545,690
092	Cassoday: K-177	95,457	104,421	199,878
127	Emporia: I-35N	2,062,540	2,019,848	4,082,388
147	Council Grove, Osage City: US 56	135,696	136,888	272,584
177	Topeka: I-470W, US 75, Topeka Blvd.	2,773,113	2,903,022	5,676,135
182	Topeka: Valley Falls: K-4/I-70W	542,729	458,171	1,000,900
183	Topeka: I-70	5,377,668	5,392,031	10,769,699
197	Lecompton, Lawrence: K-10	2,462,729	2,400,051	4,862,780
202	Lawrence: US 59, S. Iowa St.	2,107,918	2,062,663	4,170,581
204	Lawrence: US 59, US40	1,291,312	1,329,075	2,620,387
212	Tonganoxie/Eudora	497,880	509,587	1,007,467
236	Eastern Terminal	6,568,655	6,588,845	13,157,500

KANSAS TURNPIKE AUTHORITY
(A COMPONENT UNTI OF THE STATE OF KANSAS)

SCHEDULE OF MONTHLY VEHICLES, MILEAGE AND TOLL REVENUE

Fiscal Year Ended June 30, 2017
(Unaudited)

			Gross Revenue		Average Miles	Average Revenue
Month	**Vehicles**	**Mileage**	**Passenger**	**Commercial**	**Per Vehicle**	**Per Vehicle**
July	3,624,817	161,456,269	$ 7,984,881	$ 3,550,422	44.54	$ 3.18
August	3,500,860	151,288,161	7,317,412	4,043,684	43.21	3.25
September	3,438,809	146,058,107	7,097,694	3,832,368	42.47	3.18
October	3,505,040	150,107,848	7,282,393	3,943,914	42.83	3.20
November	3,343,181	146,235,005	7,088,058	3,917,334	43.74	3.29
December	3,173,172	139,844,859	6,725,862	3,948,584	44.07	3.36
January	2,843,886	118,995,584	5,572,835	3,839,139	41.84	3.31
February	2,836,575	117,928,018	5,573,628	3,689,897	41.57	3.27
March	3,363,198	146,643,341	6,981,095	4,352,320	43.60	3.37
April	3,220,097	137,474,519	6,550,307	4,100,109	42.69	3.31
May	3,489,773	152,616,426	7,335,439	4,368,350	43.73	3.35
June	3,453,141	154,299,426	7,415,678	4,431,195	44.68	3.43
	39,792,549	1,722,947,563	$ 82,925,282	$ 48,017,316	43.30	$ 3.29

Total Gross Toll Revenue	$130,942,598
Discounts and Adjustments	$ (18,417,486)
Total Adjusted Revenue	$ 112,525,112

AGH CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Kansas Turnpike Authority
Wichita, Kansas

We have audited, in accordance with the 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, the financial statements of Kansas Turnpike Authority (Turnpike) which comprise the balance sheet as of June 30, 2017 and 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Turnpike's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Turnpike's internal control. Accordingly, we do not express an opinion on the effectiveness of the Turnpike's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as items 2017-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Turnpike's Responses to Findings

The Turnpike's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Turnpike's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Turnpike's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Turnpike's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

September 13, 2017
Wichita, Kansas

<u>Finding 2017-001: Accounting and Financial Reporting (Significant Deficiency)</u>

The Turnpike's management is responsible for the accuracy, completeness, and fairness of data presented in the year-end financial statements including all disclosures. The deficiencies described below could result in material misstatements to the financial statements.

The deficiencies described below were matters that existed during the fiscal year ended June 30, 2017, but the Turnpike did implement proper controls and procedures mid-year that fully resolved these issues. These items are considered significant deficiencies because of key controls and processes were not in place during the whole fiscal year.

1) <u>Bank Reconciliations - All Bank Accounts</u>: For the first half of the year, bank reconciliations had not been completed to reconcile the general ledger balances for cash to the related bank balances for all bank accounts. The lack of complete monthly reconciliations could lead to reclassification variances between funds, and could prevent management from detecting other errors. During the fiscal year, the Turnpike did implement a complete bank reconciliation process that properly reconciled the bank balances to general ledger balances for all bank accounts.

2) <u>KTAG Accounts Receivable Reconciliations</u>: For the first half of the year, KTAG accounts receivable had not been reconciled to the accounts receivable subsidiary ledger or to the general ledger balance. The lack of complete monthly reconciliations could lead to reclassification variances in cash, accounts receivable and revenue accounts and could prevent management from detecting errors. During the fiscal year, the Turnpike did implement a complete KTAG accounts receivable reconciliation process that properly reconciled the KTAG accounts receivable subsidiary ledger to the accounts receivable general ledger balance.

3) <u>System Access Controls</u>: For the first half of the year, we noted that several individuals had access to areas that are not within their job responsibilities, resulting in a lack of segregation of duties. These individuals had full access to purchasing, accounts payable, journal entries and accounts receivable, which leads to the potential opportunity for misappropriation of assets. During the year, the Turnpike addressed the system access controls and properly limited individuals' access to only areas that are within their job responsibilities.

The deficiencies described below were matters that existed during the fiscal year ended June 30, 2017 that were partially addressed by the Turnpike during the fiscal year.

4) <u>KDOT and City of Wichita Intergovernmental Receivables</u>: The Turnpike tracks invoices sent to KDOT and the City of Wichita and the related payments received on those invoices manually using a spreadsheet and does reconcile the outstanding invoices to the general ledger. These invoices are sent to get reimbursed for expenses incurred for a joint project. At the end of the year, the Turnpike had incurred expenses that were reimbursable from KDOT and the City of Wichita. These items, although had not been invoiced to KDOT or the City of Wichita, should have been in accounts receivable at year-end. Also, accounts receivable were added related to construction retainage that will not be billed to KDOT or the City of Wichita until the time the project is complete. We recommend the Turnpike develop controls to ensure that intergovernmental receivables are complete at the end of the fiscal year.

5) <u>Capital Assets</u>: At the end of 2013, the Turnpike adopted a new accounting policy for capital assets. During our audit of the year ended June 30, 2017, we noted that processes and procedures have not been fully implemented to help identify capital asset activity. We identified several construction projects in progress that were not properly capitalized under the modified approach to infrastructure. We recommend management continue to evaluate procedures to ensure all capital asset activity is identified and evaluated for recording as a capital asset. For construction projects, this might include developing procedures to summarize expenditures on capital projects, and evaluate each project for whether it is capital in nature under generally accepted accounting principles.

Criteria or Specific Requirement: Internal controls should be designed to provide adequate control over the preparation of reliable financial statements.

Cause:

1) During fiscal year 2017, the accounting personnel received proper training and implemented documented policies and procedures, and controls for ensuring completing of tasks needed to prepare financial statements. The first three items noted above, were issues the first half of the fiscal year, but were resolved during the fiscal year.
2) The remaining two items relate to either a new capital asset policy implemented in 2013 or new transaction cycle in which the Turnpike is continuing to develop controls to ensure completeness of these account balances.

Effect: Lack of controls and procedures could result in a material misstatement to the financial statements.

Recommendations:

1) Management spent significant time and resources to evaluate, develop and implement proper controls during fiscal year 2017 to address the first three items noted above; therefore, no further recommendations are considered necessary.

2) We recommend management continue to evaluate procedures to ensure all capital asset and intergovernmental accounts receivable activity is identified and evaluated for proper recording within the financial statements.

Management Response (unaudited):

During Fiscal Year 2017, Kansas Turnpike Authority's (KTA) priorities included the stabilization of the JD Edwards software installation and continued development and update of policies, procedures and controls to reflect best business practices and to more specifically provide a framework for the Authority's business functions. A comprehensive strategic action plan and governance structure was developed to accomplish these priorities and also to address Fiscal Year 2016 audit findings and to achieve other identified objectives. Resources dedicated to this effort reflected KTA's commitment to the successful and timely execution of the plan.

KTA concurs with the recommendations in Finding 2017-001: Accounting and Financial Reporting (Significant Deficiency). As noted in Recommendation 1 and as completed in the action plan developed after the Fiscal Year 2016 audit, KTA is pleased to have met auditor expectations. Recommendation 2 will be addressed through additional coordination with the KTA Engineering Department and by making enhancements to the budgeting, tracking and appropriate reporting of capital assets.