Approved: February 10, 2010
Date

MINUTES OF THE HOUSE GOVERNMENT EFFICIENCY AND FISCAL OVERSIGHT COMMITTEE

The meeting was called to order by Chairman Jim Morrison at 3:30 p.m. on February 9, 2010, in Room 546-S of the Capitol.

All members were present except:
Representative Louis Ruiz- excused
Representative Tom Sloan- excused

Committee staff present:
Julian Efird, Kansas Legislative Research Department
Artur Bagyants, Kansas Legislative Research Department
Renae Jefferies, Office of the Revisor of Statutes

Conferees appearing before the Committee:
Michael Johnston, President/CEO, Kansas Turnpike Authority

Others attending:
See attached list.

The minutes for the February 4 meeting were approved. (Motion, Representative Burgess; second, Representative McCray-Miller)

Michael Johnston, President/CEO, Kansas Turnpike Authority (KTA), provided an overview of the mission and operation of the KTA (Attachment 1). Outlining the history of the agency, he said the turnpike was created to join the major urban centers in Kansas. Opened in 1956, the roadway operates exclusively from revenue bonds paid from the tolls of users; it receives no federal or state funding. In fact, last year the turnpike remitted to the state $9 million in fuel and sales taxes, and the Kansas Department of Transportation (KDOT), which is allowed under federal guidelines to count the turnpike as part of the interstate system, in 2008 received $11 million from the federal government. Mr. Johnston noted recent measures to streamline operations: full-time employees reduced by 11%, and an operating budget $619,730 less than what was spent in 2007. He referenced Attachment 2 to illustrate some of the operations of the turnpike: 344 full-time and 114 part-time employees, bridge replacement over the Kansas River, a new interchange at Tonganoxie, and toll revenues of $79 million in 2009.

Mr. Johnston replied to a number of questions:

- The K-Tag initiative, begun in the early 1990s, has been successful, with very few losses.
- Any rail initiatives would provide scant competition for the turnpike, since 85,000 to 90,000 vehicles use the turnpike daily.
- Disasters such as Katrina or economic downturns have a ripple effect on turnpike revenues.
- Since the turnpike is a policy-executer, not a policy-maker, any future plans to expand the services of the turnpike beyond its present mission would have to originate elsewhere.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

Minutes of the House Government Efficiency and Fiscal Oversight Committee at 3:30 p.m. on February 9, 2010, in Room 546-S of the Capitol.

- Asset depreciation is a tax matter and irrelevant to the turnpike, which does not pay taxes. However, during a large project, the turnpike has cash that can be invested (Attachment 3). Carl Compton, Chief Financial Officer, explained that the money set aside to pay contractors can be invested short-term.
- It is a mistaken idea that the turnpike will ever be a toll-free road, since the statute decrees that only when two simultaneous events occur will the turnpike be free: when the roads are in good condition and when the turnpike is debt-free.
- Any plan to connect to other sites, such as the inter-modal facility at Gardner, must originate from the legislature, not from the KTA.
- The KTA leases the six convenience stores and restaurants, the leases based on bids. Each facility pays a basic rent, and the turnpike collects a percentage of the gross receipts above a certain threshold.
- A board of directors governs the KTA; all are appointed positions.
- Consolidating Information Technology (IT) processes is problematic, since all IT work is done by one person. Most software used by KDOT, such as pavement-system management, is irrelevant for KTA's work. Further, no KTA project exceeds the $250,000 threshold required before reporting a project. KTA does have a data center and recovery system and would be willing to cooperate with data center consolidation if the project did not incur unnecessary costs for the turnpike.
- KTA will collaborate with any local government entity to do an interchange feasibility study if the local entity is willing to share the cost of the study.

Members discussed the agenda for the following week and recommended certain bills for hearings.

The meeting was adjourned at 4:45 p.m. The next meeting is scheduled for February 10, 2010.

HOUSE
GOVERNMENT EFFICIENCY AND FISCAL OVERSIGHT COMMITTEE

GUEST LIST

DATE: FEBRUARY 9 2010

NAME	REPRESENTING
Lisa Callahan	KTA
[illegible]	KTA

Kansas Turnpike Authority

Remarks of Michael Johnston, President/CEO of the Kansas Turnpike Authority
Before the House Committee on Government Efficiency and Fiscal Oversight
February 9, 2010

Representative Jim Morrison, Chairman
Representative Mike Burgess, Vice-Chairman
Representative Ed Trimmer, Ranking Minority Member

Thank you Mr. Chairman and members of the committee.

My name is Michael Johnston and I am the President/CEO for the Kansas Turnpike. I am in my sixteenth year in this role, and before that was Secretary of the Kansas Department of Transportation. For fourteen years before becoming a cabinet officer in 1991, I served in the Kansas Senate representing the 14th district in southeast Kansas. I am pleased to be with you today to talk about the Kansas Turnpike and attempt to answer any questions you may have.

The Kansas Turnpike Authority was created by law in 1953 and given the assignment to build and operate what we now call the Kansas Turnpike. The Authority, or board as some may call it, consists of five members: The Secretary of the Kansas Department of Transportation (KDOT), the chairman of the Senate Transportation Committee, a member of the House Transportation Committee, and two members from the public appointed by the Governor. That unique governing structure has remained unchanged for over 50 years.

In the early 1950's, and before the federal interstate system was launched, there was a movement in our state that wanted a major roadway constructed to connect our relatively urban centers of Wichita, Topeka, and Kansas City. Since the rural members of the legislature were not about to raise general taxes or fees on their constituents to build this "urban" road, the only possible solution for the legislature was to authorize a toll supported roadway to be constructed. The roadway was financed entirely by revenue bonds and no tax dollars, federal or state, have ever been used to support the turnpike or its operations. In fact, more than $9M in motor fuel and sales taxes generated from sales at turnpike service areas was remitted to the state last year. In addition, since KDOT is able to count turnpike miles as part of the interstate system, they receive additional federal interstate funding each year, all of which is dedicated to interstate work on the non turnpike state highway system. In 2008 they received $11M.

Moreover, when the legislature considered the legislation that created the Turnpike Authority in 1953, it made it expressly clear in the enabling act that anyone who purchased revenue bonds from the authority could not look to the state or any political subdivision of the state for support in the event the turnpike was not financially successful.

Together with these remarks, I am providing additional information about our business including the recent history of our traffic, revenue, and operating budget. While the information is straightforward, I did want to highlight our recent efforts, which began in earnest in 2006, to more aggressively manage our operating costs.

I became quite concerned about our operating environment in 2006. Our traffic in 2005 declined from the previous year. While hurricane Katrina was certainly a factor, the tragedy reminded me how

Attachment 1
GEFO 2-9-10

exposed our business is to random world events. What would another terrorist attack do to our country and our economy? What would further tension in the Middle East do to the oil supply that we rely on and its price? At the end of the day, events of this nature do affect travel demand which directly impacts our income statement and balance sheet. As a result, I became convinced that we needed to become more aggressive with respect to managing our operating budget as a hedge against uncertain future events. At the time, little did I know what was just around the corner in the form of the most sharp and sudden contraction in our economic system since the depression years of the 1930s.

Over the past four years, we have taken measures that have reduced our full time employees by over 11 percent. Our full time employees have declined from 387 at the beginning of 2006 to 344 at the start of this year, 2010. Our approved operating budget for 2010 is $39,593,595 which was $619,730 less than what we actually spent in 2007. These efforts will continue and we expect to achieve further operating cost reductions over the next two years largely through the deployment of machines that will permit many of our cash customers to manage the payment themselves without the aid of toll collection employees.

Finally, let me again thank you for the chance to share information about many activities of our business and am pleased to stand for questions.

Kansas Turnpike Authority

Operating Budget:

- 2010 operating budget: $39,593,595 ($40,213,325 actual in 2007)

Employees: 344 full-time employees, 114 part-time (1/8/10); not including Patrol

Patrol: The Kansas Turnpike employs 47 highway patrol personnel who provide 24-hour roadway coverage. KTA pays the full cost to support Troop G, which is dedicated exclusively to the Turnpike ($5.5 million in 2009).

Current projects:

- Kansas River Bridges Replacement & Plaza Improvement Project
- Roadway Reconstruction – five miles near Lawrence Service Area

New Interchanges: Tonganoxie/Eudora Milepost 212

Traffic:

- More than 33 million vehicles in 2009
- 29 million passenger cars used the Turnpike last year
- Nearly 4 million commercial vehicles used the Turnpike last year, but commercial vehicles account for more than 37 percent of revenue

Toll Revenue:

- $79 million in 2009

Electronic Toll Collection K-TAG program: The electronic toll collection program was officially dedicated October 25, 1995. There are currently over **110,300 accounts** with over **232,000** transponders in use.

Taxes Collected at Service Areas: In 2009, $8,033,000 in motor fuel, and $1,128,000 in sales taxes collected from the Turnpike's six service areas and remitted to the state of Kansas for use unrelated to the Turnpike.

Attachment 2
GEFO 2-9-10

Infrastructure statistics:

Groundbreaking: December 31, 1954

Opened to traffic: October 25, 1956

- The Turnpike was built in 22 months in 1955 and 1956.
- Cost was $147 million, plus $9 million in Capitalized Interest.
- Original cost translated to $660,000 per mile.
- Over 20 engineering and construction firms were successful bidders for the projects.

Length: 236.5 miles

Bridges: 355

Interchanges: The Turnpike has 23 interchanges for entry and exit located at strategic points along the route.

Service Areas: There are a total of six service areas located near Lawrence, Topeka, Emporia, Matfield Green, Towanda, and Belle Plaine.

Traffic & Revenue:

Year	Traffic	% increase (decrease) from previous year	Toll Revenue	% increase (decrease) from previous year
2004*	32,688,305	1.94%	71,670,147	5.47%
2005	32,591,843	(0.30)%	73,622,065	2.72%
2006	33,122,409	1.63%	75,745,880	2.88%
2007**	33,495,885	1.13%	78,195,540	3.23%
2008	32,809,956	(2.05)%	78,436,779	0.31%
2009***	33,352,398****	1.65%	79,423,711	1.26%

* Average 5% toll increase effective August 1, 2004

** Average 5% toll increase effective July 1, 2007

*** Variable toll increase effective Oct. 1, 2009 for CASH customers only;

**** Commercial traffic declined approximately 9.5%.

2009 traffic and revenue numbers are unaudited

Kansas Turnpike Authority

Financial Statements with Supplementary Information

Years ended December 31, 2008 and 2007
with
Independent Auditors' Report

Attachment 3
GEFO 2-9-10

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This is a copy of the Authority's annual financial statements reproduced from an electronic file.
An original copy of this document is available at the Authority's office.

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dependent Auditors' Report

Allen, Gibbs & Houlik, L.C.
CPAs & Advisors

Board of Directors
Kansas Turnpike Authority

We have audited the accompanying basic financial statements of the Kansas Turnpike Authority as of and for the years ended December 31, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Turnpike's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

In our opinion, except for the effects of the Exceptions as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Kansas Turnpike Authority as of December 31, 2008 and 2007, and its changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

Allen, Gibbs & Houlik, L.C.

CERTIFIED PUBLIC ACCOUNTANTS

February 19, 2009
Wichita, Kansas

Management's Discussion and Analysis

Our discussion and analysis of The Kansas Turnpike Authority's (KTA or Turnpike) financial performance provides an overview of the Turnpike's financial activities for the fiscal year ended December 31, 2008. Please read it in conjunction with the Turnpike's financial statements and associated footnotes.

Financial Highlights

- The Turnpike's net assets increased in 2008 by approximately $7.3 million or 2.0% compared to 2007.
- Operating revenues decreased by approximately $272,000 or less than 1% in 2008 compared to 2007.
- Operating expenses decreased by approximately $3.3 million or 4.4% in 2008 compared to 2007.
- Long-term debt decreased by approximately $22.6 million or 9.6% in 2008 compared to 2007.

Using this Annual Report

This discussion and analysis is intended to serve as an introduction to the KTA's financial statements, which are comprised of the basic financial statements and the notes to the financial statements and supplementary information presented. Since the KTA operates like a single enterprise fund, fund level financial statements are not shown. In addition to the basic financial statements, this report also contains other 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 assets; and statement of cash flows. These statements provide information about the activities of the Turnpike, including resources held by the Turnpike but restricted for specific purposes by bond trust indentures. In addition to the basic financial statements, this report also contains other supplementary information concerning the Turnpike's traffic and revenues by vehicle class, as required by bond trust indentures.

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

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

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

tes to the Financial Statements

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

Other Information

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

The Turnpike's Net Assets

The Turnpike's net assets are the difference between its assets and liabilities reported in the Balance sheet.

The Turnpike's net assets increased in 2008 by approximately $7.3 million (2.0%).

	2008	2007	2006
ASSETS			
Cash and cash equivalents	**$ 19,377,148**	$ 35,781,134	$ 27,328,335
Short-term investments	**39,890,053**	78,806,313	98,814,123
Accounts receivable	**652,439**	800,145	773,419
Other current assets	**2,988,741**	2,929,075	3,273,011
Capital assets	**488,408,524**	448,823,108	447,974,637
Other noncurrent assets	**55,715,893**	50,006,967	43,510,333
Total assets	**607,032,798**	617,146,742	621,673,858
LIABILITIES			
Long-term debt outstanding	**214,220,000**	236,860,000	246,380,000
Other current liabilities	**25,010,250**	20,051,632	20,697,460
Other long-term liabilities	**2,011,059**	1,777,688	1,622,846
Total liabilities	**241,241,309**	258,689,320	268,700,306
NET ASSETS			
Invested in capital assets, net of related debt	**264,238,524**	202,443,108	191,503,760
Restricted expendable net assets	**9,114,438**	10,226,648	12,932,142
Unrestricted	**92,438,527**	145,787,666	148,537,650
Total net assets	**$ 365,791,489**	$ 358,457,422	$ 352,973,552

Net assets may serve, over time, as a useful indicator of an organization's financial position. In the case of the KTA, assets exceeded liabilities by $365,791,489 at the close of the most recent year. This represents an increase of $7,334,067 (2.0%) over the previous year.

Unrestricted net assets decreased from $145,787,666 at December 31, 2007 to $92,438,527 at December 31, 2008, a decrease of $53,349,139 (36.5%) in unrestricted net assets.

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

The most noteworthy change in the Turnpike's assets and liabilities is a decrease in the cash equivalents and short-term investments. During 2008, funds were transferred to pay for continuation of the Emporia interchange reconstruction project, a portion of the reconstruction cost of the EZ-Go at Belle Plane, the beginning of construction of a new interchange in Leavenworth County, and the start of the Kansas River bridge replacement project in Lawrence. At the same time, because of the interest rate environment, it was prudent to retain more investment funds in noncurrent assets. Another area of significant interest is the decrease in long-term debt outstanding. In March 2008 $12.7 million in outstanding bonds were redeemed (see Note 7 of the Financial Statements).

Changes in the Turnpike's Net Assets

In 2008, the Turnpike's net assets increased by approximately $7.3 million or 2.0% of total net assets, as shown in the table below.

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

CHANGES IN NET ASSETS

	2008	2007	2006
Operating revenues			
Tolls	**$ 78,433,188**	$ 78,195,540	$ 75,745,880
Other operating revenues	**4,204,016**	4,714,533	4,250,517
Total operating revenues	**82,637,204**	82,910,073	79,996,397
Operating expenses			
Administration	**6,843,795**	6,548,399	6,281,659
Insurance	**6,921,590**	7,677,844	6,422,266
Toll collection	**11,659,275**	11,557,942	11,062,548
Patrol	**5,457,658**	5,442,957	5,241,421
Maintenance	**8,606,260**	8,986,183	7,814,559
Cost of improvements, major repairs and replacements	**31,888,332**	34,482,921	9,971,643
Total operating expenses	**71,376,910**	74,696,246	46,794,096
Operating income	**11,260,294**	8,213,827	33,202,301
Nonoperating revenues (expenses)			
Investment revenue	**6,715,396**	8,681,873	8,124,447
Interest on long-term debt	**(10,641,623)**	(11,411,830)	(11,878,320)
Net nonoperating revenues (expenses)	**(3,926,227)**	(2,729,957)	(3,753,873)
Increase in Net Assets	**$ 7,334,067**	$ 5,483,870	$ 29,448,428

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...erating Income

...irst component of the overall change in the Turnpike's net assets is its operating income – generally, difference between net toll revenue and the expenses incurred to maintain and patrol the road and collect that revenue. In fiscal year 2008, the Turnpike reported operating income, which is consistent with the Turnpike's operating history. The Turnpike's management and staff have worked together to ensure quality customer service and maintain a strong financial position.

Net toll revenues grew from approximately $78.2 million in fiscal year 2007 to approximately $78.4 million, an increase of 0.30%. Although overall traffic declined in 2008, a toll increase in July 2007 allowed toll revenue to move slightly higher in 2008 in comparison to 2007. Another significant area of increase was in K-TAG transactions, which increased 2% in 2008 compared to 2007. Over 42% of all vehicles used the K TAG electronic system.

Operating expenses decreased approximately $3.3 million or 4.4% from fiscal year 2007 to fiscal year 2008.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment earnings and interest paid on long-term debt. One factor contributing to the decrease in nonoperating revenues is the comparatively lower rate of interest in the current economic environment and decline in the amount of investments held in 2008. Revenues from investments for fiscal year 2008 were approximately $2.0 million less than fiscal year 2007.

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 2008, the Turnpike had approximately $488 million invested in capital assets. In 2008, the Turnpike capitalized approximately $39.5 million in construction projects. The cost of these projects is expected to be reimbursed at least in part by future bond proceeds. The major construction projects involved the reconstruction of the Kansas River Bridges in Douglas County and a new interchange in Leavenworth County.

Debt

At the end of fiscal year 2008, the Turnpike had $224,170,000 of tax-exempt bonds outstanding. Moody's Investor Service has rated KTA bonds "Aaa" Insured/"A1" Underlying, and Standard & Poor's has rated the bonds "AAA" Insured/"A" Underlying.

Contacting the Turnpike's Financial Management

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

Γ lance Sheets
December 31, 2008 and 2007

ASSETS

	2008	2007
Current Assets		
Cash and cash equivalents	$ **19,377,148**	$ 35,781,134
Short-term investments	**39,890,053**	78,806,313
Accounts receivable	**652,439**	800,145
Accrued interest receivable	**1,334,655**	1,722,113
Material and supply inventory	**433,152**	441,775
Prepaid expense and other assets	**1,220,934**	765,187
Total current assets	**62,908,381**	118,316,667
Restricted Assets		
Cash and cash equivalents	**3,628**	40,658
Investments	**12,805,813**	14,062,455
Total restricted assets	**12,809,441**	14,103,113
Other Long-Term Investments	**42,906,452**	35,903,854
Capital Assets		
Cost of initial turnpike and improvements	**488,408,524**	448,823,108
Total assets	$ **607,032,798**	$ 617,146,742

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LIABILITIES AND NET ASSETS

	2008	2007
Current Liabilities		
Current maturities of long-term debt	$ 9,950,000	$ 9,520,000
Prepaid tolls	2,492,663	2,417,424
Accounts payable	641,035	633,075
Accrued expenses	8,550,684	3,912,159
Accrued interest	3,375,868	3,568,974
Total current liabilities	25,010,250	20,051,632
Long-Term Debt		
Turnpike revenue bonds	214,220,000	236,860,000
Other Long-Term Liabilities	2,011,059	1,777,688
Total liabilities	241,241,309	258,689,320
Net Assets		
Invested in capital assets, net of related debt	264,238,524	202,443,108
Restricted – expendable for debt service	9,114,438	10,226,648
Unrestricted	92,438,527	145,787,666
Total net assets	365,791,489	358,457,422
Total liabilities and net assets	$ 607,032,798	$ 617,146,742

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

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended December 31, 2008 and 2007

	2008	2007
Operating Revenues		
Tolls	$ 78,433,188	$ 78,195,540
Concessionaire rentals	3,098,946	3,103,710
Miscellaneous	1,105,070	1,610,823
	82,637,204	82,910,073
Operating Expenses		
Administration	6,843,795	6,548,399
Insurance	6,921,590	7,677,844
Toll collection	11,659,275	11,557,942
Patrol	5,457,658	5,442,957
Maintenance	8,606,260	8,986,183
Cost of improvements, major repairs and replacements	31,888,332	34,482,921
	71,376,910	74,696,246
Operating Income	11,260,294	8,213,827
Nonoperating Revenues (Expenses)		
Investment revenue	6,715,396	8,681,873
Interest on long-term debt	(10,641,623)	(11,411,830)
	(3,926,227)	(2,729,957)
Change in Net Assets	7,334,067	5,483,870
Net Assets, Beginning of Year	358,457,422	352,973,552
Net Assets, End of Year	$ 365,791,489	$ 358,457,422

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

Statements of Cash Flows
Years Ended December 31, 2008 and 2007

	2008	2007
Operating Activities		
Cash received from toll collections	$ 78,514,970	$ 78,274,806
Cash received from concessionaire rentals and miscellaneous	4,345,179	4,747,355
Cash paid to suppliers and employees	(66,944,178)	(74,137,622)
Net cash flows from operating activities	15,915,971	8,884,539
Capital and Related Financing Activities		
Interest paid	(10,834,729)	(11,542,247)
Retirement of long-term debt	(22,210,000)	(9,125,000)
Payments for capitalized costs	(39,585,416)	(1,814,348)
Net cash flows from capital and related financing activities	(72,630,145)	(22,481,595)
Investing Activities		
Investment revenue realized	4,896,124	6,770,952
Proceeds from sale and maturities of investments	194,226,458	162,376,886
Purchase of investments	(158,849,424)	(149,648,809)
Net cash flows from investing activities	40,273,158	19,499,029
Change in Cash and Cash Equivalents	(16,441,016)	5,901,973
Cash and Cash Equivalents, Beginning of Year	35,821,792	29,919,819
Cash and Cash Equivalents, End of Year	$ 19,380,776	$ 35,821,792
Reconciliation of Net Operating Activities to Net Cash Flows from Operating Activities		
Operating income	$ 11,260,294	$ 8,213,827
Changes in operating assets and liabilities		
Accounts receivable and prepaid tolls	222,945	112,088
Material and supply inventory	8,623	(8,073)
Accounts payable and accrued expenses	4,879,856	71,494
Prepaid expenses and other assets	(455,747)	495,203
Net cash flows from operating activities	$ 15,915,971	$ 8,884,539

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

‍tes to Financial Statements

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

Cash Equivalents – The Turnpike considers all liquid investments with original maturities of three months or less from the date of purchase to be cash equivalents. At December 31, 2008 and 2007, cash equivalents consisted primarily of commercial paper, money market accounts with brokers and certain U.S. agency obligations.

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

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

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

2. BUDGET PROCESS

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

A comparison of actual expenses in the revenue fund and operations account with the budget for the year ended December 31, 2008, is as follows:

	Budget	Actual	Over (Under)
Administration	$ 6,818,600	$ 6,843,795	$ 25,195
Insurance	7,551,000	6,921,590	(629,410)
Toll Collection	12,045,400	11,659,274	(386,126)
Patrol	5,424,700	5,457,658	32,958
Maintenance	9,158,600	8,606,257	(552,343)
	$ 40,998,300	$ 39,488,574	$ (1,509,726)

3. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME

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

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

At December 31, 2008 and 2007, none of the Turnpike's bank balances of $8,077,042 and $7,112,490, 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 and instrumentalities, bank repurchase agreements, money market funds, commercial paper and municipal obligations.

At December 31, 2008, the Turnpike had the following investments and maturities:

Type	Fair Value	Maturities in Years: Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury obligations	$ 11,657,884	$ 5,923,592	$ --	$ --	$ 5,734,292
U.S. agency obligations	83,952,249	45,492,131	38,460,118	--	--
Money market mutual funds	11,359,724	11,359,724	--	--	--
	106,969,857	$ 62,775,447	$ 38,460,118	$ --	$ 5,734,292
Less cash equivalents	11,367,539				
Investments per the balance sheet	$ 95,602,318				

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 three years, commercial paper which matures no more than 270 days after the date of purchase and U.S. dollar denominated deposit accounts maturing no more than 360 days after purchase.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Turnpike's policy to limit its investments in securities to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). At December 31, 2008 and 2007, the Turnpike's investments in U.S. agency obligations not directly guaranteed by the U.S. government were rated AAA by Standard & Poor's and AAA by Moody's Investors Services and its investments in commercial paper obligations were rated A-1+ by Standard & Poor's.

Concentration of Credit Risk – The Turnpike places no limit on the amount that may be invested in any one issuer. At December 31, 2008 and 2007, the Turnpike's investment in Federal Home Loan Mortgage Corporation constituted 31.2% and 24.8% of total investments and investments in Federal National Mortgage Association constituted 40.5% and 49.6%, respectively of its total investments.

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

	2008	2007
Carrying Value:		
Deposits	$ 8,013,236	$ 7,612,452
Investments	106,969,857	156,981,962
	$ 114,983,093	$ 164,594,414
Included in the following balance sheet captions:		
Cash and cash equivalents	$ 19,377,147	$ 35,781,134
Short-term investments	39,890,053	78,806,313
Restricted cash and cash equivalents	3,628	40,658
Restricted investments	12,805,813	14,062,455
Other long-term investments	42,906,452	35,903,854
	$ 114,983,093	$ 164,594,414

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

	2008	2007
Interest and dividend income	$ 5,557,073	$ 8,416,702
Net change in fair value of investments	1,158,323	265,171
	$ 6,715,396	$ 8,681,873

4. CAPITAL ASSETS

Capital assets activity for the years ended December 31, 2008 and 2007 was:

	December 31, 2007	Additions	Disposals	Transfers	December 31, 2008
Cost of initial Turnpike and improvements	$ 448,823,108	$ 39,585,416	$ --	$ --	$ 488,408,524

	December 31, 2006	Additions	Disposals	Transfers	December 31, 2007
Cost of initial Turnpike and improvements	$ 447,974,637	$ 848,471	$ --	$ --	$ 448,823,108

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ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	2008	2007
Payable to suppliers	$ 641,035	$ 633,075
Contracts payable and retained amounts	5,295,728	591,995
Payable to employees (including payroll taxes and benefits)	2,459,956	2,495,164
Estimated self-insurance costs	795,000	825,000
	$ 9,191,719	$ 4,545,234

6. LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions for the Turnpike for the years ended December 31, 2008 and 2007:

	December 31, 2007	Additions	Deductions	December 31, 2008	Current Portion
Long-term debt revenue bonds	$ 246,380,000	$ --	$ 22,210,000	$ 224,170,000	$ 9,950,000
Other long-term liabilities					
Accrued compensated absences	3,439,688	1,802,498	1,883,039	3,359,147	1,556,000
Total long-term obligations	$ 249,819,688	$ 1,802,498	$ 24,093,039	$ 227,529,147	$ 11,506,000

	December 31, 2006	Additions	Deductions	December 31, 2007	Current Portion
Long-term debt revenue bonds	$ 255,505,000	$ --	$ 9,125,000	$ 246,380,000	$ 9,520,000
Other long-term liabilities					
Accrued compensated absences	3,322,846	1,777,388	1,660,546	3,439,688	1,662,000
Total long-term obligations	$ 258,827,846	$ 1,777,388	$ 10,785,546	$ 249,819,688	$ 11,182,000

7 REVENUE BONDS PAYABLE

At December 31, 2008 and 2007, Turnpike revenue bonds payable were as follows:

	2008	2007
Series 1993	$ 5,180,000	$ 5,180,000
Series 2002	77,865,000	80,020,000
Series 2003A	89,790,000	97,155,000
Series 2004	51,335,000	51,335,000
Series 2006A	--	12,690,000
	$ 224,170,000	$ 246,380,000

Interest rates on the bonds vary between 2.0% and 5.4%. The debt service requirements as of December 31, 2008, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2009	$ 20,224,023	$ 9,950,000	$ 10,274,023
2010	20,227,672	10,335,000	9,892,672
2011	20,230,622	10,805,000	9,425,622
2012	20,225,373	11,340,000	8,885,373
2013	20,229,122	11,885,000	8,344,122
2014 – 2018	102,094,758	68,610,000	33,484,758
2019 – 2023	58,046,631	37,225,000	20,821,631
2024 – 2028	51,043,141	40,290,000	10,753,141
2029 – 2033	23,046,325	19,320,000	3,726,325
2034 – 2038	4,611,010	4,410,000	201,010
	$ 339,978,677	$ 224,170,000	$ 115,808,677

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 2003A	September 1, 2013	At par
Series 2004A-1	September 1, 2014	At par
Series 2004A-2	September 1, 2014	At 101% of par
	September 1, 2015	At 100.50% of par
	September 1, 2016	At par

The Series 2006A bonds were considered auction rate securities, with variable interest rates established at each "auction period", which is weekly for these bonds. The maximum interest rate allowed under current Kansas law is the daily yield for 10 year treasury bonds published on the Monday preceding each auction date, plus 3%. On February 15, 2008, the Turnpike experienced a failed auction. This resulted in the Series 2006A bonds being subject to the maximum interest rate, which was 6.616% at that time. Due to this increase in interest rate, on February 21, 2008 the Turnpike issued a Material Ev Notice indicating its intent to purchase the bonds in the secondary market from any bond owner. February 22, 2008, the Turnpike gave notice of the exercise of its option to call all $12,690,000 of the Series 2006A bonds, which were subsequently redeemed on March 24, 2008, at a redemption price of 100% of the principal amount thereof, plus accrued interest.

8. DEFINED BENEFIT PENSION PLAN

The Turnpike participates in the Kansas Public Employees Retirement System (KPERS) which is a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. and administered by the KPERS Board of Trustees. The plan provides retirement, life insurance, disability income and death benefits which are established and may be changed by the Kansas Legislature with the concurrence of the Governor. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS at 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling KPERS at 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer contribution rates for KPERS for 2008, 2007 and 2006 were 4.93%, 4.31% and 3.81%, respectively. The Turnpike's contributions to KPERS for 2008, 2007 and 2006 were $955,324, $827,425 and $706,333, respectively, and were equal to the required contributions for each year.

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 free coverage to Medicare eligibility age. In October 2008, the Turnpike started offering free insurance benefits to age 65 to those who retire prior to July 1, 2009 with at least 85 points under KPERS. The medical and dental benefits are provided through a self-insured arrangement, with the subsidy provided from general operating funds.

<u>Funding Policy</u> - 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, the Turnpike pays 100% of the cost of coverage. For fiscal 2008, the Turnpike paid $27,853 through their required Cobra contributions.

<u>Annual OPEB and Cost and Net OPEB Obligation</u> – 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 represe a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the 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	$	395,112
Annual OPEB cost (expense)		395,912
Contributions made		188,000
Increase in net OPEB obligation		207,912
Net OPEB obligation January 1, 2008		--
Net OPEB obligation December 31, 2008	$	207,912

The Turnpike's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2008 as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 395,912	47.5%	$ 207,912

Funded Status and Funding Progress – As of January 1, 2008 the most recent actuarial valuation date, the actuarial accrued liability for benefits was $4,546,135. 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 $4,546,135. The covered payroll (annual payroll of active employees covered by the plan) was $20.4 million, and the ratio of the UAAL to the covered payroll was 22 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statement, will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided a 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, 2008 actuarial valuation, the entry age normal (level % of pay) method was applied. The actuarial assumptions included a 5 percent investment rate of return. The valuation assumed annual healthcare cost trend rates of five to eight percent in the first four years and ultimate rate of five percent after four 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 o level dollar basis and on a closed group basis over a period of 30 years, with the remaining amorti. period of 29 years.

10. CONTINGENCIES

The Turnpike records liabilities resulting from claim and legal action only when it is probable that a liability has been incurred and the amount can be reasonably estimated. Various legal actions, primarily due to automobile accidents, are pending against the Turnpike. These claims are generally covered by insurance. $62,000 and $0 has been recorded with accrued expenses for contingencies at December 31, 2008 and 2007.

11. RISK MANAGEMENT

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

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

Changes in the balance of claims liabilities during 2008 and 2007 are summarized as follows:

	2008	2007
Balance, beginning of year	$ 825,000	$ 750,000
Current year claims and changes in estimates	5,058,200	5,730,980
Claim payments	(5,088,200)	(5,655,980)
Balance, end of year	$ 795,000	$ 825,000

12. OPERATING LEASES

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

2009	$ 3,231,753
2010	3,288,489
2011	3,222,454
2012	3,209,329
2013	3,172,381
Total	$ 16,124,406

The leases generally have terms of five years, 10.5 years or 12 years. The five-year service station leases have one five-year renewal option. The five-year restaurant leases have up to three five-year renewal options. Both restaurant and service station leases with 10.5 years have no renewal options, and 12-year leases have two five-year renewal options if mutually agreed upon by the Turnpike and les. All leases are anticipated to renew at a time of expiration or be leased to other parties. The Turnpike is reimbursed for all utility payments and the lessee is responsible for insurance expenses associated with the properties. In certain instances, the Turnpike has agreed to have the lessee construct new buildings. If, at the conclusion of the lease, the lessee is not successful in the bidding for a new lease, the Turnpike is committed to reimburse the lessee for certain costs of construction, net of depreciation, of approximately $2,088,000. The service station and restaurant leases have base rents and contingent rental payments based on the gallons of gasoline sold or gross sales for the restaurant.

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

13. COMMITMENTS

The Turnpike has committed to construction contracts for turnpike repair and improvements valued at approximately $90 million at December 31, 2008.

The Turnpike has an agreement with the Kansas Highway Patrol (Patrol), whereby the Patrol agrees to provide adequate policing and patrolling of the Kansas Turnpike and its facilities. The total cost of policing the Kansas Turnpike and its facilities is paid by the Turnpike, including salaries and benefits, and the cost of uniforms, equipment and other expenses. The Turnpike also reimburses the Patrol for certain training costs related to increases in the number of troops provided by the Patrol to the Turnpike.

14. PENDING GOVERNMENTAL ACCOUNTING STANDARDS

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

GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets was issued June 2007. This statement provides guidance on identifying, accounting for, and reporting intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period. It further states that these assets should be classified as capital assets. The provisions of this statement are effective for the Turnpike's fiscal year ending December 31, 2010.

15. SUBSEQUENT EVENTS

In October 2008, the Turnpike entered into an agreement with Leavenworth County, Kansas (County) whereby the County will reimburse the Turnpike for costs incurred to reconstruct a section of County Road 1 in connection with a new interchange being constructed along the Turnpike. The maximum amount to be reimbursed by the County is $9,180,000. The County is required to pay interest at a rate of 4.39% beginning in the month after the first expenditures are incurred, with principal payments commencing on January 1, 2010 related to the aggregate costs incurred for the project at that date. Final principal payments are due December 1, 2016. The initial expenditures for the project were not incurred until January 2009, so interest payments will begin in February 2009.

quired Supplementary Information

Schedule of Funding Progress

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)
01/01/08	$ --	$ 4,546,135	$ 4,546,135	0%	$ 19,377,763	23.46%

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Combining Balance Sheet

December 31, 2008

ASSETS

	Total	Interfund Eliminations Reclassifications	Construction Fund
Current assets			
Cash and cash equivalents	$ 19,377,148	$ -	$ -
Short-term investments	39,890,053	-	-
Interfund receivable	-	(2,774,639)	-
Accounts receivable	652,439	-	-
Accrued interest receivable	1,334,655	-	-
Material and supply inventory	433,152	-	-
Prepaid expense and other assets	1,220,934	-	-
Total current assets	62,908,381	(2,774,639)	-
Restricted assets			
Cash and cash equivalents	3,628	-	-
Investments	12,805,813	-	-
Total restricted assets	12,809,441	-	-
Other long-term investments	42,906,452	-	-
Capital assets			
Cost of initial turnpike and improvements	488,408,524	-	448,823,108
	$ 607,032,798	$ (2,774,639)	$ 448,823,108

LIABILITIES AND NET ASSETS

	Total	Interfund Eliminations Reclassifications	Construction Fund
Current liabilities			
Current maturities of long-term debt	$ 9,950,000	$ -	$ 9,950,000
Prepaid tolls	2,492,663	-	-
Accounts payable	641,035	-	-
Interfund payable	-	(2,774,639)	-
Accrued expenses	8,550,684	-	-
Accrued interest	3,375,868	-	-
Total current liabilities	25,010,250	(2,774,639)	9,950,000
Long-term debt			
Turnpike revenue bonds	214,220,000	-	214,220,000
Other long-term liabilities	2,011,059	-	-
Total liabilities	241,241,309	(2,774,639)	224,170,000
Net assets			
Invested in capital assets, net of related debt	264,238,524	-	224,653,108
Restricted - expendable for			
Debt service	9,114,438	-	-
Unrestricted	92,438,527	-	-
Total net assets	365,791,489	-	224,653,108
Total liabilities and net assets	$ 607,032,798	$ (2,774,639)	$ 448,823,108

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Revenue Fund And Operations Fund	Debt Service Fund	Debt Service Reserve Fund	Replacement Reserve Fund	General Fund
$ 12,817,309	$ -	$ -	$ 598,104	$ 5,961,735
6,500,580	-	-	23,545,231	9,844,242
2,774,639	-	-	-	-
652,439	-	-	-	-
1,102,612	-	-	144,595	87,448
433,152	-	-	-	-
1,220,934	-	-	-	-
25,501,665	-	-	24,287,930	15,893,425
-	-	3,628	-	-
-	6,882,221	5,923,592	-	-
-	6,882,221	5,927,220	-	-
3,078,125	-	-	19,894,833	19,933,494
-	-	-	39,585,416	-
$ 28,579,790	$ 6,882,221	$ 5,927,220	$ 83,768,179	$ 35,826,919
$ -	$ -	$ -	$ -	$ -
2,492,663	-	-	-	-
641,035	-	-	-	-
-	154,708	164,427	1,471,071	984,433
3,254,956	-	-	5,295,728	-
-	3,375,868	-	-	-
6,388,654	3,530,576	164,427	6,766,799	984,433
-	-	-	-	-
2,011,059	-	-	-	-
8,399,713	3,530,576	164,427	6,766,799	984,433
-	-	-	39,585,416	-
-	3,351,645	5,762,793	-	-
20,180,077	-	-	37,415,964	34,842,486
20,180,077	3,351,645	5,762,793	77,001,380	34,842,486
$ 28,579,790	$ 6,882,221	$ 5,927,220	$ 83,768,179	$ 35,826,919

	Total	Construction Fund	Revenue Fund And Operations Fund
Operating Revenues			
Tolls	$ 78,433,188	$ -	$ 78,433,188
Concessionaire rentals	3,098,946	-	3,098,946
Miscellaneous	1,105,070	-	1,105,070
	82,637,204	-	82,637,204
Operating Expenses			
Administration	6,843,795	-	6,843,795
Insurance	6,921,590	-	6,921,590
Toll collection	11,659,275	-	11,659,275
Patrol	5,457,658	-	5,457,658
Maintenance	8,606,260	-	8,606,260
Cost of improvements, major repairs and replacements	31,888,332	-	-
	71,376,910	-	39,488,578
Operating Income (Loss)	11,260,294	-	43,148,626
Nonoperating Revenues (Expenses)			
Transfers between funds	-	22,210,000	(48,005,100)
Investment revenue	6,715,396	-	6,796,960
Interest on long-term debt	(10,641,623)	-	-
	(3,926,227)	22,210,000	(41,208,140)
Change in net assets	7,334,067	22,210,000	1,940,486
Net assets, beginning of year	358,457,422	202,443,108	18,239,591
Net assets, end of year	$ 365,791,489	$ 224,653,108	$ 20,180,077

Debt Service Fund	Debt Service Reserve Fund	Replacement Reserve Fund	General Fund
$ -	$ -	$ -	$ -
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	31,888,332	-
-	-	31,888,332	-
-	-	(31,888,332)	-
10,797,826	(1,268,413)	19,400,001	(3,134,314)
-	-	(79,685)	(1,879)
(10,641,623)	-	-	-
156,203	(1,268,413)	19,320,316	(3,136,193)
156,203	(1,268,413)	(12,568,016)	(3,136,193)
3,195,442	7,031,206	89,569,396	37,978,679
$ 3,351,645	$ 5,762,793	$ 77,001,380	$ 34,842,486

Summary of Toll Revenues
Year Ended December 31, 2008

Class		Toll Revenue	Vehicles
2-axle vehicles	$	46,890,724	28,173,512
3-axle vehicles		1,268,741	462,493
4-axle vehicles		2,482,311	536,726
5-axle vehicles		25,087,146	3,096,473
6-axle vehicles		1,303,700	112,332
7-axle vehicles		1,018,452	37,188
8-axle vehicles		881,659	27,411
9-axle vehicles		577,985	14,872
Discounts and Adjustments		(1,073,938)	348,949
	$	78,436,779	32,809,956

Statistical Data

Operating Summaries - Vehicles, Mileage and Revenue

Years Ended December 31, 2008 and 2007
(Unaudited)

	2008	2007	2008 Increase (Decrease) as a Percent of 2007
Number of Vehicles:			
Passenger cars	28,173,512	28,689,220	-1.80%
Commercial vehicles	4,287,495	4,468,289	-4.05%
Discounts and adjustments	348,949	338,376	3.12%
Total	32,809,956	33,495,885	-2.05%
Percentage of Vehicles:			
Passenger cars	85.87%	85.65%	0.26%
Commercial vehicles	13.07%	13.34%	-2.04%
Number of Miles:			
Passenger cars	1,121,500,985	1,138,780,003	-1.52%
Commercial vehicles	270,710,506	281,288,801	-3.76%
Total	1,392,211,491	1,420,068,804	-1.96%
Percentage of Miles:			
Passenger cars	80.56%	80.19%	0.45%
Commercial vehicles	19.44%	19.81%	-1.83%
Toll Revenue (Gross):			
Passenger cars	$ 46,890,724	$ 46,564,740	0.70%
Commercial vehicles	32,619,993	32,572,640	0.15%
Discounts and adjustments	(1,073,938)	(941,839)	14.03%
Total	$ 78,436,779	$ 78,195,541	0.31%
Percentage of Toll Revenue:			
Passenger cars	59.78%	59.55%	0.39%
Commercial vehicles	41.59%	41.66%	-0.16%
Miles Per Trip:			
Passenger cars	39.81	39.69	0.29%
Commercial vehicles	63.14	62.95	0.30%
Revenue Per Trip:			
Passenger cars	$ 1.66	$ 1.62	2.54%
Commercial vehicles	$ 7.61	$ 7.29	4.37%
Revenue Per Mile:			
Passenger cars	$ 0.04181	$ 0.04089	2.25%
Commercial vehicles	$ 0.12050	$ 0.11580	4.06%
Discounts and adjustments	$ (0.00077)	$ (0.00066)	16.31%

edule of Service Area Traffic and Sales
Ended December 31, 2008 and 2007
(Unaudited)

Service Area	Vehicles Passing Area	Gallons Motor Fuel Sold	Restaurant Gross Sales	Per Vehicle Passing Area: Gallons Motor Fuel	Per Vehicle Passing Area: Restaurant Sales
2008					
Belle Plaine	6,733,951	3,177,097	$ 2,569,640	0.47	$ 0.38
Towanda	4,633,330	5,072,649	1,591,034	1.09	$ 0.34
Matfield Green	4,524,323	5,416,347	2,177,323	1.20	$ 0.48
Emporia	2,302,340	2,991,640	1,346,100	1.30	$ 0.58
Topeka	12,640,817	8,396,689	2,826,467	0.66	$ 0.22
Lawrence	10,622,772	5,695,965	3,508,232	0.54	$ 0.33
	41,457,533	30,750,387	$ 14,018,796		
2007					
Belle Plaine	6,802,645	6,135,395	$ 2,838,337	0.90	$ 0.42
Towanda	4,682,327	4,346,122	1,505,244	0.93	$ 0.32
Matfield Green	4,607,792	5,239,285	2,114,103	1.14	$ 0.46
Emporia	2,358,439	3,323,744	1,336,989	1.41	$ 0.57
Topeka	12,874,147	6,886,880	2,676,708	0.53	$ 0.21
Lawrence	10,859,996	4,856,629	3,499,269	0.45	$ 0.32
	42,185,346	30,788,055	$ 13,970,650		

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S··edule of Activity by Interchange

\ Ended December 31, 2008 and 2007

(Unaudited)

Interchange		2008			2007			
No.	Location	Entering Vehicles	Exiting Vehicles	Total Vehicles	Entering Vehicles	Exiting Vehicles	Total Vehicles	Percent Increase (Decrease)
004	Southern Terminal	2,675,161	2,782,332	5,457,493	2,688,675	2,811,835	5,500,510	-0.78%
019	Wellington: US 160	789,785	749,347	1,539,132	776,337	747,750	1,524,087	0.99%
033	Mulvane: K-53	573,559	527,355	1,100,914	590,766	538,122	1,128,888	-2.48%
039	Haysville-Derby: 71st St.	792,776	792,566	1,585,342	809,589	801,674	1,611,263	-1.61%
042	Wichita: I-135, I-235, 47th St.	3,354,600	3,408,456	6,763,056	3,397,582	3,426,777	6,824,359	-0.90%
045	Wichita: K-15	784,027	853,585	1,637,612	823,173	894,316	1,717,489	-4.65%
050	Wichita: US 54/400, Kellogg Ave.	1,489,195	1,522,640	3,011,835	1,502,200	1,546,362	3,048,562	-1.20%
053	Wichita: K-96	899,894	874,092	1,773,986	910,602	878,956	1,789,558	-0.87%
057	Andover: 21st St.	455,678	429,872	885,550	459,861	439,616	899,477	-1.55%
071	El Dorado: US 254	1,024,511	994,132	2,018,643	1,032,361	1,007,315	2,039,676	-1.03%
076	El Dorado: US 77	219,132	207,213	426,345	208,185	195,470	403,655	5.62%
092	Cassoday: K-177	94,166	97,715	191,881	100,997	104,377	205,374	-6.57%
127	Emporia: I-35N	1,908,973	1,832,776	3,741,749	1,979,198	1,883,505	3,862,703	-3.13%
147	Council Grove, Osage City: US 56	126,398	125,539	251,937	126,920	127,291	254,211	-0.89%
177	Topeka: I-470W, US 75, Topeka Blvd.	2,338,031	2,370,626	4,708,657	2,371,536	2,402,809	4,774,345	-1.38%
182	Topeka: Valley Falls: K-4/I-70W	496,978	429,472	926,450	514,223	451,352	965,575	-4.05%
183	Topeka: I-70	4,436,865	4,470,726	8,907,591	4,530,665	4,582,278	9,112,943	-2.25%
197	Lecompton, Lawrence: K-10	1,896,756	1,798,405	3,695,161	1,611,494	1,606,320	3,217,814	14.83%
202	Lawrence: US 59, S. Iowa St.	1,363,166	1,196,279	2,559,445	1,909,981	1,817,656	3,727,637	-31.34%
204	Lawrence: US 59, US40	1,296,039	1,525,638	2,821,677	1,255,698	1,306,874	2,562,572	10.11%
224	Bonner Springs	210,309	191,783	402,092	207,772	173,245	381,017	5.53%
236	Eastern Terminal	5,087,847	5,133,297	10,221,144	5,207,782	5,271,697	10,479,479	-2.47%

Schedule of Monthly Vehicles, Mileage and Toll Revenue

Year Ended December 31, 2008

(Unaudited)

			Gross Revenue		Average	Average
Month	Vehicles	Mileage	Passenger	Commercial	Miles Per Vehicle	Revenue Per Vehicle
January	2,464,283	102,272,726	$ 3,371,579	$ 2,672,324	41.50	$ 2.45
February	2,378,675	98,115,207	3,237,947	2,564,449	41.25	2.44
March	2,818,430	122,429,956	4,155,916	2,761,465	43.44	2.45
April	2,695,096	111,664,862	3,711,462	2,803,204	41.43	2.42
May	2,902,157	124,603,172	4,220,907	2,822,905	42.93	2.43
June	2,770,316	119,481,293	4,012,271	2,793,651	43.13	2.46
July	2,872,773	125,443,190	4,235,984	2,860,460	43.67	2.47
August	2,842,079	123,857,281	4,175,841	2,845,630	43.58	2.47
September	2,621,021	110,071,953	3,658,763	2,731,182	42.00	2.44
October	2,792,881	118,665,625	3,969,327	2,877,785	42.49	2.45
November	2,684,507	118,996,006	4,106,644	2,472,735	44.33	2.45
December	2,618,789	116,610,220	4,034,083	2,414,203	44.53	2.46
	32,461,007	1,392,211,491	$ 46,890,724	$ 32,619,993	42.89	$ 2.45

Total Gross Toll Revenue	$ 79,510,717
Discounts and Adjustments	(1,073,938)
Total Adjusted Revenue	$ 78,436,779

Summary of Turnpike Traffic
Year Ended December 31, 2008
(Unaudited)

	Turnpike		K-TAG	
	2008	2007	2008	2007
Vehicles	32,461,007	33,157,509	13,783,529	13,506,274
Passenger	28,173,512	28,689,220	11,816,900	11,531,120
Commercial	4,287,495	4,468,289	1,966,629	1,975,154
Miles Traveled	1,392,211,491	1,420,068,804	495,299873	478,661,008
Passenger	1,121,500,985	1,138,780,003	377,195,679	361,355,901
Commercial	270,710,506	281,288,801	118,104,194	117,305,107
Toll Revenue	79,510,717	79,137,380	31,477,092	29,804,598
Passenger	46,890,724	46,564,740	16,072,405	15,089,293
Commercial	32,619,993	32,572,640	15,404,687	14,715,305
Average Toll	$2.45	$2.39	$2.28	$2.21
Passenger	$1.66	$1.62	$1.36	$1.31
Commercial	$7.61	$7.29	$7.83	$7.45
Average Trip Miles	43	43	36	35
Passenger	40	40	32	31
Commercial	63	63	60	59

Summary of Average Daily Traffic Between Interchanges
Year Ended December 31, 2008
(Unaudited)

	Southbound	Northbound
236		
	14,476	14,549
204		
	13,897	14,598
202		
	13,702	13,947
197		
	17,281	17,257
183		
	5,090	5,159
182		
	6,447	6,331
177		
	3,342	3,315
147		
	3,160	3,131
127		
	6,300	6,062
92		
	6,355	6,128
76		

	Southbound	Northbound
76		
	6,455	6,195
71		
	6,501	6,158
57		
	6,686	6,272
53		
	7,335	6,850
50		
	7,563	7,170
45		
	6,215	6,012
42		
	11,672	11,617
39		
	10,144	10,087
33		
	9,291	9,109
19		
	7,602	7,309
4		

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