

**STATE OF KANSAS**  
**Department of Administration**  
**Office of Management Analysis and Standards**



**COMPREHENSIVE**  
**ANNUAL**  
**FINANCIAL**  
**REPORT**

July 1, 2010 to June 30, 2011

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**Dennis Taylor, Secretary**  
**Martin Eckhardt, Director**



**STATE OF KANSAS**

**Department of  
Administration**

*Dennis Taylor*  
**Secretary of  
Administration**

*Martin Eckhardt*  
**Director of  
Office of Management Analysis and Standards**

State of Kansas  
**Fiscal Year 2011 Financial Report**  
June 30, 2011

<b>Table of Contents</b>
--------------------------

<b>INTRODUCTION .....</b>	<b>vi</b>
<b>Letter of Transmittal.....</b>	<b>vii</b>
Profile of the Government .....	vii
Financial Information .....	viii
Cash Management .....	viii
Risk Management.....	viii
Pension Trust Fund Operations .....	ix
Acknowledgments .....	ix
<b>Organizational Chart .....</b>	<b>x</b>
<b>List of Selected Officials.....</b>	<b>xi</b>
<b>FINANCIAL SECTION.....</b>	<b>1</b>
<b>Report of Independent Auditors .....</b>	<b>3</b>
<b>Management’s Discussion and Analysis .....</b>	<b>5</b>
Financial Highlights .....	5
Overview of the Financial Statements.....	5
Government-wide Financial Analysis .....	8
Financial Analysis of the State’s Individual Funds .....	15
General Fund Budgetary Highlights.....	15
Capital Assets and Debt Administration.....	16
Economic Factors .....	16
<b>Financial Statements .....</b>	<b>18</b>
Government-wide - Statement of Net Assets .....	19
Government-wide - Statement of Activities .....	20
Balance Sheet - Governmental Funds.....	22
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	24
Statement of Net Assets - Proprietary Funds.....	26
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary .....	27
Statement of Cash Flows - Proprietary Funds .....	28
Statement of Fiduciary Net Assets .....	29
Statement of Changes in Fiduciary Net Assets.....	30
Combining Statement of Net Assets – Component Units.....	31
Combining Statement of Activities – Component Units .....	32

## Table of Contents Continued

### Notes to the Financial Statements:

I.	Summary of Significant Accounting Policies .....	33
A.	Financial Reporting Entity .....	33
B.	Government-wide and Fund Financial Statements .....	36
C.	Measurement Focus, Basis of Accounting, and Financial Statement Presentation .....	37
D.	Fund Accounting .....	37
E.	Assets, Liabilities, and Net Assets or Equity .....	39
F.	Use of Estimates .....	43
G.	New Governmental Accounting Standards Board Statements .....	43
II.	Stewardship Compliance and Accountability .....	44
A.	Excess of Expenditures Over Appropriations.....	44
B.	Deficit Fund Equity .....	44
III.	Detailed Notes on All Funds.....	45
A.	Deposits and Investments .....	45
B.	Investments.....	56
C.	External Investment Pool .....	68
D.	Receivables.....	69
E.	Investment in Direct Financing Leases.....	69
F.	Restricted Assets .....	69
G.	Equity .....	70
H.	Capital Assets.....	71
I.	Interfund Receivables, Payables, and Transfers .....	77
J.	Short-term Obligations .....	78
K.	Long-term Obligations .....	79
L.	Revisions to Beginning Net Assets .....	95
G.	Restatement of Fiscal Year 2011 Financial Statements.....	95
IV.	Other Information .....	97
A.	Risk Management.....	97
B.	Contingencies and Commitments .....	98
C.	Pollution Remediation .....	99
D.	Other Post Employment Benefits .....	102
E.	Employee Retirement Systems and Pension Plans .....	104
F.	Subsequent Events.....	107
G.	Economic Condition.....	109
<b>REQUIRED SUPPLEMENTARY INFORMATION .....</b>		<b>116</b>
Budgetary Information .....		117
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual		
General Fund.....		118
General Fund - Budgetary to GAAP Reconciliation.....		119
Social and Rehabilitation Fund .....		120
Social and Rehabilitation Fund - Budgetary to GAAP Reconciliation .....		121
Transportation Fund.....		122
Transportation Fund - Budgetary to GAAP Reconciliation .....		123
Health Policy Authority Fund .....		124
Health Policy Authority Fund – Budgetary to GAAP Reconciliation.....		125
Support of Modified Approach for Kansas Department of Transportation Infrastructure Reporting.....		126
OPEB Schedule of Funding Progress .....		127

## Table of Contents Concluded

<b>OTHER SUPPLEMENTARY INFORMATION .....</b>	<b>128</b>
Listing of Non-major Governmental Funds .....	129
Combining Balance Sheet – Governmental Non-major Funds.....	131
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Non-major Funds.....	142
Listing of Non-major Proprietary Funds .....	153
Combining Statement of Net Assets – Proprietary Non-major Funds.....	154
Combining Statement of Revenues, Expenditures, and Changes in Fund Net Assets – Proprietary Non-major Funds .....	155
Listing of Non-major Internal Service Funds .....	156
Combining Statement of Net Assets – Non-major Internal Service Funds .....	157
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Internal Service Funds .....	159
 <b>STATISTICAL SECTION: (Unaudited).....</b>	 <b>161</b>
Financial Trends	
Net Assets by Type .....	163
Changes in Net Assets.....	165
Revenues and Other Changes in Net Assets .....	167
Fund Balances, Governmental Funds.....	169
Changes in Fund Balances, Governmental Funds.....	172
Revenue Capacity	
Personal Income by Industry.....	174
Debt Capacity	
Long Term Debt Obligations .....	176
Demographic and Economic Information	
Kansas Demographic Statistics .....	178
Principal Employers in Kansas .....	179
Operating Information	
Full-time Equivalent State Government Employees by Function/Program .....	180
 <b>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....</b>	 <b>182</b>
 <b>Schedule of Findings and Responses.....</b>	 <b>185</b>

# **INTRODUCTION**

March 28, 2012

The Honorable Sam Brownback, Governor of the State of Kansas  
Members of the Legislature and  
Citizens of the State of Kansas:

It is my pleasure to submit to you the 58<sup>th</sup> Annual Financial Report of the State of Kansas for the fiscal year ended June 30, 2011, as provided by Kansas Statutes Annotated (K.S.A.) 75-3735. This Comprehensive Annual Financial Report (CAFR) has been prepared in conformance with generally accepted accounting principles (GAAP). The objective of this is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements.

This report is presented in three sections. The Introductory Section includes this transmittal letter, the organizational chart and a listing of selected officials. The Financial Section includes the independent auditors' report, Management's Discussion and Analysis, the basic financial statements and notes, the Required Supplementary Information and Other Supplementary Information. The Statistical Section includes unaudited tables and financial trend information.

This report is prepared by the Department of Administration, Office of Management Analysis and Standards. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. The enclosed information is accurate in all material respects and is reported to present fairly the financial position and activities of the State of Kansas. All necessary disclosures to enable the reader to understand the State's financial activities have been included.

The State's financial statements have been audited by RubinBrown LLP, licensed Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the State of Kansas for the fiscal year ended June 30, 2011, are free of material misstatement. This independent audit was part of the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards here also require the auditor to report on the State of Kansas' internal controls and compliance with legal requirements. A copy of the separately issued Single Audit Report can be obtained from the Legislative Division of Post Audit.

## **PROFILE OF THE GOVERNMENT**

The State government is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court and the District Courts. The State provides a full range of services including education, safety, social services, recreation and transportation. The annual budget serves as the foundation of the State's financial planning and control. On or before October 1, agencies are required to submit annually or biennially budget estimates for the next fiscal year to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However, in the case of the regular legislative

session immediately following the election of a governor, who was elected to the Office of Governor for the first time, that governor must submit the budget report to the Legislature on or before the 21<sup>st</sup> calendar day of that regular session.

## **FINANCIAL INFORMATION**

Kansas has a centrally maintained computerized double-entry accounting system. Management is responsible for establishing and maintaining an internal control structure to ensure that government assets are protected from loss, theft or misuse, and that adequate data are compiled to prepare meaningful financial statements. Internal accounting controls have been implemented for reasonable, but not absolute, assurance for safeguarding assets and accurately recording financial transactions. "Reasonable assurance" is based upon the premise that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and judgments by management. As a recipient of federal financial assistance, the State is also responsible for implementing internal controls for compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the government.

The State also maintains budgetary restrictions and controls, which are imposed through annual appropriations and limitations, approved by the Legislature. Annual appropriated budgets are adopted for the State General Fund and certain Special Revenue, Capital Project, Enterprise, Internal Service and Trust and Agency funds. The level of budgetary control in the central accounting system is usually established by agency, fund and budget unit. Budgetary control is maintained by mechanisms in the accounting system, which prevents expenditures and purchase orders in excess of appropriations or limitations and/or available cash. Purchase orders are reported as expenditures for budgetary purposes and restricted fund balances in the financial statements included in this report.

## **CASH MANAGEMENT**

On a daily basis, the State monitors receipts to, and expenditures out of, the State Treasury. It also employs cash flow tools and techniques that maximize revenues without incurring undue risk. The State invests idle funds to match anticipated cash flow needs by using government securities, collateralized bank deposits, and high grade commercial paper to provide safety, liquidity, and yield, in that order. As a cash flow management policy, the State seeks to avoid borrowing from its own idle funds to meet expenditure obligations of the State General Fund.

The State maintains investments in addition to idle moneys. Authorized agencies may make investments independently of the State Treasury pooled cash. Generally the Pooled Money Investment Board (PMIB) acts as agent for these investments. Certain funds, such as Kansas Public Employees Retirement System and the Unemployment Insurance Fund, are statutorily exempted from PMIB oversight. Deposits in the Municipal Investment Pool, an investment option established by the 1992 legislature for local governments, are also invested by the PMIB.

## **RISK MANAGEMENT**

The State maintains a combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through risk management and various outside entity commercial insurance providers. It is the policy of the State to cover the risk of certain losses to which it may be exposed through risk management activities. In general, the State is self-insured for certain health



care claims (prescription drug and dental plus three of eight medical health plan options), State employee workers' compensation, long-term disability, tort liability, personal property, and real estate property losses up to \$500,000 (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles, and a statewide commercial policy on real property valued at \$500,000 or more (except where separate coverage is required by bond covenant).

Risk is managed by positively addressing various benefits and liabilities through review, legislation and administration to assure that claims are promptly and correctly adjudicated and that appropriate and fair benefits and liabilities are reflected in the statutes and regulations. Where cost effective and appropriate, such as limiting the impact of a catastrophic occurrence to the State buildings, the State has limited its exposure through high deductible catastrophic loss insurance.

### **PENSION TRUST FUND OPERATIONS**

The Kansas Public Employees Retirement System is an umbrella organization administering three statewide retirement systems under one plan. These systems are Kansas Public Employee Retirement System, Kansas Police and Firemen's Retirement System and Kansas Retirement System for Judges. Further information on State participation in the retirement system can be found in the Notes to the Financial Statements located in the Financial Section.

### **ACKNOWLEDGEMENTS**

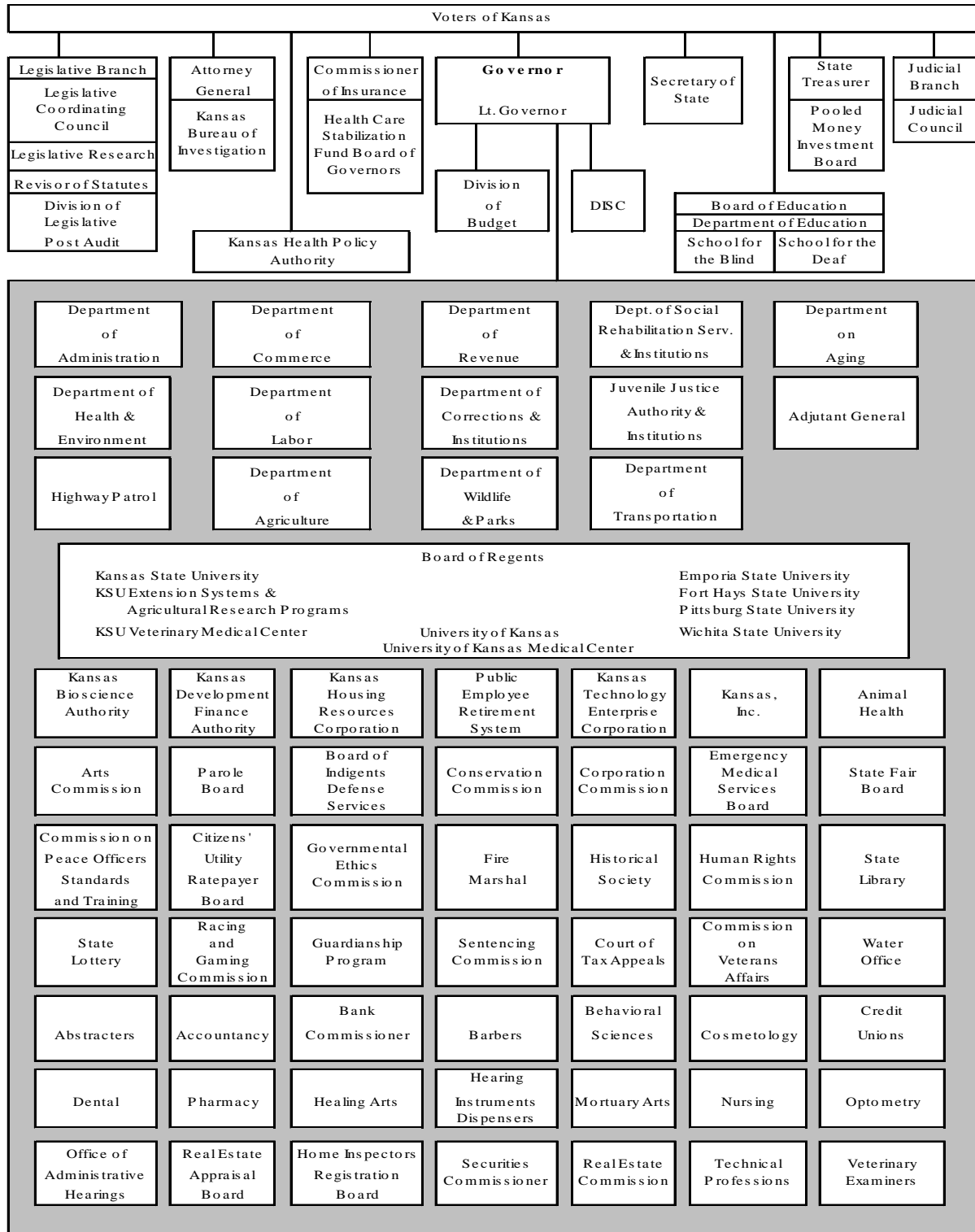
I wish to express my deepest appreciation and thanks to those on my staff responsible for the preparation of this report. It is through their dedicated effort that this report was made possible. I also wish to thank the many other individuals in the State agencies whose contributions made this report possible.

Sincerely,



Martin Eckhardt, Director  
Office of Management Analysis and Standards

**State of Kansas**  
**Organizational Chart**  
 June 30, 2011



State of Kansas  
**List of Selected Officials**  
June 30, 2011

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**Executive Branch**

*Governor*  
Sam Brownback

*Lieutenant Governor*  
Jeff Colyer

*Secretary of State*  
Kris W. Kobach

*State Treasurer*  
Ron Estes

*Attorney General*  
Derek Schmidt

*Commissioner of  
Education*  
Diane DeBacker

*Commissioner of  
Insurance*  
Sandy Praeger

**Legislative Branch**

*Speaker of the House of  
Representatives*  
Michael O'Neal

*Speaker Pro Tempore of  
the House of  
Representatives*  
Jene Vickrey

*President of the Senate*  
Stephen R. Morris

*Vice President of the  
Senate*  
John Vratil

*Chief Clerk of the House of  
Representatives*  
Susan W. Kannarr

*Secretary of Senate*  
Pat Saville

*Legislative Coordinating  
Council*  
Stephen R. Morris

*Legislative Research  
Director*  
Alan D. Conroy

**Judicial Branch**

*Supreme Court of Kansas*  
*Chief Justice*  
Lawton Nuss

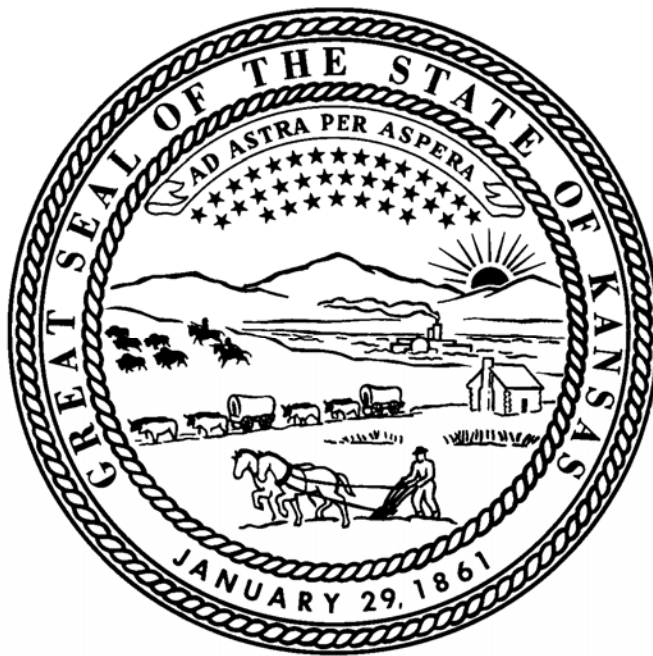
*Justices*  
Lee A. Johnson  
Carol A. Beier  
Eric S. Rosen  
Marla J. Luckert  
Nancy L. Moritz  
Dan Biles

*Court of Appeals*  
*Chief Judge*  
Richard D. Greene

*Judicial Council*  
*Executive Director*  
Nancy J. Strouse

*Judicial Administrator*  
Howard P. Schwartz

**FINANCIAL**  
**SECTION**



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## Independent Auditors' Report

Legislative Post Audit Committee  
Kansas State Legislature  
State of Kansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (the State), as of and for the year ended June 30, 2011, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the various component units of the six state universities which represent 50 percent and 31 percent, respectively, of the assets and revenues of the discretely presented component units, the Kansas Technology Enterprise Corporation (KTEC) which represents less than 1 percent of assets and revenues of the discretely presented component units, the Kansas Developmental Finance Association (KDFA) which represents 2 percent and less than 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Housing Resource Corporation (KHRC) which represents less than 1 percent and 4 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Bioscience Authority (KBA) which represents 2 percent and 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Public Employees Retirement System (KPERs) which represents 84 percent and 36 percent, respectively, of assets and revenues of the aggregate remaining fund information, and the Kansas Lottery which represents less than 1 percent and 2 percent, respectively, of the assets and revenue of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the six state universities, KTEC, KDFA, KHRC, and KBA in the aggregate discretely presented component units, and KPERs and the Kansas Lottery in the aggregate remaining fund information, is based solely on the reports of the other auditors.

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 of material misstatement. The audits of the various component units of the six state universities were not conducted in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2011, and the respective change in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

As discussed in Note I G. to the financial statements, the State adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in fiscal year 2011.

As discussed in Note III M. to the financial statements, the State's previously issued June 30, 2011 financial statements have been restated to correct a misstatement and the auditors' report dated March 28, 2012 on those previously issued financial statements is not to be relied upon and is replaced by this auditors' report on the restated financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 28, 2012 on our consideration of the State's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the budgetary comparison information, the information needed to support the modified approach for infrastructure reporting and the other post employment benefits schedule of funding progress, as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We and the other auditors 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 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual non-major fund financial statements and other schedules, listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

 Ruben Brown LLP

June 28, 2012  
Overland Park, Kansas

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the State of Kansas Comprehensive Annual Financial Report (CAFR) is provided for readers of the financial statements for the fiscal year ended June 30, 2011. This information is to be used in conjunction with the additional information furnished in the preceding letter of transmittal and with the financial statements that follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### FINANCIAL HIGHLIGHTS

#### Government-wide highlights:

- The assets of the State exceeded its liabilities at fiscal year ending June 30, 2011 by \$10.8 billion (presented as "net assets"). Of this amount, \$213.8 million was reported as unrestricted net assets, which represents the amount available to be used to meet ongoing obligations to citizens and creditors.
- Total net assets increased by \$248.4 million (2.4 percent) in fiscal year 2011. Net assets of governmental activities increased by \$246.0 million (2.5 percent), and net assets of the business-type activities increased \$2.4 million (4 percent).

#### Fund highlights:

- For fiscal year 2011, the governmental funds reported a combined ending fund balance of \$427.8 million, an increase of \$264.5 million in comparison with the prior year. Of the total amount, \$272.8 million represents the fund balance of the Transportation Fund and there is an increase of \$284.9 million represents the fund balance of Transportation-Capital Projects comparison with the prior year. There is negative \$182.7 million in the unassigned fund balances for the General Fund.

#### Long-term debt:

The State's total long-term debt obligation (including bonds payable on demand) showed a net increase of \$355.8 million (7.02 percent) during the current year. This increase was primarily due to a \$248.4 million increase in revenue bonds, a \$36.7 million increase in note payable, \$82.6 million increase for unemployment benefits loan.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the State of Kansas basic financial statements. The basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

#### Basic Financial Statements

The basic financial statements include two kinds of financial statements that present different views of the State – the *Government-wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.



## **Government-wide Financial Statements**

The *Government-wide Financial Statements* provide a broad view of operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the financial position to assist in assessing the State's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This method is similar to those used by most businesses and takes into account all revenues and expenses connected with the fiscal year, even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the State's net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements have separate sections for three different types of State programs or activities. These three types of activities are:

*Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with State government fall into this category, including education, general government, health services, judiciary services, museums, natural resources, public safety, defense, regulatory services, social services, and transportation.

*Business-type Activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services.

*Discretely Presented Component Units* – These are operations for which the State has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above.

Financial statements of the individual component units can be found in the basic financial statements following the fund statements. Addresses and other additional information about component units are presented in the notes to the financial statements. The government-wide financial statements can be found immediately following this discussion and analysis.

## **Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual parts of the State government, reporting the operations in more detail than the government-wide statements. All of the funds can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds financial statements are:

*Governmental Funds Financial Statements* - Most of the basic services provided by the State are financed through governmental type funds. Governmental funds are used to account for the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide

State of Kansas  
**Management's Discussion and Analysis**  
June 30, 2011

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financial statements, the governmental fund financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of expendable resources available at the end of the fiscal year. This information may be helpful in evaluating the government's near-term financial requirements. This approach is known as the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of State finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The State has five governmental funds considered major funds for presentation purposes. Each major fund is presented in a separate column in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The five governmental funds are – the General Fund, the Social and Rehabilitation Services Fund, the Transportation Fund, the Transportation-Capital Projects Fund, and the Health Policy Authority Fund. The basic governmental funds financial statements can be found immediately following the government-wide statements.

***Proprietary Funds Financial Statements*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The State's major proprietary funds for presentation purposes are the Unemployment Insurance Fund (within the Department of Labor), the Water Pollution Control and Public Water Supply Revolving Loan Funds (within the Department of Health and Environment) and the Health Care Stabilization Fund.

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

***Fiduciary Funds Financial Statements*** – These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the State's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The fiduciary funds are the Kansas Public Employees Retirement Fund, the Investment Trust Fund (which accounts for the transactions, assets, liabilities and fund equity of the external investment pool), and the Agency Funds (which account for the assets held for distribution by the State as an agent for other governmental units, other organizations or individuals). Individual fund detail can be found in the combining financial statements described below.

The basic fiduciary funds financial statements can be found immediately following the proprietary funds financial statements.

*Notes to the Financial Statements*

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

**Required Supplementary Information**

The basic financial statements are followed by a section of required supplementary information. This section includes budgetary comparisons for the major funds. Comparisons can be made between the original budget, final budget, and actual revenues and expenditures. This section includes reconciliation between budgetary basis and the accrual basis for major funds as presented in the governmental funds financial statements. This section also includes Kansas Department of Transportation modified approach explanation for infrastructure and other post employment benefit funding progress.

**Other Supplementary Information**

*Combining Financial Statements*

The combining financial statements are presented following the required supplementary information. The total columns of these combining financial statements carry to the applicable fund financial statement.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of the financial position of a government. The combined net assets of the State (government and business-type activities) totaled \$10.8 billion at the end of 2011, compared to \$10.52 billion at the end of the previous year, an increase of 2.4 percent.

The largest portion of net assets reflects investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that are still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although investment in its 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.

State of Kansas  
**Management's Discussion and Analysis**  
June 30, 2011

**State of Kansas Net Assets – Primary Government**  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 2,663,752	\$ 1,879,417	\$ 1,768,198	\$ 1,650,942	\$ 4,431,950	\$ 3,530,359
Capital assets	12,673,036	12,836,424	6,194	8,351	12,679,230	12,844,775
Total assets	<u>15,336,788</u>	<u>14,715,841</u>	<u>1,774,392</u>	<u>1,659,293</u>	<u>17,111,180</u>	<u>16,375,134</u>
Non-current liabilities	2,908,351	2,712,051	905,785	1,004,463	3,814,136	3,716,514
Other liabilities	2,215,877	2,037,242	305,270	93,898	2,521,147	2,131,140
Total liabilities	<u>5,124,228</u>	<u>4,749,293</u>	<u>1,211,055</u>	<u>1,098,361</u>	<u>6,335,283</u>	<u>5,847,654</u>
Invested in capital assets, net of related debt	9,219,935	9,601,110	6,172	8,351	9,226,107	9,609,461
Restricted	869,678	209,443	466,317	433,809	1,335,995	643,252
Unrestricted	122,947	155,995	90,848	118,772	213,795	274,767
Total net assets	<u>\$ 10,212,560</u>	<u>\$ 9,966,548</u>	<u>\$ 563,337</u>	<u>\$ 560,932</u>	<u>\$ 10,775,897</u>	<u>\$ 10,527,480</u>

An additional portion of net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the ongoing obligations to citizens and creditors. Internally imposed designations of resources are not represented as restricted net assets.

At the end of the current fiscal year, the State is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**State of Kansas Net Assets – Component Units**  
(expressed in thousands)

	Component Units	
	2011	2010
Current and other assets	\$ 3,858,150	\$ 3,530,548
Capital assets	2,000,951	1,868,430
Total assets	<u>5,859,101</u>	<u>5,398,978</u>
Non-current liabilities	965,376	979,307
Other liabilities	525,801	572,483
Total liabilities	<u>1,491,177</u>	<u>1,551,790</u>
Invested in capital assets, net of related debt	1,321,479	1,202,589
Restricted	1,086,506	1,166,363
Unrestricted	1,959,939	1,478,236
Total net assets	<u>\$ 4,367,924</u>	<u>\$ 3,847,188</u>

State of Kansas  
**Management's Discussion and Analysis**  
June 30, 2011

**Changes in Net Assets – Primary Government**

Net assets increased by \$248.4 million. Approximately 50.1 percent of the total revenue came from taxes, while 33.5 percent resulted from grants and contributions (including federal aid). Charges for various goods and services provided 10.4 percent of the total revenues. Expenses cover a range of services. The largest expenses of total expenses were for education (37.5 percent), human resources (29.8 percent), and general government (8.0 percent).

**State of Kansas Changes in Net Assets – Primary Government**  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 761,038	\$ 712,466	\$ 718,366	\$ 625,107	\$ 1,479,404	\$ 1,337,573
Operating grants and contributions	4,333,559	4,190,596	750	26	4,334,309	4,190,622
Capital grants and contributions	362,412	302,732	43,716	41,305	406,128	344,037
General revenues:						
Taxes						
Property taxes	610,463	625,862	0	0	610,463	625,862
Income and inheritance taxes	3,033,559	2,562,404	0	0	3,033,559	2,562,404
Sales and excise taxes	3,289,025	2,764,218	0	0	3,289,025	2,764,218
Gross receipts taxes	161,280	139,813	0	0	161,280	139,813
Investment earnings	48,684	30,229	39,149	32,033	87,833	62,262
Other revenue	237,319	278,082	524,020	809,001	761,339	1,087,083
Total revenues	<u>12,837,339</u>	<u>11,606,402</u>	<u>1,326,001</u>	<u>1,507,472</u>	<u>14,163,340</u>	<u>13,113,874</u>
<b>Expenses:</b>						
General government	1,084,268	851,373	0	0	1,084,268	851,373
Human resources	4,053,711	3,785,792	0	0	4,053,711	3,785,792
Education	5,091,475	5,028,780	0	0	5,091,475	5,028,780
Public safety	711,734	786,682	0	0	711,734	786,682
Agriculture and natural resources	105,710	109,672	0	0	105,710	109,672
Highways and other transportation	885,153	516,629	0	0	885,153	516,629
Health and environment	258,964	232,955	0	0	258,964	232,955
Economic development	0	0	0	0	0	0
Interest expense	144,443	144,125	0	0	144,443	144,125
Water pollution and safety	0	0	44,780	33,366	44,780	33,366
Health care stabilization	0	0	30,286	30,347	30,286	30,347
Employment security	0	0	971,158	1,381,286	971,158	1,381,286
Workers' compensation	0	0	5,217	4,540	5,217	4,540
Lottery	0	0	199,015	184,080	199,015	184,080
Intergovernmental transfer program	0	0	170	139	170	139
Transportation revolving fund	0	0	3,429	4,561	3,429	4,561
Total expenses	<u>12,335,458</u>	<u>11,456,008</u>	<u>1,254,055</u>	<u>1,638,319</u>	<u>13,589,513</u>	<u>13,094,327</u>
Increase (decrease) in net assets before						
transfers	501,881	150,394	71,946	(130,847)	573,827	19,547
Transfers	69,530	81,784	(69,530)	(81,784)	0	0
Change in net assets	<u>571,411</u>	<u>232,178</u>	<u>2,416</u>	<u>(212,631)</u>	<u>573,827</u>	<u>19,547</u>
Net assets, beginning of year	9,966,548	9,759,073	560,932	773,563	10,527,480	10,532,636
Revisions to beginning net assets	(325,399)	(24,703)	(11)	0	(325,410)	(24,703)
Net assets, beginning of year (restated)	<u>9,641,149</u>	<u>9,734,370</u>	<u>560,921</u>	<u>773,563</u>	<u>10,202,070</u>	<u>10,507,933</u>
Net assets, end of year	<u>\$ 10,212,560</u>	<u>\$ 9,966,548</u>	<u>\$ 563,337</u>	<u>\$ 560,932</u>	<u>\$ 10,775,897</u>	<u>\$ 10,527,480</u>

State of Kansas  
**Management's Discussion and Analysis**  
June 30, 2011

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**Changes in Net Assets – Component Units**

Component unit net assets increased by \$520.7 million or 13.5 percent. Charges for various goods and services provided 36.3 percent of the total revenues. Approximately 38.2 percent of the total revenue came from other revenue, while 15.1 percent resulted from grants and contributions (including federal aid). Expenses cover a range of services and are shown below by component unit below.

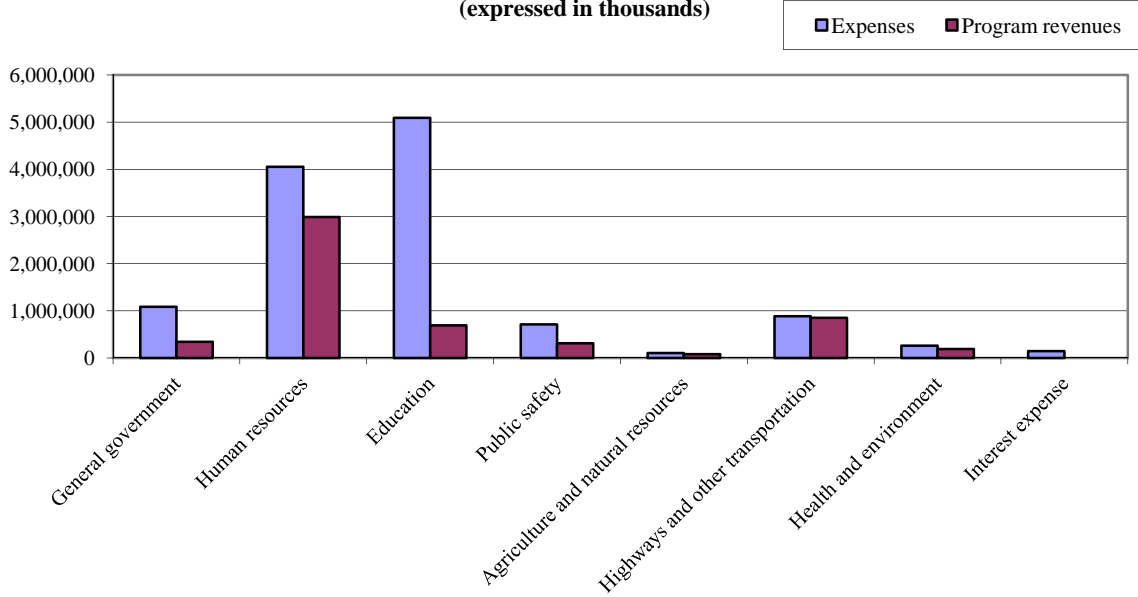
**State of Kansas Changes in Net Assets – Component Unit**  
(expressed in thousands)

	Component Units	
	2011	2010
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 1,269,553	\$ 1,166,550
Operating grants and contributions	401,970	500,672
Capital grants and contributions	126,089	0
General revenues:		
Taxes		
Sales & excise Tax	(1)	
Gross receipts taxes	1,038	882
Investment earnings	365,134	223,511
Other revenue	1,336,216	779,324
Total revenues	3,499,999	2,670,939
<b>Expenses:</b>		
Kansas Development Finance Authority	1,557	1,312
Kansas Technology Enterprise Corp.	13,498	12,032
Kansas Bioscience Authority	32,970	25,971
State University System	2,818,723	2,077,381
Kansas Housing Resources Corp.	132,059	144,213
Total expenses	2,998,807	2,260,909
Change in net assets	501,192	410,030
Net assets, beginning of year	3,847,189	3,434,197
Revisions to beginning net assets	19,543	2,961
Net assets, beginning of year (restated)	3,866,732	3,437,158
Net assets, end of year	\$ 4,367,924	\$ 3,847,188

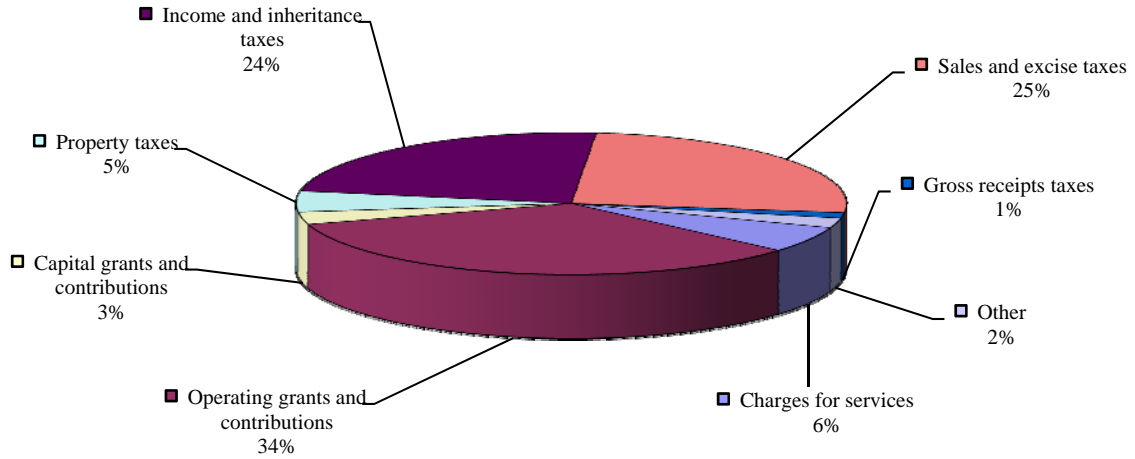
**Governmental Activities**

Governmental activities increased net assets by \$246.0 million in fiscal year 2011. For the State's governmental activities a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:

**Expenses and Program Revenues - Governmental Activities**  
**Fiscal Year Ended June 30, 2011**  
 (expressed in thousands)



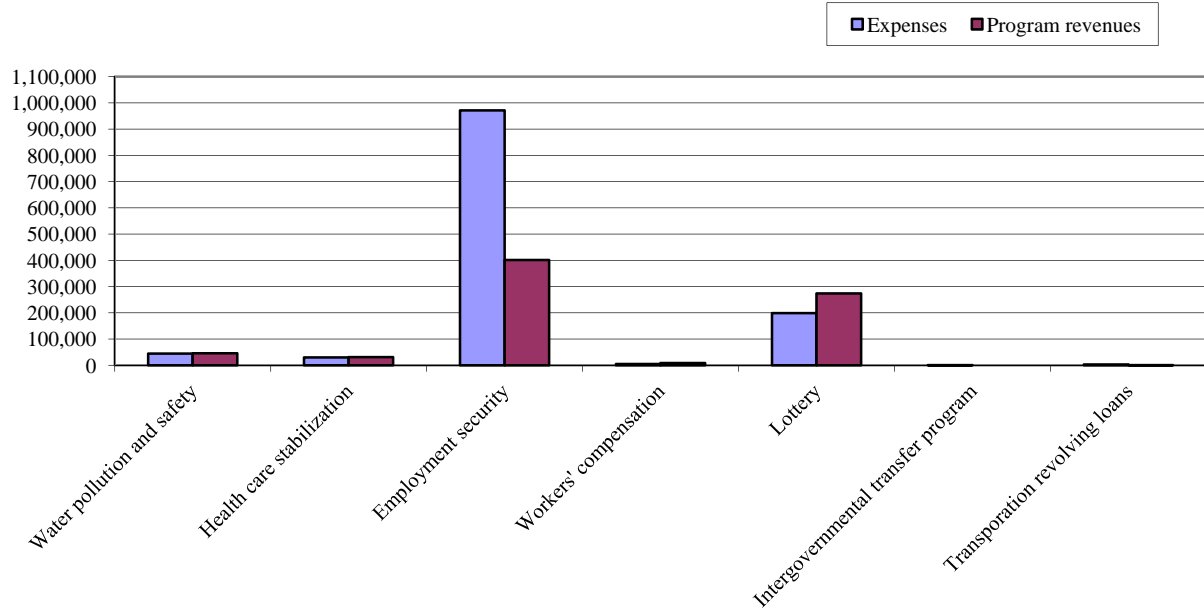
**Revenues by Source - Governmental Activities**  
**Fiscal Year Ended June 30, 2011**



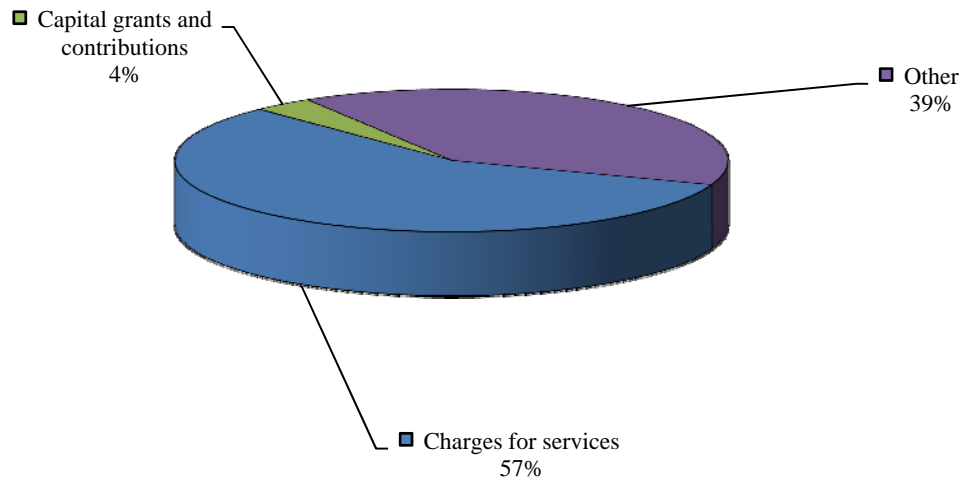
**Business-Type Activities**

The State's business-type activities increased the net assets of the State by \$2.4 million. For the State's business-type activities a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:

**Expenses and Program Revenues - Business-Type Activities**  
**Fiscal Year Ended June 30, 2011**  
 (expressed in thousands)



**Revenues by Source - Business-Type Activities**  
**Fiscal Year Ended June 30, 2011**

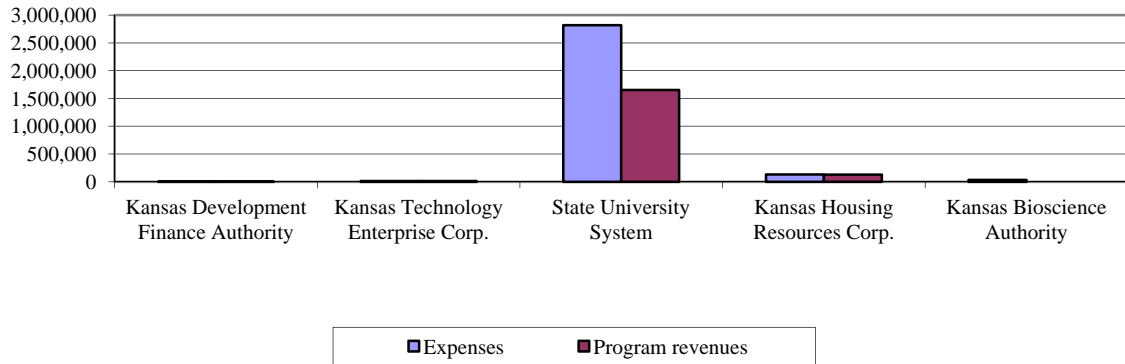




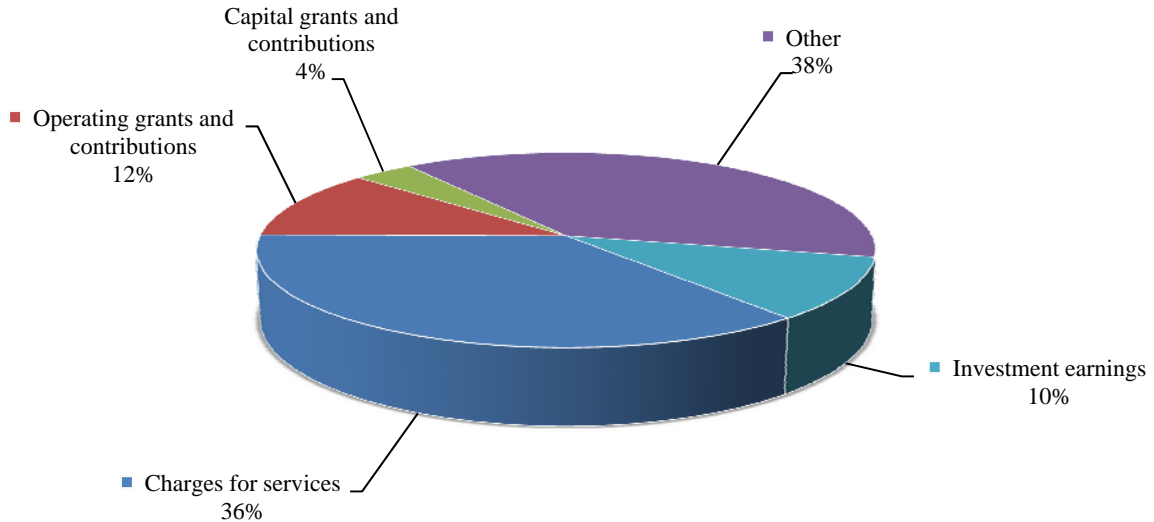
**Component Units**

The State's component units increased the net assets of the State by \$520.7 million. For the State's component units a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:

**Expenses and Program Revenues - Component Units**  
**Fiscal Year Ended June 30, 2011**  
 (expressed in thousands)



**Revenues by Source - Component Units**  
**Fiscal Year Ended June 30, 2011**



## **FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS**

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

### **Governmental Funds**

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the financing requirements.

For fiscal year 2011, the governmental funds reported a combined ending fund balance of \$427.8 million, an increase of \$264.4 million in comparison with the prior year. Part of this fund balance is nonspendable to indicate that it is not available for spending. The major portion of the Fund balance is restricted by the enabling legislation.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unassigned fund balance of the General Fund was a negative \$182.7 million, while the total fund balance reached a negative \$176.1 million. During fiscal year 2011, the State experienced revenue increase in income and inheritance taxes and also in sales and excise taxes. As a result, the cash balance is approximately \$239.9 million higher in fiscal year 2011 than it was in fiscal year 2010. As a measure of liquidity of the General Fund, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents a negative 3.03 percent of total General Fund expenditures, while total fund balance represents a negative 2.92 percent of that same amount. The fund balance in the General Fund increased by \$72.3 million during the current fiscal year.

### **Proprietary Funds**

Proprietary funds provide the same type of information found in the government-wide financial statements.

As discussed in the business-type activities previously, the State's net assets increased by \$2.4 million as a result of operations in the proprietary funds. This increase resulted from \$32.5 million increase in the Water Funds, \$10.6 million increase in the Health Care Stabilization Fund, and \$24.8 million increase in net asset of Other Nonmajor Funds. There was a decrease of \$65.5 million in Unemployment Insurance Fund.

### **Component Unit Funds**

Although legally separate from the State, component units are financially accountable to the State, or their relationships are such that exclusion would cause the State's financial statements to be misleading or incomplete. Component units are reported in its own column on the financial statements.

The State's component unit net assets increased by \$520.7 million. Most of this increase resulted from the State University System with an increase of \$516.4 million, the Kansas BioScience Authority with an increase of \$5.7 million in the net assets. The other three component units accounted for \$1.4 million decrease in net assets.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences existed between the original budget and the final budget. Revenue estimates were increased by approximately \$684.7 million and expenditure estimates were reduced by approximately \$82.1 million. The original estimates provided for revenues less than expenditures of \$670.2 million. The final budget provided for \$96.7 million of revenues over expenditures. Subsequently, fiscal year 2011 was closed with revenues over expenditures of \$215.7 million.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

State investment in capital assets for its governmental and business-type activities as of June 30, 2011, amounts to \$12.7 billion. This investment in capital assets includes land, buildings, improvements, equipment, intangible assets, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and of value only to the State, such as roads and bridges.

The Kansas Department of Transportation (KDOT) used the modified approach for valuing their infrastructure. The roadways' conditions are assessed using a pavement management system. The bridges' conditions are assessed using the Pontis Bridge Management System. The conditions for the roadways and the bridges exceeded KDOT's policy for minimum condition levels.

The total decreased in the investment in capital assets for its governmental and business-type activities for the current fiscal year was 1.29 percent in terms of net book value. The majority of capital asset expenditures were used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$106.9 million. Additional information on the capital assets can be found in Note III of the notes to the financial statements of this report.

### **Debt Administration**

The State does not have the statutory authority to issue general obligation bonds. The Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

Kansas Development Finance Authority (KDFA) is a public body politic and corporate, constituting an independent instrumentality of the State. It was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

The total long-term bond debt obligations increased by \$265.5 million during the current fiscal year. The key factor in this increase was the issuance of new bonds during the year. Bonds issued over \$50 million during the year include \$325 million for the Department of Transportation (KDOT), KDOT Series 2010A and \$267.34 million in total for the Clean Water and Public Water Supply Revolving Loan Funds, KDFA Series 2010SRF-1, 2, 3, (CW and DW) and KDFA Series 2011SRF DW-1 and 2.

Additional information on long-term debt obligations can be found in Note III of the notes to the financial statements of this report.

## **ECONOMIC FACTORS**

The Kansas economy continued to experience challenges in fiscal year 2011. According to the Kansas Department of Labor *Kansas Labor Market Information News Release* for July, 2011, employment for nonfarm jobs in the State of Kansas for June 2011 is decreasing. Compared to June 2010, employment decreased by 7,400 jobs for a total of 1.33 million nonfarm jobs. The unemployment rate was 6.7 percent for June 2011, compared to 6.9 percent in June 2010. Further information regarding the State's economic condition can be found in Note IV of the notes to the financial statements of this report.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of State finances for all of Kansas's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate State accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Martin Eckhardt, Director  
Office of Management Analysis and Standards  
900 S.W. Jackson, Room 351S  
Landon State Office Building  
Topeka, KS 66612-1248

# **Financial Statements**

State of Kansas  
**Financial Statements**  
June 30, 2011

**Government Wide - Statement of Net Assets**

**June 30, 2011**

*(expressed in thousands)*

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Totals	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,111,840	\$ 254,764	\$ 1,366,604	\$ 685,986
Investments	45,641	241,628	287,269	70,878
Receivables (net)	994,757	966,204	1,960,961	394,832
Due from primary government:				
Investment in direct financing leases, due within one year	0	0	0	13,915
Investment in direct financing leases, due in more than one year	0	0	0	76,245
Internal balances	5,153	(5,153)	0	0
Inventories	30,588	1,731	32,319	24,508
Other current assets	0	0	0	42,857
Restricted cash and cash equivalents	401,762	219,431	621,193	140,969
Restricted investments	7,841	75,018	82,859	2,333,379
Capital assets (net of accumulated depreciation)	2,408,302	6,194	2,414,496	2,000,954
Infrastructure	10,264,734	0	10,264,734	0
Other noncurrent assets	66,170	14,575	80,745	74,579
<b>Total assets</b>	<u>15,336,788</u>	<u>1,774,392</u>	<u>17,111,180</u>	<u>5,859,102</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	1,184,467	29,304	1,213,771	267,026
Due to component unit:				
Lease revenue bonds payable, due within one year	13,915	0	13,915	0
Lease revenue bonds payable, due in more than one year	76,245	0	76,245	0
Unearned revenue	13,740	3,749	17,489	125,490
Bonds payable on demand	641,725	0	641,725	0
Derivative instruments	46,876	0	46,876	0
Noncurrent liabilities:				
Due within one year	270,782	68,355	339,137	131,941
Due in more than one year	2,832,106	905,785	3,737,891	965,376
Notes payable	829	0	829	1,345
Claims and judgements	43,543	203,862	247,405	0
<b>Total liabilities</b>	<u>5,124,228</u>	<u>1,211,055</u>	<u>6,335,283</u>	<u>1,491,178</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	9,219,935	6,172	9,226,107	1,321,479
Restricted for:				
Capital projects	33,134	0	33,134	63,819
Debt service	101,204	15,277	116,481	36,362
Highways and other transportation	274,710	0	274,710	0
Other purposes	460,630	451,040	911,670	986,325
Unrestricted	122,947	90,848	213,795	1,959,939
<b>Total net assets</b>	<u>\$ 10,212,560</u>	<u>\$ 563,337</u>	<u>\$ 10,775,897</u>	<u>\$ 4,367,924</u>

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

State of Kansas  
**Financial Statements**  
June 30, 2011

**Government Wide - Statement of Activities**  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
<b>1 Primary government:</b>				
2 Governmental activities:				
3 General government	\$ 1,084,268	\$ 255,045	\$ 93,722	\$ (5,918)
4 Human resources	4,053,711	192,683	2,796,928	(1,450)
5 Education	5,091,475	7,110	689,818	(4,849)
6 Public safety	711,734	40,018	280,310	(7,643)
7 Agriculture and natural resources	105,710	59,949	24,530	(4,155)
8 Highways and other transportation	885,153	178,492	285,940	386,427
9 Health and environment	258,964	27,741	162,311	0
10 Interest expense	144,443	0	0	0
11 Total governmental activities	<u>12,335,458</u>	<u>761,038</u>	<u>4,333,559</u>	<u>362,412</u>
12 Business-type activities:				
13 Water pollution and safety	44,780	2,368	0	43,688
14 Health care stabilization	30,286	31,570	0	0
15 Employment security	971,158	400,727	750	0
16 Workers' compensation	5,217	9,004	0	0
17 Lottery	199,015	273,967	0	28
18 Intergovernmental transfer program	170	0	0	0
19 Transportation revolving loans	3,429	730	0	0
20 Total business-type activities	<u>1,254,055</u>	<u>718,366</u>	<u>750</u>	<u>43,716</u>
21 <b>Total primary government</b>	<u>\$ 13,589,513</u>	<u>\$ 1,479,404</u>	<u>\$ 4,334,309</u>	<u>\$ 406,128</u>
22				
23 <b>Component units:</b>				
24 Kansas Development Finance Authority	\$ 1,557	\$ 1,967	\$ 0	\$ 0
25 Kansas Technology Enterprise Corporation	13,498	1,044	11,733	0
26 Kansas Bioscience Authority	32,970	0	0	0
27 State University System	2,818,723	1,262,546	387,967	3,117
28 Kansas Housing Resources Corporation	132,059	3,996	2,270	122,972
29 <b>Total component units</b>	<u>\$ 2,998,807</u>	<u>\$ 1,269,553</u>	<u>\$ 401,970</u>	<u>\$ 126,089</u>

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

State of Kansas  
**Financial Statements**  
June 30, 2011

Primary Government				
Governmental Activities	Business-Type Activities	Total	Component Units	
				1
				2
\$ (741,419)	\$ 0	\$ (741,419)	\$ 0	3
(1,065,550)	0	(1,065,550)	0	4
(4,399,396)	0	(4,399,396)	0	5
(399,049)	0	(399,049)	0	6
(25,386)	0	(25,386)	0	7
(34,294)	0	(34,294)	0	8
(68,912)	0	(68,912)	0	9
(144,443)	0	(144,443)	0	10
<u>(6,878,449)</u>	<u>0</u>	<u>(6,878,449)</u>	<u>0</u>	11
				12
0	1,276	1,276	0	13
0	1,284	1,284	0	14
0	(569,681)	(569,681)	0	15
0	3,787	3,787	0	16
0	74,980	74,980	0	17
0	(170)	(170)	0	18
0	(2,699)	(2,699)	0	19
0	(491,223)	(491,223)	0	20
<u>\$ (6,878,449)</u>	<u>\$ (491,223)</u>	<u>\$ (7,369,672)</u>	<u>\$ 0</u>	21
				22
				23
\$ 0	\$ 0	\$ 0	\$ 410	24
0	0	0	(721)	25
0	0	0	(32,970)	26
0	0	0	(1,165,093)	27
0	0	0	(2,821)	28
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(1,201,195)</u>	29

**General revenues:**

Taxes:				
Property tax	\$ 610,463	\$ 0	\$ 610,463	\$ 0
Income and inheritance tax	3,033,559	0	3,033,559	0
Sales and excise tax	3,289,025	0	3,289,025	(1)
Gross receipts tax	161,280	0	161,280	1,038
Investment earnings	48,684	39,149	87,833	365,134
Other revenue	237,319	524,020	761,339	1,336,216
Transfers	69,530	(69,530)	0	0
<b>Total general revenues</b>	<u>7,449,860</u>	<u>493,639</u>	<u>7,943,499</u>	<u>1,702,387</u>
Change in net assets	<u>571,411</u>	<u>2,416</u>	<u>573,827</u>	<u>501,192</u>
Net assets - beginning	9,966,548	560,932	10,527,480	3,847,189
Revisions to beginning net assets	(325,399)	(11)	(325,410)	19,543
Net assets - beginning (restated)	<u>9,641,149</u>	<u>560,921</u>	<u>10,202,070</u>	<u>3,866,732</u>
Net assets - ending	<u>\$10,212,560</u>	<u>\$ 563,337</u>	<u>\$ 10,775,897</u>	<u>\$ 4,367,924</u>

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



State of Kansas  
**Financial Statements**  
June 30, 2011

**Balance Sheet - Governmental Funds**  
**June 30, 2011**  
*(expressed in thousands)*

ASSETS	General	Social and Rehabilita- tion	Transporta- tion	Health Policy Authority	Transporta- tion-Capital Projects	Other Governmental Funds	Total Governmental
Cash and cash equivalents	\$ 245,203	\$ 74,274	\$ 260,237	\$ (8,100)	\$ 0	\$ 496,525	\$ 1,068,139
Investments	0	0	3,000	0	39,961	0	42,961
Receivables, net	683,925	77,985	84,361	73,887	16	72,309	992,483
Due from other funds	6,068	0	85	0	0	22,102	28,255
Inventories	6,620	0	23,968	0	0	0	30,588
Advances to other funds	0	0	0	0	0	67,317	67,317
Restricted cash and cash equivalents	0	0	12,200	0	222,284	167,278	401,762
Restricted investments	0	0	0	0	0	7,841	7,841
<b>Total assets</b>	<b>\$ 941,816</b>	<b>\$ 152,259</b>	<b>\$ 383,851</b>	<b>\$ 65,787</b>	<b>\$ 262,261</b>	<b>\$ 833,372</b>	<b>\$ 2,639,346</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable and other current liabilities	\$ 719,323	\$ 94,432	\$ 75,529	\$ 82,106	\$ 0	\$ 158,290	\$ 1,129,680
Due to other funds	20,286	188	0	0	0	635	21,109
Deferred revenue	314,071	31	35,546	0	0	1,692	351,340
Advances from other funds	64,199	1,408	0	0	0	2,047	67,654
Bonds payable on demand	0	0	0	0	641,725	0	641,725
Total liabilities	1,117,879	96,059	111,075	82,106	641,725	162,664	2,211,508
Fund balances:							
<b>Nonspendable:</b>							
Nonspendable	6,620	0	23,968	0	0	0	30,588
<b>Restricted for;</b>							
Capital Projects	0	0	0	0	0	33,134	33,134
Debt Service	0	0	0	0	0	101,204	101,204
General government	0	0	0	0	0	243,636	243,636
Human resources	0	56,200	0	0	0	22,574	78,774
Education	0	0	0	0	0	8,959	8,959
Public Safety	0	0	0	0	0	40,305	40,305
Agriculture and natural resources	0	0	0	0	0	47,663	47,663
Highways and other transportation	0	0	248,808	0	0	25,902	274,710
Health and environment	0	0	0	0	0	41,293	41,293
<b>Assigned to:</b>							
Debt Service	0	0	0	0	0	106,038	106,038
<b>Unassigned</b>							
Unassigned	(182,683)	0	0	(16,319)	(379,464)	0	(578,466)
Total fund balance	(176,063)	56,200	272,776	(16,319)	(379,464)	670,708	427,838
<b>Total liabilities and fund balance</b>	<b>\$ 941,816</b>	<b>\$ 152,259</b>	<b>\$ 383,851</b>	<b>\$ 65,787</b>	<b>\$ 262,261</b>	<b>\$ 833,372</b>	<b>\$ 2,639,346</b>

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

(Continued)

State of Kansas  
**Financial Statements**  
June 30, 2011

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**Balance Sheet - Governmental Funds - Continued**  
**June 30, 2011**  
*(expressed in thousands)*

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	<u>Total Governmental</u>
<b>Reconciliation to the Statement of Net Assets:</b>	
Total fund balance from previous page	\$ 427,838
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds:	
Capital assets	2,408,302
Infrastructure	10,264,734
Internal service funds included in above	(115,074)
Other non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Derivatives	2,680
Noncurrent assets	66,169
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Notes payable	(20,031)
Capital leases payable	(53,671)
Revenue bonds payable	(2,412,899)
Star bonds	(225,548)
Pollution Remediation	(73,660)
Unamortized premium discount	(28,083)
Unamortized deferred refunding	5,102
Other post employment benefits	(47,188)
Compensated absences	(124,364)
Due to component unit (lease revenue bonds payable)	(90,160)
Arbitrage and derivative liabilities	(47,703)
Deferred revenue	337,600
Accrued accounts payable	(38,168)
Accrued interest	(12,205)
Internal Service Funds: the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(11,111)
Net assets of governmental activities as reported on the Statement of Net Assets.	\$ 10,212,560

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

State of Kansas  
**Financial Statements**  
June 30, 2011

**Statement of Revenues, Expenditures and Changes in Fund Balances -  
Governmental Funds  
For the Fiscal Year Ended June 30, 2011  
(expressed in thousands)**

	General	Social and Rehabilita- tion	Transporta- tion	Health Policy Authority	Transporta- tion-Capital Projects	Other Governmental Funds	Total Governmental
<b>Revenues:</b>							
Property tax	\$ 559,952	\$ 0	\$ 0	\$ 0	\$ 0	\$ 48,707	\$ 608,659
Income and inheritance tax	2,992,891	0	0	0	0	11,104	3,003,995
Sales and excise tax	2,612,260	2,754	579,970	0	0	63,858	3,258,842
Gross receipts tax	142,624	0	0	0	0	18,485	161,109
Charges for services	43,834	120,155	178,492	59,042	0	350,569	752,092
Operating grants	0	860,289	282,789	1,900,743	0	1,291,249	4,335,070
Capital grants	0	0	387,953	0	0	616	388,569
Investment earnings	34,104	79	1,082	86	1,115	5,704	42,170
Other revenues	(96,335)	11,298	4,754	159,174	0	134,558	213,449
<b>Total revenues</b>	<u>6,289,330</u>	<u>994,575</u>	<u>1,435,040</u>	<u>2,119,045</u>	<u>1,115</u>	<u>1,924,850</u>	<u>12,763,955</u>
<b>Expenditures:</b>							
Current:							
General government	568,406	0	0	0	0	484,282	1,052,688
Human resources	853,372	1,882,640	0	1,196,650	0	108,044	4,040,706
Education	4,206,181	0	0	0	0	884,805	5,090,986
Public safety	357,128	0	0	0	0	363,420	720,548
Agriculture and natural resources	17,907	0	0	0	0	96,770	114,677
Highways and other transportation	0	0	998,209	0	0	24,123	1,022,332
Health and environment	29,148	0	0	0	0	229,991	259,139
Debt service:							
Principal	0	0	0	0	0	187,832	187,832
Interest	35	0	0	0	0	153,258	153,293
<b>Total expenditures</b>	<u>6,032,177</u>	<u>1,882,640</u>	<u>998,209</u>	<u>1,196,650</u>	<u>0</u>	<u>2,532,525</u>	<u>12,642,201</u>
<b>Excess of revenues over (under) expenditures</b>	<u>257,153</u>	<u>(888,065)</u>	<u>436,831</u>	<u>922,395</u>	<u>1,115</u>	<u>(607,675)</u>	<u>121,754</u>
<b>Other financing sources (uses):</b>							
Proceeds from sale of debt	0	0	0	0	325,000	45,053	370,053
Transfers, net	76,327	918,515	(420,449)	(930,517)	(41,264)	472,459	75,071
<b>Total other financing sources (uses)</b>	<u>76,327</u>	<u>918,515</u>	<u>(420,449)</u>	<u>(930,517)</u>	<u>283,736</u>	<u>517,512</u>	<u>445,124</u>
<b>Net change in fund balances</b>	<u>333,480</u>	<u>30,450</u>	<u>16,382</u>	<u>(8,122)</u>	<u>284,851</u>	<u>(90,163)</u>	<u>566,878</u>
Fund balances, beginning of year	(248,320)	48,388	257,154	9,514	(664,315)	760,964	163,385
Revisions to beginning fund balances	(261,223)	(22,638)	0	(17,711)	0	(93)	(301,665)
Fund balances, beginning of year (restated)	<u>(509,543)</u>	<u>25,750</u>	<u>257,154</u>	<u>(8,197)</u>	<u>(664,315)</u>	<u>760,871</u>	<u>(138,280)</u>
Change in reserves for inventory	0	0	(760)	0	0	0	(760)
<b>Fund balances, end of year</b>	<u>\$(176,063)</u>	<u>\$ 56,200</u>	<u>\$ 272,776</u>	<u>\$ (16,319)</u>	<u>\$ (379,464)</u>	<u>\$ 670,708</u>	<u>\$ 427,838</u>

(Continued)

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

State of Kansas  
**Financial Statements**  
June 30, 2011

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**Reconciliation of the Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

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	<u>Total Governmental</u>
<b>Reconciliation to the Statement of Activities:</b>	
Total net change in fund balance from previous page	\$ 566,878
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	
Deferred revenue	40,797
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets:	
Revenue bond proceeds	(368,455)
Bond premiums and discounts	(216)
Other borrowings	(1,382)
Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.	
Retirement of Bonds	187,832
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets	176,394
Cost of acquisition of infrastructure, net of value replaced	140,167
Depreciation expense	(83,721)
Gain (Loss) on asset disposal and other items	12,065
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Compensated absences	3,569
Pollution remediation	(2,724)
Accrued interest	8,609
Deferred charges	(43,955)
Change in inventory for materials and supplies	(760)
Principal on capital leases	9,732
Other expenses	(70,162)
Arbitrage rebate payable	(427)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	(2,830)
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities	<u>\$ 571,411</u>

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

State of Kansas  
**Financial Statements**  
June 30, 2011

**Statement of Net Assets - Proprietary Funds**  
**June 30, 2011**  
*(expressed in thousands)*

	Business-Type Activities				Total	Governmental Activities - Internal Service Funds
	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor Funds		
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 233,192	\$ 1,040	\$ 3,288	\$ 17,244	\$ 254,764	\$ 43,703
Restricted cash and cash equivalents	0	161,533	0	32,148	193,681	0
Investments, restricted	23,203	0	23,633	0	46,836	0
Receivables, net	51,361	10,842	6,519	21,598	90,320	763
Other current assets	0	0	0	1,731	1,731	0
Total current assets	<u>307,756</u>	<u>173,415</u>	<u>33,440</u>	<u>72,721</u>	<u>587,332</u>	<u>44,466</u>
Noncurrent assets:						
Restricted cash and cash equivalents	25,750	0	0	0	25,750	0
Investments	0	0	226,351	15,277	241,628	0
Investments, restricted	28,182	0	0	0	28,182	0
Receivables, net	790,549	0	0	85,335	875,884	1,512
Advances to other funds	0	0	0	1,000	1,000	0
Capital assets (net of accumulated depreciation)	0	0	22	6,172	6,194	115,074
Other noncurrent assets	13,885	0	0	690	14,575	0
Total noncurrent assets	<u>858,366</u>	<u>0</u>	<u>226,373</u>	<u>108,474</u>	<u>1,193,213</u>	<u>116,586</u>
<b>Total assets</b>	<u><b>\$1,166,122</b></u>	<u><b>\$ 173,415</b></u>	<u><b>\$ 259,813</b></u>	<u><b>\$ 181,195</b></u>	<u><b>\$ 1,780,545</b></u>	<u><b>\$ 161,052</b></u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other current liabilities	\$ 10,841	\$ 7,978	\$ 124	\$ 10,361	\$ 29,304	\$ 4,419
Deferred revenue	0	0	0	3,749	3,749	0
Due to other funds	0	0	0	6,153	6,153	993
Short-term compensated absences	0	0	54	6	60	1,544
Short-term portion of long-term liabilities	43,520	0	12,349	12,426	68,295	53,556
Total current liabilities	<u>54,361</u>	<u>7,978</u>	<u>12,527</u>	<u>32,695</u>	<u>107,561</u>	<u>60,512</u>
Noncurrent liabilities:						
Compensated absences	0	0	12	1	13	330
Claims and judgements	0	0	177,311	26,551	203,862	43,543
Bonds, notes and loans payable	643,123	170,821	0	73,757	887,701	67,115
Arbitrage rebate payable	0	0	0	173	173	0
Other noncurrent liabilities	17,598	0	27	273	17,898	0
Advances from other funds	0	0	0	0	0	663
Total noncurrent liabilities	<u>660,721</u>	<u>170,821</u>	<u>177,350</u>	<u>100,755</u>	<u>1,109,647</u>	<u>111,651</u>
<b>Total liabilities</b>	<u><b>715,082</b></u>	<u><b>178,799</b></u>	<u><b>189,877</b></u>	<u><b>133,450</b></u>	<u><b>1,217,208</b></u>	<u><b>172,163</b></u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	0	0	22	6,172	6,194	115,066
Restricted for:						
Debt service	0	0	0	15,277	15,277	0
Other purposes	451,040	0	0	0	451,040	0
Unrestricted	0	(5,384)	69,914	26,296	90,826	(126,177)
<b>Total net assets</b>	<u><b>451,040</b></u>	<u><b>(5,384)</b></u>	<u><b>69,936</b></u>	<u><b>47,745</b></u>	<u><b>563,337</b></u>	<u><b>(11,111)</b></u>
<b>Total liabilities and net assets</b>	<u><b>\$1,166,122</b></u>	<u><b>\$ 173,415</b></u>	<u><b>\$ 259,813</b></u>	<u><b>\$ 181,195</b></u>	<u><b>\$ 1,780,545</b></u>	<u><b>\$ 161,052</b></u>

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

State of Kansas  
**Financial Statements**  
June 30, 2011

**Statement of Revenues, Expenses, and Changes in  
Fund Net Assets - Proprietary Funds  
For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Business-Type Activities					Governmental Activities - Internal Service Funds
	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor Funds	Total	
<b>OPERATING REVENUES</b>						
Charges for services	\$ 2,368	\$ 400,727	\$ 31,570	\$283,701	\$ 718,366	\$ 91,741
Other revenue	2,513	516,958	500	4,048	524,019	26,232
<b>Total operating revenues</b>	<u>4,881</u>	<u>917,685</u>	<u>32,070</u>	<u>287,749</u>	<u>1,242,385</u>	<u>117,973</u>
<b>OPERATING EXPENSES</b>						
Salaries and wages	0	0	1,234	5,198	6,432	31,303
Supplies and services	0	0	4,150	46,329	50,479	32,226
Lottery prize awards	0	0	0	141,317	141,317	0
Depreciation	0	0	4	2,254	2,258	23,383
Insurance claims and expenses	0	969,024	0	1,937	970,961	25,776
Program administration - Water Funds	3,352	0	0	0	3,352	0
Other expenses	11,320	45	24,898	2,593	38,856	4
<b>Total operating expenses</b>	<u>14,672</u>	<u>969,069</u>	<u>30,286</u>	<u>199,628</u>	<u>1,213,655</u>	<u>112,692</u>
<b>Operating income (loss)</b>	<u>(9,791)</u>	<u>(51,384)</u>	<u>1,784</u>	<u>88,121</u>	<u>28,730</u>	<u>5,281</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants	0	750	0	0	750	0
Capital grants	43,688	0	0	28	43,716	(327)
Investment earnings	28,721	385	9,087	956	39,149	55
Interest expense	(30,108)	(2,842)	0	(3,371)	(36,321)	(2,949)
Other revenues (expenses)	0	753	1	(4,832)	(4,078)	(13)
<b>Total nonoperating revenues (expenses)</b>	<u>42,301</u>	<u>(954)</u>	<u>9,088</u>	<u>(7,219)</u>	<u>43,216</u>	<u>(3,234)</u>
<b>Net income (loss)</b>	<u>32,510</u>	<u>(52,338)</u>	<u>10,872</u>	<u>80,902</u>	<u>71,946</u>	<u>2,047</u>
Transfers in	0	1,357,017	0	45,820	1,402,837	4,648
Transfers out	0	(1,370,217)	(202)	(101,948)	(1,472,367)	(9,525)
<b>Net change in net assets</b>	<u>32,510</u>	<u>(65,538)</u>	<u>10,670</u>	<u>24,774</u>	<u>2,416</u>	<u>(2,830)</u>
Total net assets - beginning	418,530	60,154	59,277	22,971	560,932	(8)
Revisions to beginning net assets	0	0	(11)	0	(11)	(8,273)
Net assets - beginning (restated)	<u>418,530</u>	<u>60,154</u>	<u>59,266</u>	<u>22,971</u>	<u>560,921</u>	<u>(8,281)</u>
<b>Total net assets - ending</b>	<u>\$451,040</u>	<u>\$ (5,384)</u>	<u>\$ 69,936</u>	<u>\$ 47,745</u>	<u>\$ 563,337</u>	<u>\$ (11,111)</u>

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

State of Kansas  
**Financial Statements**  
June 30, 2011

**Statement of Cash Flows - Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor Funds	Totals	Governmental Activities - Internal Service Funds
<b>Cash flows from operating activities:</b>						
Cash receipts from customers	\$ 25,266	\$ 915,111	\$ 31,866	\$ 301,137	\$ 1,273,380	\$ 117,416
Cash payments to suppliers for goods and services	(2,538)	(239)	(4,100)	(47,260)	(54,137)	(43,831)
Cash payments to employees for services	0	0	(1,214)	(5,268)	(6,482)	(31,275)
Cash payments for lottery prizes	0	0	0	(140,062)	(140,062)	0
Claims paid	0	(968,299)	(19,208)	(1,869)	(989,376)	(23,588)
Other operating revenues	92,806	0	0	1,050	93,856	0
Other operating expenses	(112,499)	0	0	(5,158)	(117,657)	0
<b>Net cash provided (used) by operating activities</b>	<u>3,035</u>	<u>(53,427)</u>	<u>7,344</u>	<u>102,570</u>	<u>59,522</u>	<u>18,722</u>
<b>Cash flows from noncapital financing activities:</b>						
Operating grants receipts	0	750	0	28	778	0
Other non-operating expenses	0	753	(1)	(4,900)	(4,148)	(13)
Net transfers to other funds	0	(13,683)	(202)	(54,597)	(68,482)	(4,877)
Other cash inflows-loan receipts, bond proceeds, etc.	356,537	82,662	0	0	439,199	186
Other cash outflows-loan advances, debt repayment, etc.	(284,596)	0	0	0	(284,596)	(1,810)
<b>Net cash provided (used) by noncapital financing activities</b>	<u>71,941</u>	<u>70,482</u>	<u>(203)</u>	<u>(59,469)</u>	<u>82,751</u>	<u>(6,514)</u>
<b>Cash flows from capital and related financing activities:</b>						
Proceeds from issuance of long-term debt	0	0	0	0	0	0
Repayment of long-term debt	0	0	0	(7,427)	(7,427)	(2,132)
Interest payments	0	0	0	(3,209)	(3,209)	(3,238)
Payments for purchase of capital assets	0	0	0	(95)	(95)	(6,289)
Other cash inflows from capital and related financing activities	0	0	0	(212)	(212)	(327)
<b>Net cash provided (used) by capital and related financing activities</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(10,943)</u>	<u>(10,943)</u>	<u>(11,986)</u>
<b>Cash flows from investing activities:</b>						
Proceeds from sale and maturities of investment securities	4,717	0	28,420	0	33,137	0
Purchase of investments	(34)	0	(45,145)	0	(45,179)	0
Interest and dividends	3,837	385	9,815	993	15,030	57
<b>Net cash provided (used) by investing activities</b>	<u>8,520</u>	<u>385</u>	<u>(6,910)</u>	<u>993</u>	<u>2,988</u>	<u>57</u>
Net increase in cash and cash equivalents	83,496	17,440	231	33,151	134,318	279
Cash and cash equivalents, beginning of year	175,446	145,133	3,057	16,241	339,877	43,424
<b>Cash and cash equivalents, end of year</b>	<u>\$ 258,942</u>	<u>\$ 162,573</u>	<u>\$ 3,288</u>	<u>\$ 49,392</u>	<u>\$ 474,195</u>	<u>\$ 43,703</u>
<b>Reconciliation of operating income (loss) to net cash provided by operations:</b>						
Operating income (loss)	\$ (9,791)	\$ (51,384)	\$ 1,784	\$ 88,121	\$ 28,730	\$ 5,281
<b>Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>						
Depreciation and amortization	0	0	4	2,254	2,258	23,383
Changes in assets and liabilities:						
Receivables	14,079	(2,575)	(204)	11,042	22,342	(557)
Inventories	0	0	0	284	284	486
Accounts payable	(1,253)	(193)	50	(1,426)	(2,822)	(12,087)
Payroll liabilities	0	0	20	(1)	19	29
Claims and judgements	0	725	5,690	68	6,483	2,187
Lottery prize liability	0	0	0	2,228	2,228	0
Total adjustments	<u>12,826</u>	<u>(2,043)</u>	<u>5,560</u>	<u>14,449</u>	<u>30,792</u>	<u>13,441</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 3,035</u>	<u>\$ (53,427)</u>	<u>\$ 7,344</u>	<u>\$ 102,570</u>	<u>\$ 59,522</u>	<u>\$ 18,722</u>

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

State of Kansas  
**Financial Statements**  
June 30, 2011

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**Statement of Fiduciary Net Assets**  
**June 30, 2011**  
*(expressed in thousands)*

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	<u>Pension Trust</u>	<u>Investment Trust</u>	<u>Agency</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,207	\$ 930,217	\$ 335,329
Investments	14,196,994	0	291,729
Receivables, net	3,402,041	0	813,951
Inventories	18	0	0
Capital assets	3,586	0	230
<b>Total assets</b>	<u>17,605,846</u>	<u>930,217</u>	<u>1,441,239</u>
<b>LIABILITIES</b>			
Accounts payable and other liabilities	<u>4,136,993</u>	<u>0</u>	<u>\$ 1,441,239</u>
<b>Total liabilities</b>	<u>4,136,993</u>	<u>0</u>	<u>\$ 1,441,239</u>
<b>NET ASSETS</b>			
Net assets held in trust	<u>\$ 13,468,853</u>	<u>\$ 930,217</u>	

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



State of Kansas  
**Financial Statements**  
June 30, 2011

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**Statement of Changes in Fiduciary Net Assets**  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

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	Pension Trust	Investment Trust
<b>ADDITIONS</b>		
Contributions:		
Employer contributions	\$ 574,638	\$ 0
Employee contributions	294,314	0
Total contributions	868,952	0
Deposits:		
Net investment income	2,499,491	594
MIP deposits	0	3,679,827
Other deposits	191	0
<b>Total additions</b>	<b>3,368,634</b>	<b>3,680,421</b>
<b>DEDUCTIONS</b>		
Benefits and refunds:		
Monthly benefits and refunds	1,147,209	0
Refunds of contributions	49,564	0
Death benefits	9,615	0
Insurance premiums and disability benefits	53,505	0
Distributions	0	3,564,924
Total benefits and refunds	1,259,893	3,564,924
Administrative expenses	9,625	0
<b>Total deductions</b>	<b>1,269,518</b>	<b>3,564,924</b>
Net increase (decrease)	2,099,116	115,497
Net assets - beginning of year	11,369,737	814,720
<b>Net assets - end of year</b>	<b>\$ 13,468,853</b>	<b>\$ 930,217</b>

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

State of Kansas  
**Financial Statements**  
June 30, 2011

**Combining Statement of Net Assets - Component Units**  
**June 30, 2011**  
*(expressed in thousands)*

	Kansas Development Finance Authority	Kansas Technology Enterprise Corporation	Kansas Housing Resources Corporation	Kansas Bioscience Authority	State University System	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 204	\$ 1,385	\$ 2,154	\$ 26,771	\$ 655,472	\$ 685,986
Restricted cash and cash equivalents	0	21	41	0	108,281	108,343
Investments	11,588	0	0	0	0	11,588
Restricted investments	439	0	6,191	25,447	2,293,504	2,325,581
Receivables, net	40	406	2,165	21,956	232,689	257,256
Due from primary government	13,915	0	0	0	0	13,915
Inventories	70	123	151	0	24,164	24,508
Other assets	1	0	1,624	387	40,845	42,857
<b>Total current assets</b>	<b>26,257</b>	<b>1,935</b>	<b>12,326</b>	<b>74,561</b>	<b>3,354,955</b>	<b>3,470,034</b>
Noncurrent assets:						
Restricted cash and cash equivalents	0	0	13	0	32,613	32,626
Investments	0	7,950	0	47,887	3,453	59,290
Restricted investments	0	0	0	0	7,798	7,798
Receivables, net	23	890	2,333	0	134,330	137,576
Due from primary government	76,245	0	0	0	0	76,245
Capital assets (net of accumulated depreciation)	39	53	278	14,522	1,986,062	2,000,954
Other noncurrent assets	0	0	7,803	8,448	58,328	74,579
<b>Total noncurrent assets</b>	<b>76,307</b>	<b>8,893</b>	<b>10,427</b>	<b>70,857</b>	<b>2,222,584</b>	<b>2,389,068</b>
<b>Total assets</b>	<b>\$ 102,564</b>	<b>\$ 10,828</b>	<b>\$ 22,753</b>	<b>\$ 145,418</b>	<b>\$ 5,577,539</b>	<b>\$ 5,859,102</b>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other liabilities	\$ 252	\$ 623	\$ 677	\$ 6,225	\$ 259,249	\$ 267,026
Deferred revenue	439	0	1,625	4	123,422	125,490
Short-term portion of notes payable	0	0	0	0	1,345	1,345
Short-term compensated absences	0	0	183	30	56,666	56,879
Short-term portion of long-term liabilities	13,915	0	0	365	60,782	75,062
<b>Total current liabilities</b>	<b>14,606</b>	<b>623</b>	<b>2,485</b>	<b>6,624</b>	<b>501,464</b>	<b>525,802</b>
Noncurrent liabilities:						
Compensated absences	0	0	0	0	12,221	12,221
Bonds, notes and loans payable	76,245	0	0	0	801,349	877,594
Other noncurrent liabilities	2,606	27	7,924	13,009	51,995	75,561
<b>Total noncurrent liabilities</b>	<b>78,851</b>	<b>27</b>	<b>7,924</b>	<b>13,009</b>	<b>865,565</b>	<b>965,376</b>
<b>Total liabilities</b>	<b>93,457</b>	<b>650</b>	<b>10,409</b>	<b>19,633</b>	<b>1,367,029</b>	<b>1,491,178</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	38	53	277	4,284	1,316,827	1,321,479
Restricted for:						
Capital projects	0	0	0	0	63,819	63,819
Debt service	0	0	0	0	36,362	36,362
Other purposes	0	82	863	5,164	980,216	986,325
Unrestricted	9,069	10,043	11,204	116,337	1,813,286	1,959,939
<b>Total net assets</b>	<b>\$ 9,107</b>	<b>\$ 10,178</b>	<b>\$ 12,344</b>	<b>\$ 125,785</b>	<b>\$ 4,210,510</b>	<b>\$ 4,367,924</b>

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

State of Kansas  
**Financial Statements**  
June 30, 2011

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**Combining Statement of Activities - Component Units**  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

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	Kansas Development Finance Authority	Kansas Technology Enterprise Corporation	Kansas Housing Resources Corporation	Kansas Bioscience Authority	State University System	Total
<b>EXPENSES</b>						
Salaries and wages	\$ 1,001	\$ 3,191	\$ 3,800	\$ 1,865	\$1,687,489	\$1,697,346
Supplies and services	479	1,909	1,412	1,848	543,028	548,676
Depreciation	21	54	142	122	128,175	128,514
Interest expense	56	0	0	0	32,069	32,125
Other expenses	0	8,344	126,705	29,135	427,962	592,146
<b>Total expenses</b>	<u>1,557</u>	<u>13,498</u>	<u>132,059</u>	<u>32,970</u>	<u>2,818,723</u>	<u>2,998,807</u>
<b>PROGRAM REVENUES</b>						
Charges for services	1,967	1,044	3,996	0	1,262,546	1,269,553
Operating grants	0	11,733	2,270	0	387,967	401,970
Capital grants	0	0	122,972	0	3,117	126,089
<b>Total program revenues</b>	<u>1,967</u>	<u>12,777</u>	<u>129,238</u>	<u>0</u>	<u>1,653,630</u>	<u>1,797,612</u>
<b>Net (Expense) Revenue</b>	<u>410</u>	<u>(721)</u>	<u>(2,821)</u>	<u>(32,970)</u>	<u>(1,165,093)</u>	<u>(1,201,195)</u>
<b>GENERAL REVENUES</b>						
Taxes:						
Gross receipts tax	0	0	0	0	1,037	1,037
Investment earnings	407	(854)	289	1,125	364,167	365,134
Other revenues	9	263	1,630	37,570	1,296,744	1,336,216
<b>Total general revenues</b>	<u>416</u>	<u>(591)</u>	<u>1,919</u>	<u>38,695</u>	<u>1,661,948</u>	<u>1,702,387</u>
<b>Change in net assets</b>	<u>826</u>	<u>(1,312)</u>	<u>(902)</u>	<u>5,725</u>	<u>496,855</u>	<u>501,192</u>
Total net assets - beginning	8,281	11,490	13,246	120,060	3,694,112	3,847,189
Revisions to beginning net assets	0	0	0	0	19,543	19,543
Total net assets - beginning (restated)	<u>8,281</u>	<u>11,490</u>	<u>13,246</u>	<u>120,060</u>	<u>3,713,655</u>	<u>3,866,732</u>
<b>Total net assets - ending</b>	<u>\$ 9,107</u>	<u>\$ 10,178</u>	<u>\$ 12,344</u>	<u>\$ 125,785</u>	<u>\$4,210,510</u>	<u>\$4,367,924</u>

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

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## **I. Summary of Significant Accounting Policies**

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The accompanying financial statements of the State of Kansas (the “State”) have been prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the standard setting body for governmental accounting and financial reporting principles.

### **A. Financial Reporting Entity**

The accompanying financial statements present the financial position of the State and the various funds and fund types, the results of operations of the State and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2011, and for the year then ended. The financial statements include the various agencies, boards, commissions, public trusts and authorities and any other organizational units governed by the Kansas State Legislature and/or Constitutional Officers of the State.

The State has considered all potential component units for which it is financially accountable, organizations that raise and hold economic resources for the State, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State’s financial statements to be misleading or incomplete.

As required by generally accepted accounting principles, these financial statements present the State (the primary government) and its component units.

The accompanying financial statements present the activities of State government (the primary government), which is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court, and the District Trial Courts.

### **Discrete Component Units**

Discrete component units are entities that are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State’s financial statements to be misleading or incomplete. The component units are reported in a separate column to emphasize that they are legally separate from the primary government and are governed by separate boards.

Following is a table identifying each discretely presented component unit followed by a brief description of each component unit. Complete financial statements for each of the individual component units may be obtained from their respective administrative offices at the noted addresses.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**I. Summary of Significant Accounting Policies**

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<b><u>Component Unit</u></b>	<b><u>Description: Criteria for Inclusion</u></b>	<b><u>Reporting Method</u></b>	<b><u>For Separate Financial Statements</u></b>
Kansas Development Finance Authority (KDFA)	The State appoints a voting majority of the board of KDFA and has the power to impose its will on KDFA.	Reported as a discrete component unit, because the board is not the same and services are provided to other entities.	Kansas Development Finance Authority 555 South Kansas Avenue, Suite 202 Topeka, Kansas 66603
Kansas Technology Enterprise Corporation (KTEC)	The State appoints a voting majority of the board of KTEC and has the power to impose its will on KTEC. There is a potential for KTEC to impose specific financial burdens or provide specific financial benefits to the State. KTEC is fiscally dependent on the State.	Reported as a discrete component unit, because the board is not the same and services are provided to other entities.	Kansas Technology Enterprise Corporation 214 SW 6 <sup>th</sup> Avenue, Suite 100 Topeka, Kansas 66603
Kansas Housing Resources Corporation (KHRC)	KHRC is a subsidiary corporation of KDFA and a legal entity separate and distinct from KDFA and the State.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Kansas Housing Resources Corporation 611 S. Kansas Avenue, Suite 300 Topeka, Kansas 66603
State University System	The State appoints a voting majority of the Kansas Board of Regents which controls the State universities, and has the power to impose its will on the State universities through the budgeting process.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	The Kansas Board of Regents does not issue separate financial statements. For separate financial statements of a university, contact the respective university or:  Kansas Board of Regents 1000 SW Jackson St., Suite 520 Topeka, KS 66612-1368
Kansas Bioscience Authority (KBA)	The State appoints a voting majority of KBA and has the power to impose its will on KBA.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Kansas Bioscience Authority 25501 West Valley Parkway, Ste 100 Olathe, KS 66061
Kansas Public Employees Retirement System (KPERs)	The State appoints a voting majority of KPERs and has the power to impose its will on KPERs.	Although KPERs is a component unit of the State of Kansas, it is reported as a fiduciary pension trust fund.	Kansas Public Employees Retirement System 611 S. Kansas Ave., Ste 100 Topeka, KS 66603-3803

## **I. Summary of Significant Accounting Policies**

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**Kansas Development Finance Authority (K DFA)** was established by Chapter 57, 1987 Session Laws of Kansas. Its enabling statutes are found in K.S.A. 74-8901 et seq., as amended and supplements. K DFA is a public body politic and corporate, constituting an independent instrumentality of the State. K DFA was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

**Kansas Technology Enterprise Corporation (KTEC)** is a body politic, corporate, and an instrumentality of the State, which was created by the Legislature of the State in March 1986 (K.S.A. 74-8101). The responsibilities and duties of the existing State Office of Advanced Technology were transferred to KTEC effective January 12, 1987. KTEC's principal statutory functions and responsibilities are as follows:

- To foster innovation in existing and developing businesses, especially the creation, growth, and expansion of Kansas enterprises in a diversified range of primary sectors which develop value-added products, processes, and services.
- To invest in basic research, applied research and development, and technology transfer at Kansas educational institutions which meet competitive standards of excellence and which create innovative collaboration between Kansas educational institutions and Kansas enterprises.
- To award applied research matching grants to Kansas educational institutions and Kansas private enterprises in order to move innovation and applied research toward commercial application.
- To engage in seed-capital financing for the development and implementation of innovations or new technologies for existing resource, technology-based, and emerging Kansas businesses.
- To provide technical referral services to such small, new, emerging, or mature businesses and encourage Kansas educational institutions to establish technical information databases and industrial liaison offices, which are easily accessible by both private and public sector Kansas organizations.

**Kansas Housing Resources Corporation (KHRC)** was formed pursuant to K.S.A. 74-8904(v) per the Governor's Executive Reorganization Order #30. KHRC is a subsidiary corporation of the Kansas Development Finance Authority. KHRC's mission is to enhance Kansas communities with housing opportunities. This goal is achieved through using a variety of strategies and approaches, including increasing homeownership opportunities, leveraging the construction of more affordable rental housing, promoting energy efficiency improvements for owner-occupied and rental housing, providing affordable housing through rental assistance to low-income families and senior citizens, and creating housing opportunities for previously underserved persons and communities.

**Kansas Bioscience Authority (KBA)** is an independent instrumentality of the State. Its enabling statutes are found in K.S.A. 74-99b01 et seq. as amended and supplemented. KBA was created on April 19, 2004 with the passage of the Kansas Economic Growth Act, a comprehensive economic development act designed to meet the needs of the changing Kansas economy. KBA was created to make Kansas the most desirable state in which to conduct, facilitate, support, fund and perform bioscience research, development of commercialization, to make Kansas a national leader in bioscience, and to create jobs, foster economic growth, advance scientific knowledge and improve the quality of life for the citizens of the State.

**State University System.** The Kansas State Board of Regents, created in 1859 by adoption of the State Constitution, is responsible for control and supervision of public institutions of higher education which benefit the State. The Kansas Board of Regents is a legally separate body composed of nine members appointed by the Governor. The Board supervises all State universities while budgetary decisions are exercised at the State level. The State university system consists of the Board's administrative arm and six constituent universities. Funding for the State university system is accomplished primarily by State appropriations, tuition and fees, sales and services, federal and state grants, and private donations and grants.

In addition to the Kansas Board of Regents' administrative arm, the following universities and their respective component units make up the State university system for financial reporting purposes: University of Kansas, including the University of Kansas Medical Center; Kansas State University; Wichita State University; Emporia State University;

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## I. Summary of Significant Accounting Policies

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Pittsburg State University; and Fort Hays State University. Each university issues its own complete unaudited financial statements which can be obtained from the respective university. The Kansas Board of Regents' administrative arm does not issue separate financial statements.

**Kansas Public Employees Retirement System (KPERS)** is a body corporate and an instrumentality of the State. KPERS is an umbrella organization administering the following three statewide pension groups under one plan, as provided by K.S.A. 74, article 49:

- Kansas Public Employees Retirement System
- Kansas Police and Firemen's Retirement System
- Kansas Retirement System for Judges

All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer, cost-sharing groups. State employees and Kansas schools are required to participate, while participation by local political subdivisions is optional but irrevocable once elected.

### B. Government-wide and Fund Financial Statements

**Government-wide Statements** – The statement of net assets and the statement of activities report information of the primary government and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the duplication of internal activities. These statements distinguish between the *governmental* and *business-type* activities of the State and between its discretely presented component units. Governmental activities are generally supported by taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are supported in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the State and for each function of the State's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

The State classifies spending by function of government and by category of expenditure. Function of government is a grouping of agencies, which make expenditures for similar programs and purposes. There are seven functions of government: (1) general government; (2) human resources; (3) education; (4) public safety; (5) agriculture and natural resources; (6) transportation; and (7) health and environment. *General Government* includes State agencies with both administrative and regulatory functions. These agencies include the State's elected officials and the Department of Administration. *Human Resources* agencies provide services to individuals. *Education* agencies provide various educational services to Kansans. *Public Safety* agencies ensure the safety and security of Kansas' citizens. *Agriculture and Natural Resources* agencies protect the natural and physical resources of the State and regulate the use of those resources. *Transportation* includes only the Department of Transportation. Responsibilities of this agency include maintenance and construction of highways in Kansas. The *Health and Environment* agency optimizes the promotion and protection of the health of Kansans through efficient and effective public health programs and services and through preservation, protection, and remediation.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions. Internally imposed designations of resources are not presented as restricted net assets. When both restricted

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## I. Summary of Significant Accounting Policies

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

**Fund Financial Statements** – The fund financial statements provide information about State funds, including fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary*, and *fiduciary* are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the State gives (or receives) value without directly receiving (or giving) equal value in exchange, include income and sales taxes, grants, entitlements, and donations. On an accrual basis, revenue from income and sales taxes is recognized in the fiscal year the underlying exchange occurred, while revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The State considers all revenues reported in the governmental funds to be available if the revenues are due at year-end and collected within sixty days thereafter. Expenditures generally are recorded when the related liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the State funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the policy of the State to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

The financial statements of the proprietary funds, pension funds, investment funds, and component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. In reporting the financial activities of the proprietary funds, the State follows FASB Statements and Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

### D. Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the State that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds. In addition, a description of the internal service, fiduciary and component units follows:



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## I. Summary of Significant Accounting Policies

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### **Governmental Funds:**

These funds include the State's main operating fund, special revenue funds, capital projects funds, and debt service funds. The following are the State's major governmental funds.

**General Fund** – This is the primary operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Social and Rehabilitation Services Fund** – This special revenue fund accounts for the activities of the Department of Aging and the Department of Social and Rehabilitation Services. Revenues into this special revenue fund include grants and special fee funded programs as authorized by legislation.

**Transportation Fund** – This special revenue fund is the primary operating fund of the Kansas Department of Transportation (KDOT) and accounts for all KDOT financial resources except those required to be accounted for in another fund. KDOT has the statutory responsibility to coordinate planning, development and operation of the various modes and systems of transportation in the State.

**Health Policy Authority** – This fund includes all health insurance purchasing by the State, as well as federally funded programs (Medicaid, State Children's Health Insurance Program and Medikan) and the State Employee Health Insurance Program. Revenues into this special revenue fund include grants and special fee funded programs as authorized by legislation.

**Transportation-Capital Projects Fund** – This fund accounts for the financial resources to be used for construction of major capital facilities for the Department of Transportation. This is the fund that accounts for KDOT bond proceeds.

### **Proprietary Funds:**

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public, or where sound financial management dictates that periodic determinations of results of operations are appropriate. The State reports the following major enterprise funds and collective governmental internal service funds.

**Water Funds** – This fund accounts for the Water Pollution Control and Public Water Supply Revolving Loan funds controlled by the Department of Health and Environment.

**Unemployment Insurance Fund** – This fund accounts for unemployment insurance for the deposit of moneys requisitioned for the Kansas Unemployment Insurance Trust Fund held by the U.S. Treasury for payment of unemployment benefits.

**Health Care Stabilization Fund** – This fund accounts for moneys accumulated to pay damages for personal injury or death arising out of the rendering of or the failure to render professional services by a health care provider, self-insurer or inactive health care provider subsequent to the time that such health care provider or self-insurer qualified for coverage under the provisions of this program.

**Internal Service Funds** - These funds account for printing, information technology, accounting, motor pool, aircraft, building maintenance, architectural, central mail, workers' compensation, and capitol security services provided to other departments on a cost-reimbursement basis.

### **Fiduciary Funds:**

The State presents as Fiduciary Funds those activities that account for assets held in a trustee capacity or as an agent for individuals, private organizations, or other governmental units.

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## I. Summary of Significant Accounting Policies

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***Pension Trust Fund*** - This fund is used to account for the assets, liabilities, and fund equities held in trust for the Kansas Public Employees Retirement System.

***Investment Trust Fund*** – This fund is used to account for the assets, liabilities, and fund equities held in trust for the Kansas Municipal Investment Pool.

***Agency Funds*** - These funds account for assets held by the State in a custodial capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

Both government-wide and proprietary funds financial statements of the State follow FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

The effect of interfund activity has generally been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. General revenues include all taxes and internally dedicated resources.

Proprietary funds distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses are generated from providing services or products in connection with the enterprise operations of the funds.

### E. Assets, Liabilities, and Net Assets or Equity

#### ***Cash and Investments***

Cash balances of funds in the State Treasury are pooled and are held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by the Pooled Money Investment Board (PMIB) and are reported at fair value, based on quoted market prices.

For purposes of reporting cash flows, cash equivalents are defined as short-term, highly liquid investments that are readily convertible to cash.

The investment policies of the PMIB are governed by State statutes. The primary objectives are to attain safety, liquidity, and yield. Allowable investments for State pooled moneys not held in Kansas financial institutions are as follows:

- Direct obligations of, or obligations except mortgage backed securities, that are insured as to principal and interest by the U.S. Government, or any direct agency thereof, with maturities up to four years
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Loans as mandated by the Kansas Legislature limited to not more than the lesser of 10 percent or \$140 million of total investments
- Certain Kansas agency and IMPACT Act projects and bonds
- Linked deposit loans for agricultural production not to exceed \$60 million
- Linked deposit loans for Kansas Housing Loan Deposit Program, Designated and Undesignated not to exceed \$60 million
- High grade commercial paper
- High grade corporate bonds

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## **I. Summary of Significant Accounting Policies**

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*Specific Fund Investments* – State statutes permit investing cash balances not included in the PMIB in the following types of investments:

- U.S. Government obligations
- Mortgage backed securities
- Corporate securities
- U.S. Government agency securities
- Repurchase agreements
- Commercial paper not to exceed 270 days to maturity and rated within the two highest commercial paper ratings
- State of Kansas agency bonds, with maturities not to exceed four years

In addition to the above investments, short-term bond proceeds may be invested at the direction of K DFA through the PMIB.

*Kansas Municipal Investment Pool* - The Kansas Municipal Investment Pool (MIP) was created on July 1, 1992, as a voluntary, State-managed investment alternative for State and local funds. The Office of the Kansas State Treasurer (Treasurer) acts as the custodian for all moneys deposited. All Kansas governmental units, including cities, counties, school districts and other governmental entities holding public moneys are eligible to participate in the MIP. The deposits in the MIP are combined with State moneys to form the Pooled Money Investment Portfolio.

*Kansas Public Employees Retirement System (KPERs) Investments* - KPERs investment categories, as permitted by statute, include equities, fixed income securities, cash equivalents, real estate, derivative products and alternative investments. KPERs values its investments at fair value. In fulfilling its responsibilities, the Board of Trustees contracts with investment management firms and a master global custodian.

*Investment Income Allocation* – State statutes require interest earned to be credited to the State General Fund unless required by law to be credited based on average daily balance to a specific fund.

### ***Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Receivables are shown net of an allowance for uncollectible.

### ***Inventories***

Inventories are valued at cost using the first in/first out (FIFO) method. Inventories in the government-wide financial statements are accounted for using the consumption method. Inventories in the governmental funds financial statements are on the purchases method. The purchases method provides that inventory be treated as expenditure when purchased. Consumable supplies are reported only if over \$200,000 per agency.

The governmental funds statements have a current financial resources focus. As a result, modified accrual adjustments to capitalize inventory at year-end, affect beginning fund balance rather than expenditures. The focus on current financial

## **I. Summary of Significant Accounting Policies**

resources is better maintained by not adjusting the expenditures for the amount of inventory reclassified to the balance sheet. The government-wide statements, however, require the full accrual adjustment to expenditures to properly reflect the amount of inventory consumed during the fiscal year.

### ***Deferred Bond Issuance Costs***

Deferred bond issuance costs consist of the costs incurred related to bond issuance. These costs are capitalized and amortized over the term of the bonds using the straight-line method.

### ***Restricted Assets***

Certain resources are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by bond requirements. The Unemployment Insurance Fund was established by law as a special fund separate and apart from all public money or funds of the State. The cash is maintained in a separate bank account with the U.S. Treasury.

### ***Capital Assets***

Capital assets are reported at actual or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Construction in process is capitalized. Capitalization policies (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Policy</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$100,000	Not applicable	Not applicable
Buildings and leasehold improvements	100,000	Straight-line	40 years
Furnishings and equipment	5,000	Straight-line	8 years
Automobiles	5,000	Straight-line	5 years
Intangibles, software	250,000	Straight-line	8 years
Intangibles, other	250,000	Straight-line	50 years

The depreciation method is straight line with no salvage value. Accumulated depreciation is calculated in total by class of assets by year using the one half year convention in year of purchase. No depreciation is recorded for land and construction in progress.

Works of art and historical items are not capitalized. It is the intent of the State that all art works and historical objects be held for the purpose of exhibition to the public to further education and research. It is also the intent to preserve and protect such items to insure their availability to future generations. If any items are sold from any collection, the proceeds from such disposition are intended to be set aside for future acquisitions for the collections.

### ***Infrastructure***

The roadway system and bridge system are reported using the modified approach. Accordingly, depreciation is not reported for these systems, and all expenditures, except for additions and improvements are expensed.

### ***Compensated Absences***

## **I. Summary of Significant Accounting Policies**

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Classified State employees accrue vacation leave based on the number of years employed up to a maximum rate of 6.5 hours per pay period, and may accumulate a maximum of 240 hours. Upon retirement or termination, employees are paid for accrued vacation leave up to their maximum accumulation. State employees earn sick leave at the rate of 3.7 hours per pay period. Employees who terminate are not paid for unused sick leave. Employees who retire are paid a portion of their unused sick leave based on years of service and hours accumulated. The State uses the vesting method to compute the sick leave liability. The compensated absences liability will be liquidated by the State's governmental and internal service funds.

### ***Bonds and Notes Payable***

Bonds and notes payable consist of notes and bonds issued to finance capital improvements for various projects. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums, discounts, and deferred bond issuance costs are capitalized and amortized over the term of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Deferred bond issuance costs are reported as other asset and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as deferred bond issuance costs, during the current period. The face amount of bond debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources and uses. Bond issuance costs are reported as debt service expenditures.

### ***Other Long-term Obligations***

Other long-term obligations consist of claims and judgments, capital leases payable, and other miscellaneous long-term obligations. In the government-wide financial statements, and proprietary fund types in the fund financial statements, other long-term obligations are reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

### ***Fund Equity***

In accordance with GASB Statement No. 54, items that cannot be spent or are not in spendable form, such as inventories or prepaid amounts, in governmental funds, are shown as nonspendable fund balance. Most governmental funds balances are restricted externally by creditors, (for example debt covenants), grantors, or are restricted by law through legislation, therefore the State reports the majority of the governmental fund balances as restricted fund balance. For assigned fund balance, the State is authorized to assign amounts to a specific purpose. The authorization to assign fund balances is delegated by the State legislature to each agency as appropriate. The State General Fund reports the fund balance amount that is not restricted or nonspendable as unassigned fund balance.

Per K.S.A. 75-6702(b), the maximum amount of expenditures and demand transfers from the state general fund that may be authorized is fixed so that there will be an ending balance in the State general fund for the ensuing fiscal year that is equal to 7.5 percent or more of the total amount authorized to be expended or transferred by demand transfer from the State general fund in such fiscal year. Per K.S.A. 75-6702(c), the provisions requiring a balance of 7.5 percent was suspended for the fiscal year ended June 30, 2011.

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

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## **I. Summary of Significant Accounting Policies**

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### **F. Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used in preparing the financial statements.

### **G. New Governmental Accounting Standards Board Statements**

The State implemented the following new pronouncements for fiscal year 2011:

GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions” was issued March 2009. The objective of this Statement is to improve the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

At June 30, 2011, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the State. The State plans to implement the provisions of these statements on or before their effective dates. Management has not yet determined the impact these new statements will have on the State’s financial statements. The State will implement the following new pronouncements for fiscal years ending after June 30, 2011.

GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans” was issued December 2009. This statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other post-employment benefits (OPEB) plans. This statement is effective for periods beginning after June 15, 2011.

GASB Statement No. 60 addresses service concession arrangements (SCAs), a type of public-private or public-public partnership. SCA is arrangement between transferor (government) and an operator (governmental or nongovernmental entity). This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 61, “The Financial Reporting Entity: Omnibus-An Amendment of GASB Statement No. 14 and No. 34”, strengthens the criteria for blending component units. The amendments stipulate that if a primary government pays entirely or almost entirely for a component unit’s debts, no matter what type of debt, then a financial burden is created and the component unit should be blended. This statement is effective for periods beginning after June 15, 2012.

GASB Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position” was issued in June of 2011. This statement defines deferred outflows of resources and deferred inflows of resources as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Net position is the residual of all the other elements presented in a statement of financial position. This statement is effective for periods beginning after December 15, 2011.

GASB Statement No. 64, “Derivative Instruments: Application of Hedge Accounting Termination Provisions” stipulates that instead of recognizing investment revenue immediately because of the release of the accumulated deferred charges when a derivative terminates, the derivative may not terminate when certain circumstances occur. This statement is effective for periods beginning after December 15, 2011.

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## II. Stewardship, Compliance, Accountability

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### A. Excess of Expenditures Over Appropriations

For the year ended June 30, 2011, expenditures did not exceed appropriations or limitations.

### B. Deficit Fund Equity

The State General Fund had a deficit fund balance in fiscal year 2011 because the State had less cash due to the continuing challenging economy.

The Health Policy Authority Fund has a negative fund balance due to the timing of payments and receipts at fiscal year 2011 closing.

The Transportation – Capital Projects Fund had a deficit fund balance in fiscal year 2011 because aggregate bonds payable on demand exceeded cash and investment in the fund. Since the bonds are payable on demand, they are required to be reported as a liability.

Unemployment Insurance Fund has a negative fund balance also. This fund accounts for unemployment payments provided to individuals to replace part of their wages lost as a result of involuntary unemployment. The sluggish economy contributed to this fund having more expenditures than revenues in fiscal year 2011.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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**A. Deposits and Investments**

A summary of deposits and investments at June 30, 2011, is as follows (expressed in thousands):

	<b>Govt and Business Type Activities</b>	<b>Pension Trust</b>	<b>Investment Trust</b>	<b>Agency</b>	<b>Component Units</b>	<b>Total</b>
	Pooled Cash and Investments					
Cash	\$ 59,236		0	0	0	59,236
Investments	1,399,357	0	930,217	315,935	574,029	3,219,538
Cash deposits with financial institutions	614	0	0	0	0	614
Cash with U.S. Treasury	161,533	0	0	0	0	161,533
Unclaimed Property invested by KPERS	223,298	0	0	0	0	223,298
Imprest funds and agency bank accounts	1,107	0	0	0	155	1,262
Canteen, members' benefit, members' money in agency's custody	0	0	0	10,766	0	10,766
Kansas Public Employees Retirement (KPERS)	0	14,200,201	0	0	0	14,200,201
Investments owned by other funds	327,486	0	0	169,584	13,092	510,162
Security deposits held by Kansas Insurance Dept.	0	0	0	122,145	0	122,145
Star Bonds	47,002	0	0	0	0	47,002
Miscellaneous cash and other adjustments	138,294	0	0	8,628	2,643,936	2,790,858
Total	<u>\$ 2,357,927</u>	<u>\$ 14,200,201</u>	<u>\$ 930,217</u>	<u>\$ 627,058</u>	<u>\$ 3,231,212</u>	<u>\$ 21,346,615</u>



State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

### III. Detailed Notes On All Funds

A reconciliation of deposits and investments for the State to the financial statements at June 30, 2011, is as follows (expressed in thousands):

**Disclosures Regarding Deposits and Investments:**

Total investments and time deposits	\$	17,922,879
Carrying amount of demand deposits		3,423,736
Total	\$	21,346,615

**Statement of Net Assets**

*Governmental and Business-Type Activities*

Cash and cash equivalents	\$	1,366,606
Investments at fair market value		287,269
Restricted cash and cash equivalents		621,193
Restricted investments		82,859

*Component Units*

Cash and cash equivalents		685,986
Investments at fair market value		70,878
Restricted cash and cash equivalents		140,969
Restricted investments		2,333,379

**Statement of Fiduciary Net Assets**

Cash and cash equivalents		1,268,753
Investments at fair market value		14,488,723
Total	\$	21,346,615

***Investments Owned by Other Funds and managed by the Treasurer, Pooled Money Investment Board or Kansas Development Finance Authority:***

**Investments Owned by Other Funds  
Fiscal Year 2011**

Investment Type	Primary Government			Fiduciary	Total
	Governmental	Business-Type Activities	Component Units		
U.S. Government Obligation	\$ 2,916	\$ 0	\$ 400	\$ 0	\$ 3,316
State and Local Government Securities				169,584	169,584
U.S. Government Agency Securities	0	166,827	1,340	0	168,167
Mortgage Backed Securities	84	0	0	0	84
Repurchase Agreements	439	29,949	393	0	30,782
Commercial Paper	0	0	0	0	0
Municipal Investment Pool	0	0	3,954	0	3,954
Investment agreement	7,402	36,712	7,004	0	51,118
Corporate Securities	0	83,157	0	0	83,157
Total	\$ 10,841	\$ 316,645	\$ 13,092	\$ 169,584	\$ 510,162

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### **III. Detailed Notes On All Funds**

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#### *State Treasury and Municipal Investment Pool Balance*

Cash balances in the State Treasury are held in numerous bank accounts. Available cash balances beyond immediate needs are pooled for short-term investment purposes. The cash balances and investments are combined and reported under the caption of “Cash and cash equivalents.” The State Treasury and Municipal Investment Pool balance as of fiscal year-end is comprised as follows (expressed in thousands):

Pooled Cash and Investments	
Cash	
Kansas banks demand accounts	\$ 59,236
Investments at fair market value	
Kansas banks certificates of deposit	83,388
U.S. Government agencies securities	1,261,840
Commercial paper	1,574,437
Repurchase agreements	250,000
Loans receivable	578
Public water supply loan fund	5,000
Linked deposits	44,295
Cash deposits with financial institutions	
Moneys in custodial demand accounts	612
Cash items	2
Unclaimed property invested by KPERS	223,298
Unemployment trust fund cash with U.S. Treasury	161,533
Total State Treasury and Municipal Investment Pool Balance	<u>\$ 3,664,219</u>

At June 30, 2011, the carrying amount (book balance) of the deposits included in the State Treasury balance was \$3.4 billion. At June 30, 2011, the State Treasurer had \$314.0 million in the associated bank balances. For cash deposits with financial institutions, the State requires that its depository banks pledge collateral that has a market value equal to or greater than the deposits. Effective March 15, 2004, the Kansas State Treasurer’s office in its role as custodian for collateral pledged against the State deposits, agreed to follow the changes to the pledged collateral policy that the Pooled Money Investment Board has approved. The criteria for Kansas Bank CDs are as follows:

- U.S. Treasury securities (T-Bills, T-Notes, and Treasury Strips) and Federal Agency securities (Discount Notes and Debentures) with a final maturity of five years and under will require pledging of 100 percent collateralization (for any amount over the \$250,000 FDIC coverage).
- Any other type of security (including CMO’s and MBS), surety bonds, or letters of credit (regardless of the final maturity) will require 105 percent collateralization.
- Any security with a final maturity longer than five years will require 105 percent collateralization.

Securities pledged as collateral for demand deposit accounts will not be subject to the new pledged collateral policy. The State’s deposits with financial institutions were fully collateralized at fiscal year-end by Federal Deposit Insurance Corporation (FDIC) insurance or pledged collateral (government securities, or FHLB letters of credit). The pledged securities and bonds are held in safekeeping for the State Treasurer at the Federal Reserve Bank of Boston or in approved custodial banks and are held in the name of the State.

The cash balances in the State Treasury are included in the financial statements in the category “Cash and cash equivalents.” Also included in this category are amounts outside the State Treasury such as cash in agencies’ imprest funds and authorized bank accounts, canteen, benefit and members’ moneys in agencies’ custody.

#### **Investments Owned by Other Funds But Maintained by PMIB**

PMIB manages State investments that are recorded outside of their pooled investments. Quality ratings on U.S. agency securities are AA+/Aaa, commercial papers are A1/Pa or higher, corporate bonds are AA-/Aa3 or higher, and mortgage

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

### III. Detailed Notes On All Funds

backed securities are unrated. All deposits with Kansas banks are covered by depository insurance and/or pledged collateral. No investments are exposed to foreign currency risk. No more than five percent is invested in securities of any single business entity. The PMIB State investments held outside of the pooled funds are as follows (*expressed in thousands*):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity(Years)</u>
U.S Government Securities	\$ 378	13.64
	2,916	3.13
U.S Agency Securities	771	18.85
	191	0.69
	166,827	4.06
Mortgage Backed Securities	84	5.75
Corporate Securities	83,157	5.10
	<u>\$ 254,324</u>	

#### Investments Owned by Other Funds But Maintained by State Treasurer

The State Treasurer had \$169,583,680 invested in State and Local Government Securities (SLGS) purchased from the Bureau of Public Debt and are held in specific State funds. The State Treasurer is an Escrow Agent for the Kansas Development Finance Authority (KDFA) and has no liability for these investments. These investments are unrated. No more than five percent is invested in securities of any single business entity. The Treasurer investments are as follows (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity(Years)</u>
Escrow Fund-KDHE WPCRF 2005W Refund Bonds	\$ 26,466	1.34
Escrow Fund-Water Pollution Control Ref Bonds 04 II	4,066	1.33
Escrow KDOT Refunding Bonds-2003A&B(7601&2)	56,266	3.18
Escrow KDFA 2010E-1	46,758	1.25
Escrow Fund-KDHE PWSRLF 2004 Series	20,595	0.76
Escrow Fund-Misc Short-Term Refundings	3,535	0.16
Escrow KDFA KU Housing 2010-A	8,551	0.83
Escrow KUMC Parking KDFA 10K-1	3,347	0.41
	<u>\$ 169,584</u>	

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

### III. Detailed Notes On All Funds

***Treasurer's Unclaimed Property Fund***

The Treasurer's Unclaimed Property Fund's Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Bank of New York Mellon. The Fund receives income from the loan of the securities, in addition to the income which accrues to the Fund as owner of the securities. The securities loans are open contracts and therefore could be terminated at any time by either party. The type of securities lent include U.S. government securities, domestic and international equities, and domestic and international bonds. The borrower collateralizes the loan with either cash or government securities of 102.0 percent of fair value on domestic securities and 105.0 percent of fair value on international securities loaned. Cash collateral is invested in the Fund's name in a dedicated short-term investment fund consisting of investment grade debt securities. The Fund does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2011, the maturities of securities in this dedicated bond portfolio are as follows: 45.7 percent of the fair value of the securities mature within 30 days; 21.0 percent mature between 31 and 180 days; and 33.3 percent mature after 180 days. The custodian provides for full indemnification to the Fund for any losses that might occur in the event of borrower default. The Fund does incur credit risk as it relates to the credit quality of the securities in the collateral pool. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2011 was \$78,645,950. Collateral held by the Treasurer's Unclaimed Property Fund for June 30, 2011 was \$80,605,995. Net income produced from securities lending activities for fiscal year 2011 was \$180,657.

*Currency Risk.* Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Fund's investments at June 30, 2011, were distributed among currencies in the following list.

	Fair Value	Currency	Percent
\$	882	Australian Dollar	0.400 %
	2,049	Brazilian Real	0.929 %
	5,374	Canadian Dollar	2.437 %
	673	Colombian Peso	0.305 %
	1,942	Euro Currency Unit	0.881 %
	1,666	Indian Rupee	0.756 %
	2,506	Indonesian Rupiah	1.136 %
	138	Japanese Yen	0.062 %
	1,483	Mexican New Peso	0.672 %
	1,490	New Zealand Dollar	0.676 %
	1,682	Philippines Peso	0.763 %
	1,706	Singapore Dollar	0.773 %
	1,314	S. Korean Won	0.596 %
	806	Other Currencies	0.365 %
	196,787	U.S. Dollars	89.248 %
\$	220,498		100.000 %

All foreign currencies are in the medium grade bond portfolio

The Fund's asset allocation and investment policies include passive investments in an international ETF. At June 30, 2011 the fair value of this ETF was \$33,819,128. The Fund's target allocation is to have 15.0 percent of assets (excluding securities lending collateral) in dedicated passive international equities. Core bond managers are not allowed to invest in non-dollar securities. The Fund's medium grade bond manager held \$23,708,542 in non-dollar securities as of June 30, 2011.

*Custodial Credit Risk.* Custodial credit risk is when in the event a financial institution or counterparty fails, the Treasurer's Unclaimed Property Fund would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. One hundred percent (100 percent) of the Funds investments are held in the Fund's name and are not subject to creditors of the custodial bank.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

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*Concentration Risk.* The Fund has investments in U.S. Treasury Notes that represent 2.0 percent of the total market value. The Fund's investment policy does not prohibit holdings above 5 percent in the debt securities of U.S. government issuers. Government sponsored enterprises (GSEs, such as FNMA) are considered government issuers for the purpose of implementing the Fund's investment policy. No other single issuer represents 2 percent or more of Fund assets.

*Credit Risk.* Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The Fund's Core bond manager is only allowed to invest in investment grade securities. The Core and Medium Grade portfolios are required to maintain a reasonable risk level relative to their benchmarks.

In the table below, Cash & Equivalents include cash, commercial paper, repurchase agreements and other short-term securities. Agency securities are those implicitly guaranteed by the U.S. Government. U.S. Government securities are treasury securities and agencies explicitly guaranteed. Securities Lending Collateral are securities invested using cash collateral from the securities lending program, not pooled with any other institution's funds. Securities rated A1/P1 are included in AA in this table. The Securities Lending Collateral class has the following policy requirements, at the date of purchase: to be rated A3/A- or better; Commercial paper must be A1/P1; Asset-backed securities must be AA3/AA- or better; Repurchase agreements must be 102 percent collateralized with A3/A- or A1/P1 or better securities and held by the custodial bank or third-party custodian. Securities Lending Collateral NR (Not Rated) securities are repurchase agreements and certificates of deposit.

Fund assets as of June 30, 2011, subject to credit risk are shown with current credit ratings below (expressed in thousands):

Quality Rating	Cash & Equivalents	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
NR	\$ 0	\$ 316	\$ 0	\$ 11,206	\$ 40,759	\$ 52,281
AAA	560	17,770	5	1,133	1,936	21,404
AA	568	5,365	16,040	0	9,998	31,971
A	1,540	9,041	2	0	24,751	35,334
BBB	0	20,081	0	0	0	20,081
BB	0	20,626	0	0	0	20,626
B	0	27,020	0	0	0	27,020
CCC	0	5,995	0	0	0	5,995
CC	0	1,051	0	0	0	1,051
C	0	573	0	0	0	573
Total	\$ 2,668	\$ 107,838	\$ 16,047	\$ 12,339	\$ 77,444	\$ 216,336

*Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investment policy requires Core and Medium Grade managers to be within 20.0 percent of their benchmark duration, and all fixed portfolios shall maintain a reasonable risk level relative to their benchmarks. The same Fund assets as above are also subject to interest rate risk. These are shown in the following table grouped by effective duration ranges (expressed in thousands).

Effective Duration	Cash & Equivalents	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
0 - 1 Yr	\$ 2,667	\$ 16,737	\$ 3,626	\$ 1,458	\$ 70,390	\$ 94,878
1 - 3 Yrs	0	23,670	3,563	6,336	7,055	40,624
3 - 5 Yrs	0	14,938	6,733	1,643	0	23,314
5 - 10 Yrs	0	37,477	1,851	2,539	0	41,867
Over 10 Yrs	0	15,016	273	364	0	15,653
Total	\$ 2,667	\$ 107,838	\$ 16,046	\$ 12,340	\$ 77,445	\$ 216,336

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

### III. Detailed Notes On All Funds

Securities Lending Collateral policy limits the maximum average portfolio maturity of 90 days and only floating rate, and fixed rate asset-backed, securities may mature beyond 13 months.

***Component Unit - K DFA***

K DFA has adopted a formal investment policy. The primary objectives of investment activities are, in priority order, safety, yield and liquidity. The standard of care to be used by investment officials shall be the “prudent investor” standard, and shall be applied in the context of managing an overall portfolio. As of June 30, 2011 K DFA has \$824,962 invested in the State of Kansas Municipal Investment Pool. As of June 30, 2011, K DFA has \$11.2 million invested in Vanguard GNMA and Vanguard Short-term index funds.

At June 30, 2011, K DFA has \$824,962 invested in the State Municipal Investment Pool.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of the failure of the counterparty, K DFA will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The bank balances of K DFA’s deposits at June 30, 2011 totaled \$217,326. UMB Bank will pledge collateral to a Federal Reserve account for bank balances in excess of the Federal deposit Insurance Corporation (FDIC) limit, as well as by the standard coverage of the Federal Deposit Insurance Corporation (FDIC).

*Credit Risk.* K DFA’s policy limits investments to those allowed by State Statute, and further to those with one of the top two ratings from Standard & Poor’s or Moody’s Investor Services, depending on the type of investment. As of June 30, 2011, K DFA was invested Kansas Municipal Investment Pool. As of June 30, 2011, the pool was rated AAAf / S1+ by Standard & Poor’s. The Vanguard GNMA Fund’s underlying securities are primarily GNMA securities, which are explicitly guaranteed by the U.S. Government and thus carry no credit risk. The Vanguard Short Term Bond Index Fund’s underlying securities are U.S. Government, high quality (investment-grade) corporate, and investment-grade international dollar-denominated bonds. The Funds have an average rating of Aaa.

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from the fluctuations in interest rates, K DFA’s investment policy limits investment maturities as follows: the portion of the portfolio equal to 150 percent of the current year annual operating expense budget shall be continuously invested in obligations which have maturities of twelve months or less. Moneys in excess of the 150 percent may be invested in obligations greater than twelve months, but no more than sixty months.

As of June 30, 2011, K DFA had the following investments, excluding certificates of deposit, with the noted investment maturities (expressed in thousands):

	June 30, 2011	
Investment Type	Fair Value	Less than 1 year
KMIP	\$ 825	\$ 825
Vanguard	11,202	11,202
Total	\$ 12,027	\$ 12,027

K DFA’s investments during the year did not vary substantially from those at year-end in amounts or level of risk.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

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**Component Unit - KHRC**

As of June 30, 2011, KHRC had the following cash and investments (expressed in thousands):

	Cost	Fair Value
Cash		
Financial Institution*	\$ (552)	\$ (552)
Money market funds	2,250	2,250
Securities purchased under agreements to resell	497	497
U.S. Treasury Bond and Agency obligations	6,126	6,191
Total	\$ 8,321	\$ 8,386

\* KHRC's June 30, 2011 Cash - Financial Institution balances of \$(552,755) are due to \$660,000 of ACH payments being issued on June 30, 2011, which settled on July 1, 2011.

As of June 30, 2011, KHRC investments and maturities consist of the following (expressed in thousands):

Investment Type	Fair Value	Less than 1 year	1-5 Years
U.S. Agency Securities	\$ 6,178	\$ 0	\$ 6,178
Mortgage backed securities	13	13	0
Total	\$ 6,191	\$ 13	\$ 6,178

**Investment Policy.** KHRC has adopted a formal investment policy. The primary objectives, in priority order, of investments activities shall be safety, liquidity, and yield. The standard of care to be used by investment officials shall be the "prudent person" standard, and shall be applied in the context of managing an overall portfolio. Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived.

**Interest Rate Risk.** KHRC minimizes the risk it will realize losses due to declines in the market value of securities in its portfolios, by structuring its investment portfolio so that securities mature to meet cash requirements for scheduled disbursements or ongoing operations, taking into account cash balances available or expected to be available for such requirements, thereby avoiding the need to sell securities on the open market prior to maturity. KHRC also diversifies its investments to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities.

**Credit Risk.** The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. Per the investment policy, KHRC will minimize the credit risk through pre-qualifying institutions, diversifying its portfolios, and maintaining a standard of quality of authorized eligible investments. As of June 30, 2011, KHRC's investments were rated AAA by Standard & Poor's.

**Custodial Credit Risk.** Custodial credit risk is the risk that, in the event of the failure of the counterparty, KHRC will not be able to recover the value of its deposits or investments that are in the possession of an outside party. KHRC's investment policy requires collateralization on all demand deposit accounts, and to secure investments in Certificates of Deposits and Repurchase Agreements. KHRC also minimizes custodial credit risk by pre-qualifying the custodial or depository institutions, broker/dealers, intermediaries and advisors with which KHRC will do business. Investments held at June 30, 2011, including the underlying securities on the repurchase agreement, are held by the investment's counterparty. The repurchase agreement and deposits held with a financial institution were fully collateralized at June 30, 2011.

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### III. Detailed Notes On All Funds

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*Concentration of Credit Risk.* KHRC's investments are diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. The maximum percentage of portfolio by investment type ranges from 100 percent for U.S. Treasury Securities, U.S. Government Instrumentality Obligations and the State of Kansas Pooled Money Investment Board to 15 percent for banker's acceptance and commercial paper. All of KHRC's investments are in U.S. Government Instrumentality Obligations, which include investments in the Federal National Mortgage Association (24.7 percent), Freddie Mac (8.1 percent), and the Federal Home Loan Bank (67.2 percent) as of June 30, 2011.

*Risks and Uncertainties:* KHRC maintains a portion of its total assets in a combination of bonds, fixed income securities, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market fluctuation and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect KHRC investments and the amounts reported in the combined statements of financial position.

#### *Component Unit - KTEC*

The following table summarizes the KTEC's cash and investments at June 30, 2011 (expressed in thousands):

Bank deposits and repurchase agreements	\$ 766
Cash held by the State	<u>58</u>
Total Deposits	<u><u>\$ 824</u></u>

Cash in the amount of \$58,490 held by the State, which is not categorized below, represents grant funds received but not yet expended at June 30, 2011.

*Custodial Credit Risk.* Custodial credit risk is the risk that in the event of a bank failure, KTEC's deposits may not be returned to them. KTEC does not have a deposit policy for custodial risk. KTEC had no funds exposed to custodial risk at June 30, 2011, as indicated below (expressed in thousands):

Deposits covered by federal depository insurance or collateral held by KTEC or its agent in KTEC's name	\$ 468
Deposits covered by collateral held by pledging financial institution's trust department or by its agent in KTEC's name	<u>372</u>
Total Deposits (Bank Balance)	<u><u>\$ 840</u></u>



State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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Investments in Limited Partners consisted of the following at June 30, 2011 (expressed in thousands):

**Investments in Economic Development LLCs**

Wichita Technology Ventures, LLC	\$	769
Manhattan Holdings, LLC		630
Quest Ventures, LLC		215
Milestone Ventures, LLC		101
Precede Fund, LLC		192
Bi-State Investment Group		20

**Seed Capital Investments**

Chemidex	226	
Control Vision Corporation	200	
CritiTech, Inc	407	
Deciphera	113	
Griffin Technology	100	
Heartland Technologies	150	
Hiper Technologies	300	
iModules Software, Inc	165	
IRR-Residential	200	
Living Naturally	99	
Magic Lantern, LLC	101	
Nanoscale Materials, Inc	250	
NUVIO Corporation	150	
Pixius Communications, LLC	100	
PowerSmart, LLC	125	
Proteon Therapeutics, LLC	182	
Redemption Plus, Inc	91	
Softvu, LLC	160	
Sportvision	42	
Urogen	42	
Vasogenix Pharmaceuticals, Inc	249	
Winglet Technology, LLC	150	
Community Wireless	100	
Edenspace	250	
Peak Vision Sports	150	
TDP, Inc	496	
Felton International	60	
PS Holdings LLC	38	
Matrix Electronics Measuring, Inc	150	
Athletixnation	167	
EcoFit Lighting	350	
KC Biomedix	361	
Professional Engineering Corp	100	
Nitride Solutions, Inc	100	
Airmass	100	
	<u>\$</u>	<u>7,951</u>

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### **III. Detailed Notes On All Funds**

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KTEC Holdings hold an equity position in Wichita Technology Ventures, LLC, Manhattan Holdings, LLC, Quest Ventures, LLC, Milestone Ventures, LLC, and Precede Fund, LLC. These entities were co-organized by KTEC and others to make equity-related investments in pre-seed and other early stage financings. KTEC Holdings is in no way obligated to provide future funding to any of the joint ventures. Separate financial statements are available from each of the joint ventures upon request of the joint ventures' management.

#### ***Component Unit – Kansas Bioscience Authority***

As of June 30, 2011, the Kansas Bioscience Authority (KBA) had \$26.7 million in cash and money market investments.

*Deposit and Investment Policies.* KBA has adopted deposit and investment policies. Investment guidelines were followed by the local investment company which holds the KBA's cash and investments. Such guidelines are discussed in more detail below.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of a failure of the counterparty, KBA will not be able to recover the value of its deposits or investments that are in the possession of an outside party. At June 30, 2011, \$0 was exposed to custodial risk on deposits that were in excess of FDIC insurance coverage limits. Also, as of June 30, 2011, underlying securities of \$54.9 million in investments were held by the investments' counterparties.

*Credit Risk.* As of June 30, 2011, KBA was invested in government agency securities including FHMLC, FFCB, FHLB and FNMA and U.S. Treasury securities. The government agency securities were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. Under KBA's investment policy, only AAA-rated securities were considered for investment.

The KBA was also invested in corporate bonds and asset backed securities through the UBS-U.S. Ultra Short fund which provides longer term investments for investors seeking incremental yield over money market funds. The UBS-U.S. Ultra Short fund had an average quality of Aaa. Within the fund were corporate bonds which were AAA to BBB by Standard and Poor's. The asset backed securities were rated A-2 and A-4 by Standard and Poor's. Under the KBA's investment policy, only A-1+ rated securities were considered for investment for asset backed securities. The KBA's investment policy did not include guidelines for corporate bond ratings at June 30, 2011; however, in September 2011, the executive committee approved a revised investment policy which clarified that the ratings did not apply to comingled portfolios like the U.S. Ultra Short fund.

*Concentration of Credit Risk.* Under KBA's investment policy, there is no limit on the total amount that can be invested in U.S. Treasury securities, government agency securities, or money market funds, but no more than five percent of the investment portfolio can be invested in securities issued or guaranteed by any one corporate issuer. As of June 30, 2011, KBA had investments in U.S. Treasury notes and Federal Home Loan Bank bonds representing 18.77 percent and 5.83 percent respectively, of the total cash and investments balance.

*Interest Rate Risk.* Interest rate risk relates to the exposure to fair value losses arising from the fluctuations in interest rates. Under KBA's investment policy, the average duration of the overall portfolio should be no more than four years and only high-quality securities are considered. Management utilizes an investment manager and considers input and advice from this manager as part of the investment policy. As of June 30, 2011, KBA had the following investment maturities (expressed in thousands):

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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Investment Type	June 30, 2011			
	Fair Value	Less than 90 days	90 days to 1 year	1-5 years
Government Securities	\$ 24,713	\$ 501	\$ 9,650	\$ 14,562
Corporate Bonds	23,197	1,078	14,218	7,901
Asset backed	6,521	0	0	6,521
Municipal securities	499	0	0	499
	\$ 54,930	\$ 1,579	\$ 23,868	\$ 29,483

KBA investments consisted of the following at June 30, 2011 (expressed in thousands):

Debt securities	\$ 6,777
Equity securities	1,748
Venture capital limited partnership	5,290
Total	\$ 13,815

At June 30, 2011, KBA also owned warrants in and equity rights for the purchase of common stock in certain portfolio companies. The value of these warrants and equity rights is not readily determinable; therefore, they are not included in these financial statements.

**B. Investments**

Investments in the State Treasury Balance and Municipal Investment Pool at June 30, 2011, are as follows (expressed in thousands):

U.S. Government agency securities	\$ 168,167
Mortgage backed securities	84
Repurchase agreements	30,782
State and Local Government Securities	169,584
U.S. Government Obligation	3,316
State of Kansas Municipal Investment Pool	3,954
Guaranteed investment contracts	51,118
Corporate securities	83,157
Security deposits held by Kansas Insurance Department	122,145
Less component units and other reconciling items	(13,092)
Total investments	\$ 619,215

Investments are managed by the Pooled Money Investment Board (PMIB) which maintains a published investment policy.

*Interest Rate Risk.* The PMIB minimizes the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by: (a) structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and (b) investing operating funds primarily in shorter-term securities.

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### **III. Detailed Notes On All Funds**

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*Credit Risk.* The PMIB minimizes credit risk, the risk of loss due to the failure of the security issuer or backer, by: (a) limiting investments to the safest types of securities; (b) pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisers with which the PMIB will do business; and (c) diversifying the investment portfolio so that potential losses on individual securities will be minimized.

*Concentration of Credit Risk.* The PMIB minimizes concentration of credit risk by requiring that commercial paper and corporate bonds shall never exceed 50 percent of the total PMIB investment portfolio, and that no more than five percent of that portfolio shall be invested in the securities of any single business entity.

#### ***Investments of the Insurance Department***

The State Insurance Department requires insurance companies to hold investment grade security deposits. All of these deposits are held by the financial institution of the company's choice, on behalf of the insurance commissioner, in trust. As of June 30, 2011, the State reported \$122.1 million in deposit investments. Information regarding investment by type, credit rating and interest risk for each holding is not available and therefore cannot be provided.

#### ***Investments for STAR Bonds***

The fair value of STAR Bonds cash and investments balance as of June 30, 2011, is \$47.0 million. Of this amount, \$18.3 million is held in the State Treasury as pooled cash balance. The remaining \$28.8 million is invested by a trustee in vehicles that meet the requirements of respective bond documents. The investments and related disclosures: \$0.6 million-bank money market account (FDIC insured), \$2.1 million-Government Sponsored Entity (GSE) investment (AA-S&P/Aaa-Moody's ratings, 2.18 percent interest rate, maturity 1-5 years), \$3.1 million in repurchase agreements (unrated, maturity less than one year, and exceeds 5 percent concentration), \$9.8 million in a government obligation money market mutual fund (AAA-S&P/Aaa-Moody's ratings, maturities less than one year) and \$13.1 million in a guaranteed investment contract (unrated, interest rate 3.76 percent, maturity 1-5 years, and exceeds 5 percent concentration) .

#### ***Investments Owned by Other Funds but maintained by K DFA***

*Specific Fund Investments.* Cash balances not held in the State Treasury may be invested as permitted by bond documents and bond covenants. Allowable investments include:

- U.S. Government obligations
- Obligations of government-sponsored agencies
- Federal funds, unsecured certificates of deposit, time deposits and banker's acceptances
- Deposits – fully insured by FDIC
- Certain State or municipal debt obligations
- Certain pre-refunded municipal obligations
- Commercial paper
- Investments in money market funds
- Repurchase agreements
- Stripped securities
- Investments in the Municipal Investment Pool Fund
- Investment agreements
- Guaranteed investment contracts

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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As of June 30, 2011, State agencies had the following investments (expressed in thousands):

Agency Name	Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years
Fort Hays State University	Investment Agreement	\$ 115	\$ 0	\$ 0	\$ 115	\$ 0
Dept of Health & Environment	Investment Agreement	17,710	0	1,755	2,580	13,375
Dept of Health & Environment	Repurchase Agreement	33,674	0	319	4,734	28,621
Dept. of Transportation	Investment Agreement	15,277	0	0	0	15,277
Dept. of Commerce	Investment Agreement	6,267	0	2,816	3,451	0
Kansas State University	Investment Agreement	4,335	0	461	0	3,874
Emporia State University	Investment Agreement	227	0	0	0	227
Pittsburg State University	Investment Agreement	206	0	0	0	206
Dept. of Corrections	Repurchase Agreements	439	0	0	439	0
Dept. of Corrections	Investment Agreement	1,135	1,135	0	0	0
University of Kansas	Repurchase Agreements	394	0	0	0	393
University of Kansas	Investment Agreement	2,121	0	0	1,599	522
<b>Total</b>		<b>\$ 81,900</b>	<b>\$ 1,135</b>	<b>\$ 5,351</b>	<b>\$ 12,918</b>	<b>\$ 62,495</b>

The investments shown above include debt service reserve funds and other investments as shown below (expressed in thousands):

Agency Name	Debt Service Reserve Fund	Other Investments	Total
Fort Hays State University	\$ 115	\$ 0	\$ 115
Dept of Health and Environment	45,450	5,934	51,384
Dept. of Transportation	15,277	0	15,277
Dept. of Commerce	6,267	0	6,267
Kansas State University	4,335	0	4,335
Emporia State University	227	0	227
Pittsburg State University	206	0	206
Dept. of Corrections	1,574	0	1,574
University of Kansas	2,515	0	2,515
<b>Total</b>	<b>\$ 75,966</b>	<b>\$ 5,934</b>	<b>\$ 81,900</b>

*Interest Rate Risk* – Due to the tax exempt status of the bonds it is generally the practice of K DFA management to match reserve fund interest rates to the arbitrage yield on the bonds and the term of the investments to the maturity of the bonds. For invested loan funds, the K DFA generally invests to maximize the interest rate and set a term of investment based on estimated expenditures which is generally three to five years.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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*Credit Risk* – The K DFA holds investments that may have credit risk since the underlying securities may include securities other than those that take the form of U.S. Treasuries or obligations explicitly guaranteed by the U.S. government. The investments are unrated.

*Concentration of Credit Risk.* The K DFA places no limit on the amount that may be invested with any one provider. The table below identifies the percent of total investments held by each provider as of June 30, 2011 (expressed in thousands):

Agency Name	Investment Provider	Fair Value	Percent of Total for Agency
Fort Hays State University	Natixis Funding Corp.	\$ 115	100%
Dept. of Health & Environment	AIG	20,234	38.38%
Dept. of Health & Environment	Citigroup	17,558	34.17%
Dept. of Health & Environment	FSA	1,201	2.34%
Dept. of Health & Environment	Trinity Plus Funding	11,384	22.15%
Dept. of Health & Environment	Morgan Guaranty	1,007	1.96%
Dept. of Transportation	FSA Capital Mgmt. Serv.	15,277	100%
Dept. of Commerce	MBIA	3,451	55.06%
Dept. of Commerce	FSA Capital Mgmt. Serv.	2,817	44.94%
Kansas State University	MBIA	3,874	89.36%
Kansas State University	Bayerische	461	10.64%
Emporia State University	Trinity Plus	227	100%
Pittsburg State University	Trinity Plus	206	100%
Dept. of Corrections	AIG	1,574	100%
University of Kansas	Bayerische	643	25.57%
University of Kansas	FSA Capital Mgmt. Serv.	1,871	74.43%
<b>Total</b>		<u><u>\$ 81,900</u></u>	

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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***Component Unit-Universities***

The following table summarizes the State University System's cash and investments at June 30, 2011 (expressed in thousands):

	<u>Fair Value</u>
U.S. Government obligations	\$ 400
Kansas banks	3,434
Invested with PMIB	1,861
Invested with K DFA	7,397
Imprest funds	155
Cash held with the State Treasurer	574,027
Cash and other investments	2,513,847
Total cash and investments	<u>\$ 3,101,121</u>

University component unit cash investments minimize risks for credit, interest and concentration of credit per specific investment policies which include U.S. Treasury securities or obligations explicitly guaranteed by the U.S. government.

The State University System component unit also reports the investments related to each respective university's endowment, foundation and athletic association, as applicable. These organizations are considered discretely presented component units of the State University System, however they do not classify investments according to risk because they prepare their financial statements under standards set by the Financial Accounting Standards Board. Each component unit of the State University System has issued financial statements that are available by contacting each respective university within the System.

At June 30, 2011, the Kansas University Endowment Association held \$1,307,879 of securities at fair value held mainly in money markets, domestic equities, U.S. Treasuries, mutual funds, common trust equity and fixed income funds, marketable alternatives and other LLCs and LLPs. The marketable alternatives, LLCs and LLPs are accounted for under the equity method of accounting.

At June 30, 2011, the Kansas State University Foundation held \$436,604 of securities at fair value held mainly in equity securities, mutual funds (equity and fixed income), pooled separate funds (equity and fixed income), hedge funds, common stock, real estate, U.S. government obligations and various forms of private capital.

At June 30, 2011, the Wichita State University Foundation held \$200,985 of securities at fair value held mainly in common and preferred stocks, foreign stocks, corporate bonds, mortgage-backed securities, U.S. government securities, commodities and foreign bonds.

***Kansas Public Employees Retirement System (KPERs) Investments***

Investments and the investment process are governed by K.S.A. 74-4921. The Board of Trustees maintains a formal Statement of Investment Policy, which addresses the governing provisions of the law, as well as specifying additional guidelines for the investment process.

Statutory authority for KPERs' investment program is provided in K.S.A. 74-4901, et seq., effective July 1, 1993. The Retirement Act addresses the following areas:

- Establishes the structure of the Board of Trustees, defines the Trustees' responsibilities, imposing the prudent expert standard upon their actions with respect to managing the assets of KPERs.
- Requires that the assets be invested to preserve capital and solely to provide benefits to members and the members' beneficiaries.

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### **III. Detailed Notes On All Funds**

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- Limits the possible allocation of common stock to 60 percent of the total book value of the fund.
- The annual allowance for new alternative (non-publicly traded) investments is limited to one percent of the market value of the total investment assets of the fund as measured from the end of the preceding calendar year.
- Establishes limits on the structure of future investments in real estate or alternative investments.
- Requires that the Board develop investment policies and objectives to invest fund assets.
- Authorizes the Board to hire qualified professionals/firms to assist in investing the fund and requires that such professionals/firms obtain errors and omissions insurance coverage and fidelity bond insurance coverage.
- Authorizes the Board to pay for the services of retained professionals/firms at the rates fixed by the Board, excluding any reimbursement for expenses and subject to the provisions of the appropriations acts.
- Provides for an annual audit and requires that the Board annually examine the investment program, specific investments, and its policies and practices.

In fulfilling its responsibilities, the Board of Trustees has contracted with 30 investment management firms and a master global custodian. KPERS has six permissible investment categories: 1) Equities, 2) Real estate, 3) Fixed income securities, 4) Derivative products, 5) Cash equivalents, and 6) Alternative investments.

KPERS' Statement of Investment Policy authorizes participation in a securities lending program administered by the master global custodian, Bank of New York Mellon. KPERS receives income from the loan of the securities, in addition to the income which accrues to KPERS as owner of the securities. The securities loans are open contracts and therefore could be terminated at any time by either party. The types of securities lent include U.S. government securities, domestic and international equities, and domestic and international bonds.

The borrower collateralizes the loan with either cash or government securities of 102 percent of fair value on domestic securities and 105 percent of fair value on international securities loaned. Cash collateral is invested in KPERS' name in a dedicated short-term investment fund consisting of investment grade debt securities. KPERS does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2011, the maturities of securities in this dedicated bond portfolio were as follows: 45.7 percent of the fair values of the securities mature within 30 days; 21.0 percent mature between 31 and 180 days; and 33.3 percent mature after 180 days.

The custodian provides for full indemnification to KPERS for any losses that might occur in the event of borrower default. KPERS does incur credit risk as it relates to the credit quality of the securities in the collateral pool. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2010, and June 30, 2010, were \$1.2 billion and \$1.3 billion respectively. Collateral held by KPERS for June 30, 2011, and June 30, 2010, were \$1.3 billion and \$1.4 billion respectively. Net income produced from securities lending activities for fiscal year 2011 was \$5.1 million and for fiscal year 2010 was \$4.6 million.

*Custodial Credit Risk.* The risk in the event a financial institution or counterparty fails, KPERS would not be able to recover value of deposits, investments or collateral securities that are in the possession of an outside party. One hundred percent (100 percent) of KPERS investments are held in KPERS' name and are not subject to creditors of the custodial bank.

*Concentration Risk.* KPERS has investments in Federal National Mortgage Association issued securities that represent 2.7 percent of total net asset value, and U.S. Treasury securities representing 11.2 percent of the total market value. KPERS investment policy does not prohibit holdings above five percent in the debt securities of U.S. government issuers. Government sponsored enterprises (GSEs, such as FNMA) are considered government issuers for the purpose of implementing KPERS investment policy. No other single issuer represents one percent or more of KPERS assets.



State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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*Currency Risk.* The risk that changes in exchange rates will adversely affect the fair value of an investment. KPERS investments at June 30, 2011, were distributed among the following currencies (expressed in thousands):

USD Equivalent	Currency	Percent
\$ 233,601	Australian Dollar	1.65%
91,289	Brazil Real	0.64%
839,983	British Pound Sterling	5.92%
300,555	Canadian Dollar	2.12%
2,287	Chilean Peso	0.02%
53,008	Chinese Yuan Renminbi	0.37%
3,825	Colombian Peso	0.03%
1,693	Czech Koruna	0.01%
38,945	Danish Krone	0.27%
802	Egyptian Pound	0.01%
1,203,951	Euro Currency Unit	8.48%
256,041	Hong Kong Dollar	1.80%
2,098	Hungarian Forint	0.01%
31,263	Indian Rupee	0.22%
35,419	Indonesian Rupian	0.25%
20,958	Israeli Shekel	0.15%
656,296	Japanese Yen	4.62%
20,035	Malaysian Ringgit	0.14%
63,288	Mexican New Peso	0.45%
41,621	New Taiwan Dollar	0.29%
21,829	New Turkish Lira	0.15%
9,170	New Zealand Dollar	0.06%
68,031	Norwegian Krone	0.48%
14,271	Philippines Peso	0.10%
12,527	Polish Zloty	0.09%
19,295	Russian Rubel	0.14%
33,707	S African Comm Rand	0.24%
123,748	Singapore Dollar	0.87%
129,828	South Korean Won	0.91%
91,765	Swedish Krona	0.65%
237,052	Swiss Franc	1.67%
11,062	Thailand Baht	0.08%
1,719	Uruguayan Peso	0.01%
22,728	Other currencies	0.16%
9,503,302	U.S. Dollar	66.94%
<u>\$ 14,196,992 *</u>		<u>100.00%</u>

\* Includes securities lending collateral of \$960,689,299

KPERS' asset allocation and investment policies include active and passive investments in international securities. KPERS target allocation is to have 22.0 percent of assets (excluding securities lending collateral) in dedicated international equities. KPERS also has five percent of assets targeted to global equities which are expected to be between 40.0 and 60.0 percent international. Core Plus bond managers are allowed to invest up to 20.0 percent of their portfolio in non-dollar securities. KPERS utilizes a currency overlay manager to reduce risk by hedging up to 50 percent of the foreign currency for selected international equity portfolios. At June 30, 2011, KPERS total foreign currency exposure was 6.9 percent hedged.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

---

*Credit Risk.* The risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. KPERS' investment policies require Core and Core Plus managers to have at least 70 percent of holdings in investment grade securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark.

In the table below, commercial paper also includes repurchase agreements and other short-term securities. Agency securities are those implicitly guaranteed by the U.S Government. U.S. Government securities are treasury securities and agencies explicitly guaranteed. Securities Lending Collateral class has the following policy requirements, at the date of purchase: to be rated A3/A- or better; Commercial paper must be A1/P1; Asset-backed securities must be AA3/AA- or better; Repurchase agreements must be 102 percent collateralized with A3/A- or A1/P1 or better securities and held by the custodial bank or third-party custodian. Securities Lending Collateral NR (Not Rated) securities are repurchase agreements and certificates of deposit.

KPERS assets, as of June 30, 2011, subject to credit risk, are shown with current credit ratings below (expressed in thousands):

Quality Rating	Commercial Paper	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
NR	\$ 84,319	\$ 287,566	\$ 0	\$ 0	\$ 505,599	\$ 877,484
AAA	0	202,825	0	1,573,888	23,974	1,800,687
AA	0	181,227	345,363	18,168	124,073	668,831
A	0	392,947	91	0	307,044	700,082
BBB	0	373,485	367	0	0	373,852
BB	0	278,541	0	0	0	278,541
B	0	234,492	0	0	0	234,492
CCC	0	105,267	0	0	0	105,267
Total	<u>\$ 84,319</u>	<u>\$ 2,056,350</u>	<u>\$ 345,821</u>	<u>\$ 1,592,056</u>	<u>\$ 960,690</u>	<u>\$ 5,039,236</u>

*Interest Rate Risk.* The risk that changes in interest rates will adversely affect the fair value of an investment. Investment policy requires Core and Core Plus managers to be within 20 percent of their benchmark duration, and all fixed portfolios shall maintain a reasonable risk level relative to their benchmarks. The same KPERS assets as above are also subject to interest rate risk. These are shown below grouped by effective duration ranges (expressed in thousands):

Effective Duration	Commercial Paper	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
0-1 yr	\$ 84,319	\$ 846,601	\$ 119,800	\$ 232,092	\$ 873,169	\$ 2,155,981
1-3 yrs	0	198,602	57,091	609,450	87,521	952,664
3-5 yrs	0	297,028	157,245	316,086	0	770,359
5-10 yrs	0	491,935	10,750	355,030	0	857,715
10-20 yrs	0	222,184	935	79,398	0	302,517
Total	<u>\$ 84,319</u>	<u>\$ 2,056,350</u>	<u>\$ 345,821</u>	<u>\$ 1,592,056</u>	<u>\$ 960,690</u>	<u>\$ 5,039,236</u>

Securities Lending Collateral policy limits the maximum average portfolio maturity of 90 days and only floating rate and fixed rate asset-backed securities may mature beyond 13 months.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

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*Investment Derivatives*

*Futures*

Futures contracts are commitments for delayed delivery (liability) or receipt (asset) of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specific future date, of a specific instrument, at a specific price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable securities. Holders of the futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of the counterparties to futures contracts is minimal. Daily, the net change in the futures contract value is settled in cash with the exchanges, making the fair values always equal to zero after the daily margin flow. At the close of business June 30, 2011, KPERS had total net margins payable the next day of \$1.2 million. Cash equivalents and short-term investments in amounts necessary to settle the economic value of the futures contracts were held in the portfolio so that no leverage was employed in accordance with the Statement of Investment Policy. The daily margin flows affect cash assets held at the broker. Realized gains/losses are recognized at contract maturity and are included with underlying security type returns. Total revenues of \$181.8 million were associated with futures for the year ending June 30, 2011.

*Options*

KPERS also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specific price within a specific time. The option buyer has some counterparty risk in the event the seller cannot deliver when exercised. This involves opportunity cost and possible loss of option fees. The option seller holds the securities and has minimal counterparty risk. Option strategies used by KPERS are designed to provide exposure to positive market moves and limit exposures to interest rate and currency volatility.

**Investment Derivative Notional Values**  
*(expressed in thousands)*

<u>Derivative</u>	<u>Asset Class*</u>	<u>June 30,2010</u>	<u>June 30,2011</u>
Domestic Equity Futures	Domestic Equities	\$ 801,672	1,196,118
International Equity Futures	International Equities	280,809	739,757
Fixed Futures	Fixed	653,618	997,215
Options Written	Fixed	1,329	936
Pay Fixed Interest Swaps	Fixed	0	20,550
Receive Fixed Interest Swaps	Fixed	189,450	154,000
Credit Default Swaps	Fixed	80,435	441,321
TBA Agency Bonds**	Fixed	78,500	(112,261)

\*The Asset Class that the Fair Values and Revenues are included in other schedules. Futures and Options reflect the summed absolute values of the exposures.

\*\*TBA Agency Bond notional values are equal to their fair values. KPERS Investment policy allows managers to carry short TBA values as long as there are offsetting long holdings in similar securities with similar characteristics.

*Swaps*

Interest rate swaps are agreements between two counterparties to exchange future cash flows. These are generally fixed vs. variable flows, and can be either received or paid. These swaps are used to adjust interest rate and yield curve exposure and substitute for physical securities. Long swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease exposure. Counterparty risk is limited to monthly exchanged or netted cash flows.

Credit default swaps are used to manage credit exposure without direct purchase or sale of securities. Written credit default swaps increase credit exposure (selling protection) obligating the seller to buy the bonds from the counterparty in the event of default. This creates credit risk, but very little counterparty risk. Purchased credit default swaps decrease

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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exposure (buying protection) providing the right to “put” bonds to the counterparty in the event of default. This decreases credit risk, and has counterparty risk in the event the seller of the protection fails to cover the defaulting security. Controls are established by the investment managers to monitor the creditworthiness of the counterparties.

*TBA (To Be Announced) Agency Bonds*

A TBA is a contract for the purchase or sale of agency mortgage-backed securities to be delivered at a future agreed-upon date; however, the actual pool identities or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade. A common practice is to buy a TBA security thirty to sixty days in advance of the issue date with the issue date as the trade settle date, then selling the security based on changes in interest rates, without taking possession of, or paying for, the security. The only cash cost is the broker cost of the trades. These have minimal credit risk, while this scenario is designed specifically to increase interest rate exposure.

**Investment Derivative Fair Values**

*(expressed in thousands)*

<u>Derivative</u>	<u>June 30,2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,2011</u>
Options Written	\$ (695)	\$ 1,323	\$ 523	\$ 105
Pay Fixed Interest Swaps	0	293	600	(307)
Received Fixed Interest Swaps	1,320	1,106	1,636	790
Credit Default Swaps	(780)	252,338	247,486	4,072
TBA Agency Bonds**	78,500	1,772,786	1,963,548	(112,262)
Foreign Currency Forwards	(4,052)	107,063	113,663	(10,652)
Total	<u>\$ 74,293</u>	<u>\$ 2,134,909</u>	<u>\$ 2,327,456</u>	<u>\$ (118,254)</u>

\*TBA Agency Bond notional values are equal to their fair values

*Foreign Currency Forwards*

KPERS’ international investment managers use forward contracts to obtain currencies necessary for trade execution and manage the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns or to control volatility. Currency risk arises due to foreign exchange fluctuations. Forward foreign exchange contracts are negotiated between two counterparties. KPERS could incur a loss if its counterparties failed to perform pursuant to the terms of their contractual obligations. Since KPERS holds the offsetting currency in the contract, and controls are established by the investment managers to monitor the creditworthiness of the counterparties, risk of actual loss are minimized. KPERS also contracts with a currency overlay manager to hedge the currency exposure to KPERS international equity portfolio.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

---

**Foreign Currency Forwards**  
*(expressed in thousands)*

Currency	June 30, 2010				June 30, 2011	
	Notional \$USD	Fair Values	FV Increases	FV Decreases	Fair Values	Notional \$USD
<b>Investment Currency Forwards</b>						
Australian Dollar	\$ 118,732	\$ (3,718)	\$ 17,072	\$ 12,936	\$ 418	\$ 183,401
Brazil Real	4,142	(59)	346	106	181	40,766
British Pound Sterling	186,854	(638)	11,589	8,834	2,117	221,092
Canadian Dollar	140,112	(733)	8,170	8,370	(933)	114,399
Chinese Yuan Renminbi	9,105	(47)	124	0	77	18,823
Euro Currency Unit	546,982	5,911	44,792	51,122	(419)	475,502
Hong Kong Dollar	74,236	161	1,076	1,201	36	99,691
Hungarian Forint	0	0	15	192	(177)	4,456
Indonesian Rupian	1,100	106	62	18	150	5,352
Japanese Yen	314,418	(4,546)	23,406	17,710	1,150	385,814
Malaysian Ringgit	1,514	51	18	35	34	4,270
Mexican New Peso	1,967	(10)	745	272	463	26,003
New Taiwan Dollar	1,204	(10)	27	9	8	598
New Zealand Dollar	29,991	128	3,073	3,652	(451)	35,058
Norwegian Krone	8,308	(133)	2,495	1,827	535	57,517
Other Currencies	0	0	336	212	124	13,661
Philippines Peso	0	0	12	27	(15)	6,785
S African Rand	1,926	10	656	609	57	7,348
Singapore Dollar	24,312	(337)	1,058	571	150	37,853
South Korean Won	6,161	(118)	116	(202)	200	8,078
Swedish Krona	43,582	(233)	8,404	7,850	321	62,655
Swiss Franc	46,000	163	8,179	7,501	841	93,314
Investment Forwards	<u>\$ 1,560,646</u>	<u>\$ (4,052)</u>	<u>\$ 131,771</u>	<u>\$ 122,852</u>	<u>\$ 4,867</u>	<u>\$ 1,902,436</u>
<b>Hedging Currency Forwards</b>						
Australian Dollar	\$ 242,972	\$ (641)	\$ 11,592	\$ 11,088	\$ (137)	\$ 11,346
Canadian Dollar	81,339	(1,273)	1,804	1,391	(860)	61,077
Swiss Franc	79,079	169	4,697	5,729	(863)	51,278
Euro Currency Unit	405,306	25,085	27,192	62,262	(9,985)	425,929
British Pound	286,231	1,151	4,342	6,812	(1,319)	276,851
Hong Kong Dollar	38,056	99	195	294	0	35,978
Japanese Yen	176,616	(819)	5,711	7,246	(2,354)	162,086
Hedging Forwards	<u>\$ 1,309,599</u>	<u>\$ 23,771</u>	<u>\$ 55,533</u>	<u>\$ 94,822</u>	<u>\$ (15,518)</u>	<u>\$ 1,024,545</u>
<b>Total</b>	<u><u>\$ 2,870,245</u></u>	<u><u>\$ 19,719</u></u>	<u><u>\$ 187,304</u></u>	<u><u>\$ 217,674</u></u>	<u><u>\$ (10,651)</u></u>	<u><u>\$ 2,926,981</u></u>

#### Hedging Derivatives

##### *Foreign Currency Forwards*

KPERS utilizes a currency overlay manager to reduce, or partially hedge, KPERS' exposure to foreign currencies through the international equities portfolio. The overlay manager assesses KPERS' international equities exposure to currencies, and (buys/sells) inverse currency forwards in relation to the overall currency exposures. The inverse relationship of these hedging forwards uses their exposure to currency risk to reduce overall KPERS exposure. The Statement of Investment Policy stipulates that the overlay manager should "Take forward currency exchange contract positions which will have the intent and effect of hedging the currency exposure of the underlying international equity assets." The Statement of Investment Policy further states the forward currency exchange contract positions be used to "Maintain an acceptable risk level by reducing the negative volatility of the currency component of return."

### **III. Detailed Notes On All Funds**

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KPERS has ongoing foreign currency exposure through its international equities portfolio. At June 30, 2011, the market values of international equities was \$3.87 billion. KPERS' exposure to foreign currencies is converted into a proxy basket of seven liquid currencies that are highly correlated to the movements of the underlying currencies. The weights to be used are calculated with reference to the liquidity and risk of each currency. There is appropriate statistical evidence that the proxy basket does track the currency exposure closely (residual standard deviation of less than one percent). This proves the intent is to hedge and qualifies as a designated hedge under Generally Accepted Accounting Principles. The forward contracts are purchased as needed are determined by the hedge manager, and mature in the nearest September or March. Gains/losses are realized during those periods and the contracts are rolled over to the next period as appropriate. Through these processes, hedging contracts can adapt at any changes to portfolio currency exposure. Since the hedging currency forwards track to the overall exposure, and they reference the same foreign exchange rates as the underlying portfolio, this hedge is known to be effective through consistent critical terms.

A portfolio hedge such as this does not match the hedging forwards to any specific hedged security. The accessibility and liquidity of the currency forwards market allows these hedging forwards to roll forward and seamlessly hedge the ongoing foreign currency exposure. Counterparties to these forwards are carefully analyzed for credit risk. KPERS has control of one side of the exchange at all times, thereby reducing the costs of a counterparty default to possible lost gains and inconvenience costs required to re-establish the hedge on short notice with another counterparty.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

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**Currency Forwards Counterparty Exposure**  
*(expressed in thousands)*

<u>Counterparty Name</u>	<u>By Counterparty at June 30, 2011</u>		<u>Standard &amp; Poors Long Term Rating</u>
	<u>Notional \$USD</u>	<u>Fair Values</u>	
<u>Investment Forwards Counterparty Exposure</u>			
Bank of America Corp	\$ 23,036	\$ (111)	A
Bank of New York Mellon	42,305	(211)	AA-
Barclays	56,087	24	A+
BNP Paribas	103,710	(235)	AA
Citigroup Inc Total	76,129	312	A
Credit Suisse Group AG	117,547	(1,083)	A
Deutsche Bank AG	226,558	1,800	A+
Goldman Sachs Group Inc	10,819	90	A
HSBC Holding PLC	149,707	930	AA-
JPMorgan Chase & Co	196,651	477	A+
Morgan Stanley	15,534	80	A
Northern Trust Corp	2,203	(5)	AA-
Royal Bank of Canada	135,609	739	AA-
Royal Bank of Scotland	126,563	(922)	AAA
Societe Generale	132,965	392	A+
Standard Chartered PLC	929	2	A
State Street Corp	182,461	2,320	A+
Toronto Dominion Bank	18,381	(244)	not rated
UBS	93,849	406	A+
Westpac Banking Corp	191,395	107	AA
Investment Exposure	<u>\$ 1,902,438</u>	<u>\$ 4,868</u>	
<u>Hedging Forwards Counterparty Exposure</u>			
Barclays	\$ 96,309	\$ (2,161)	A+
Citigroup Inc	163,157	(2,147)	A
Deutsche Bank AG	148,592	5	A+
JPMorgan Chase & Co	255,057	(2,836)	A+
Royal Bank of Canada	115,875	(1,142)	AA-
Royal Bank of Scotland	106,907	(976)	AAA
UBS AG	138,648	(6,261)	A+
Hedging Exposure	<u>\$ 1,024,545</u>	<u>\$ (15,518)</u>	

#### C. External Investment Pool

The Kansas Municipal Investment Pool (MIP) was created on July 1, 1992, as a voluntary, State-managed investment alternative for State and local funds. The Kansas State Treasurer's Office acts as the custodian for all moneys deposited. All Kansas governmental units, including cities, counties, school districts and other governmental entities holding public moneys are eligible to participate in the MIP.

The MIP is considered a mixed pool because agencies of the State are participants in the pool. At June 30, 2011, the State's participation in the MIP was \$2.02 million. Deposits in the MIP are combined with State moneys to form the Pooled Money Investment Portfolio (PMIP). Investments subject to categorization of the PMIP are all category 1. As of March 15, 2004, the Pooled Money Investment Portfolio was rated AAAs/S1+ by Standard & Poor's. Standard and Poor's requires monthly reporting on the Pool Money Investment Portfolio and conducts an annual rating review. Their most recent portfolio rating review was in April 2011, and the rating AAAs/S1+ was reaffirmed.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

### III. Detailed Notes On All Funds

The MIP structure provides fixed rate investment alternatives between 30 and 179 days plus 180 and 365-day maturities as well as a variable rate, daily liquidity, overnight investment alternative. Participants' ownership in the fund is based on their deposits and is reflected as net assets held in trust on the statement of fiduciary net assets. The MIP is valued on a monthly basis.

#### D. Receivables

Accounts receivable as of June 30, 2011, for the State's primary government and component units net of the applicable allowances for uncollectible accounts, are as follows (expressed in thousands):

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Taxes receivable	\$ 684,509	\$ 0	\$ 684,509	\$ 0
Loan receivable	7,248	917,011	924,259	85,395
Accrued interest	115	12,024	12,139	2,990
Other receivables	302,885	37,169	340,054	306,447
<b>Total</b>	<b>\$ 994,757</b>	<b>\$ 966,204</b>	<b>\$ 1,960,961</b>	<b>\$ 394,832</b>

Taxes receivable are shown net of allowances for uncollectible taxes of \$573.7 million.

#### E. Investment in Direct Financing Leases

##### *Component Units*

The Kansas Development Finance Authority (KDFA) issues revenue bonds to facilitate construction of certain capital projects for various State agencies and other public and private entities. KDFA's interests in the projects have been assigned to various State government units through the use of financing lease transactions. Contained in the trust indenture or resolution and loan agreement for each series of bonds is a pledge of revenue agreement by which revenues paid by the various governmental units, as loan obligors to KDFA are pledged to pay bond debt service. Amounts are actually paid by the State agencies directly to the bond paying agents for the revenue bonds.

Net investment in direct financing obligations as of June 30, 2011, is as follows (expressed in thousands):

Total minimum lease payments to be received	\$ 114,057
Less: unearned income	(23,897)
Net investment in direct financing leases	<b>\$ 90,160</b>

The future minimum loan payments to be received by KDFA under the direct financing agreements mirror the payments to be made by KDFA under the revenue bonds payable.

#### F. Restricted Assets

Certain revenue bond proceeds and other resources set aside for bond repayment, capital projects, and other purposes are reported as restricted assets in the Statement of Net Assets because their use is limited by applicable bond covenants or statutory provisions.



State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

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*Donor-Restricted Assets.* Kansas' permanent endowment moneys are held primarily by State university foundations. Each university has a separate foundation, and each foundation has its own policies and procedures. Typically, the permanent endowment funds have a nonexpendable permanent corpus and an earnings reserve, which is used to receive earnings and pay expenses. The donor restrictions and the Uniform Prudent Management of Institutional Funds Act (K.S.A. 58-3601) provide guidance on how these funds can be invested, and also govern the spending of net appreciation from these investments. Net appreciation is reflected in restricted net assets. The amount of net appreciation available to be spent can be found in the individual foundation annual financial reports.

#### G. Equity

Invested in capital assets, restricted for capital projects, restricted for debt service and restricted for other purposes are each shown separately on the Statement of Net Assets. The majority of restrictions are within the component units, with \$403.1 million from the Kansas University Endowment. Restrictions as of June 30, 2011, from component units are as follows (expressed in thousands):

#### *Component Units*

	Kansas Development Finance Authority	Kansas Technology Enterprise Corporation	Kansas Housing Resources Corporation	Kansas Bioscience Authority	State University System	Total
Invested in capital assets, net of related debt	\$ 38	\$ 53	\$ 277	\$ 4,284	\$ 1,316,827	\$ 1,321,479
Restricted for capital projects	0	0	0	0	63,819	63,819
Restricted for debt service	0	0	0	0	36,362	36,362
Restricted for other purposes	0	82	863	5,164	980,216	986,325
Unrestricted	9,069	10,043	11,204	116,337	1,813,286	1,959,939
Total	<u>\$ 9,107</u>	<u>\$ 10,178</u>	<u>\$ 12,344</u>	<u>\$ 125,785</u>	<u>\$ 4,210,510</u>	<u>\$ 4,367,924</u>

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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**H. Capital Assets**

**Primary Government**

	(expressed in thousands)				
	Beginning Balance	Adjusted Beg Bal	Increases	Decreases	Ending Balance
<i>Governmental activities</i>					
Capital assets, not being depreciated:					
Land	\$ 219,398	\$ (3,660)	\$ 21,284	\$ 8,226	\$ 228,796
Intangible	750	0	0	0	750
Construction in progress	1,203,511	(12,483)	270,330	411,359	1,049,999
Infrastructure (including construction in progress)	10,009,510	0	406,826	151,602	10,264,734
Total capital assets, not being depreciated	<u>11,433,169</u>	<u>(16,143)</u>	<u>698,440</u>	<u>571,187</u>	<u>11,544,279</u>
Capital assets, being depreciated:					
Buildings and improvements	1,287,857	(12,125)	98,359	67,786	1,306,305
Land improvement	96,065	18,952	4,179	9,719	109,477
Equipment and furnishings	480,372	(28,357)	51,275	15,803	487,487
Vehicles	75,130	(228)	6,481	6,300	75,083
Intangibles, software	27,720	(6,891)	57,129	2018	75,940
Water rights	32,431	0	0	0	32,431
Total	<u>1,999,575</u>	<u>(28,649)</u>	<u>217,423</u>	<u>101,626</u>	<u>2,086,723</u>
Less accumulated depreciation for:					
Buildings and improvements	292,865	275,468	39,206	33,753	573,786
Land improvement	0	55,271	4,289	9,503	50,057
Equipment and furnishings	231,519	(10,661)	46,199	19,535	247,522
Vehicles	47,193	6,052	7,812	5,139	55,918
Intangibles, software	9,168	(2,672)	8,563	787	14,272
Water rights	15,575	0	836	0	16,411
Total	<u>596,320</u>	<u>323,458</u>	<u>106,905</u>	<u>68,717</u>	<u>957,966</u>
Total capital assets, being depreciated, net	<u>1,403,255</u>	<u>(352,107)</u>	<u>110,518</u>	<u>32,909</u>	<u>1,128,757</u>
Governmental activity capital assets, net	<u>\$ 12,836,424</u>	<u>\$ (368,250)</u>	<u>\$ 808,958</u>	<u>\$ 604,096</u>	<u>\$ 12,673,036</u>
<i>Business-type activities</i>					
Capital assets, being depreciated:					
Equipment and furnishings	\$ 11,116	\$ (674)	\$ 50	\$ 74	\$ 10,418
Vehicles	<u>        </u>	<u>665</u>	<u>64</u>	<u>42</u>	<u>687</u>
Total	<u>11,116</u>	<u>(9)</u>	<u>114</u>	<u>116</u>	<u>11,105</u>
Less accumulated depreciation for:					
Equipment and furnishings	2,766	(522)	2,207	74	4,377
Vehicles	<u>        </u>	<u>523</u>	<u>52</u>	<u>41</u>	<u>534</u>
Total	<u>2,766</u>	<u>1</u>	<u>2,259</u>	<u>115</u>	<u>4,911</u>
Business-type activities capital asset, net	<u>\$ 8,350</u>	<u>\$ (10)</u>	<u>\$ (2,145)</u>	<u>\$ 1</u>	<u>\$ 6,194</u>

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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Depreciation expense was charged to functions/programs as follows (expressed in thousands):

*Governmental activities*

General government	\$ 19,660
Human resources	26,055
Education	5,242
Public safety	18,943
Agriculture and natural resources	7,397
Highways and other transportation	28,675
Health and environment	933
Total depreciation expense – Government activities	<u>\$ 106,905</u>

*Business-Type activities*

Health care stabilization	\$ 4
Nonmajor business-type	2,254
Total depreciation expense – Business-type activities	<u>\$ 2,258</u>

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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**Component Units**

	(expressed in thousands)			
	Beginning Balance	Increases	Decreases	Ending Balance
<i>Kansas Development Finance Authority</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 147	\$ 41	\$ 0	\$ 188
Buildings and improvements	108	2	0	110
Less accumulated depreciation	238	21	0	259
Total capital assets, being depreciated, net	<u>\$ 17</u>	<u>\$ 22</u>	<u>\$ 0</u>	<u>\$ 39</u>
 <i>Kansas Technology Enterprise Corporation</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 919	\$ 23	\$ 8	\$ 934
Less accumulated depreciation	834	54	7	881
Total capital assets, being depreciated, net	<u>\$ 85</u>	<u>\$ (31)</u>	<u>\$ 1</u>	<u>\$ 53</u>
 <i>Kansas Housing Resources Corporation</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 756	\$ 0	\$ 0	\$ 756
Software implementation in progress	0	24	0	24
Vehicles	133	0	0	133
Buildings and improvements	62	0	0	62
Less accumulated depreciation	555	142	0	697
Total capital assets, being depreciated, net	<u>\$ 396</u>	<u>\$ (118)</u>	<u>\$ 0</u>	<u>\$ 278</u>
 <i>Kansas Bioscience Authority</i>				
Capital assets, not being depreciated				
Land	\$ 420	\$ 0	\$ 0	\$ 420
Construction in process	4,520	9,221	13,741	0
Total capital assets, not being depreciated	<u>4,940</u>	<u>9,221</u>	<u>13,741</u>	<u>420</u>
Capital assets, being depreciated				
Furniture and equipment	\$ 274	\$ 825	\$ 3	\$ 1,096
Buildings and improvements	6	13,252	6	13,252
Less accumulated depreciation	133	122	8	247
Total capital assets being depreciated, net	<u>147</u>	<u>13,955</u>	<u>1</u>	<u>14,101</u>
Total capital assets, net	<u>\$ 5,087</u>	<u>\$ 23,176</u>	<u>\$ 13,742</u>	<u>\$ 14,521</u>

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

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	(expressed in thousands)				
	Beginning Balance	Adjusted Beg Bal	Increases	Decreases	Ending Balance
<i>University System</i>					
Capital assets, not being depreciated					
Land	\$ 69,121	\$ 0	\$ 4,419	\$ 13,809	\$ 59,731
Construction in progress	131,279	0	161,326	112,067	180,538
Total capital assets, not being depreciated	<u>200,400</u>	<u>0</u>	<u>165,745</u>	<u>125,876</u>	<u>240,269</u>
Capital assets, being depreciated					
Buildings and improvements	2,461,685	(1,920)	158,666	12,263	2,606,168
Depreciable land improvement	45,557	0	1,285	43	46,799
Equipment and furnishings	514,988	(834)	59,307	28,350	545,111
Intangible, software	6,017	3,227	60	0	9,304
Vehicles	51,175	23	2,387	5,318	48,267
Total capital assets, being depreciated	<u>3,079,422</u>	<u>496</u>	<u>221,705</u>	<u>45,974</u>	<u>3,255,649</u>
Less accumulated depreciation for:					
Buildings and improvements	1,006,173	2,376	71,963	6,722	1,073,790
Depreciable land improvement	18,253	(88)	1,685	11	19,839
Equipment and furnishings	348,230	(1,173)	50,062	27,508	369,611
Intangible, software	3,303	3,128	749	0	7,180
Vehicles	41,017	23	3,716	5,320	39,436
Totals	<u>1,416,976</u>	<u>4,266</u>	<u>128,175</u>	<u>39,561</u>	<u>1,509,856</u>
Total capital assets, being depreciated, net	<u>1,662,446</u>	<u>(3,770)</u>	<u>93,530</u>	<u>6,413</u>	<u>1,745,793</u>
University system capital assets, net	<u>\$ 1,862,846</u>	<u>\$ (3,770)</u>	<u>\$ 259,275</u>	<u>\$ 132,289</u>	<u>\$ 1,986,062</u>
<i>All Component Units</i>					
Capital assets, not being depreciated					
Land	\$ 69,542	\$ 0	\$ 4,418	\$ 13,809	\$ 60,151
Construction in progress	135,799	0	170,548	125,808	180,539
Total capital assets, not being depreciated	<u>205,341</u>	<u>0</u>	<u>174,966</u>	<u>139,617</u>	<u>240,690</u>
Capital assets, being depreciated					
Buildings and improvements	2,461,859	(1,920)	171,920	12,268	2,619,591
Depreciable land improvement	45,557	0	1,285	43	46,799
Equipment and furnishings	517,083	(834)	60,197	28,362	548,084
Intangible, software	6,017	3,227	60	0	9,304
Vehicles	51,309	23	2,387	5,318	48,401
Total capital assets, being depreciated	<u>3,081,825</u>	<u>496</u>	<u>235,849</u>	<u>45,991</u>	<u>3,272,179</u>
Less accumulated depreciation for:					
Buildings and improvements	1,006,333	2,376	72,025	6,727	1,074,007
Depreciable land improvement	18,252	(88)	1,685	11	19,838
Equipment and furnishings	349,793	(1,173)	50,315	27,518	371,417
Intangible, software	3,303	3,128	749	0	7,180
Vehicles	41,055	23	3,740	5,320	39,498
Totals	<u>1,418,736</u>	<u>4,266</u>	<u>128,514</u>	<u>39,576</u>	<u>1,511,940</u>
Total capital assets, being depreciated, net	<u>1,663,089</u>	<u>(3,770)</u>	<u>107,335</u>	<u>6,415</u>	<u>1,760,239</u>
All component units capital assets, net	<u>\$ 1,868,430</u>	<u>\$ (3,770)</u>	<u>\$ 282,301</u>	<u>\$ 146,032</u>	<u>\$ 2,000,929</u>

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

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#### *Construction Commitments*

The State has active construction projects as of June 30, 2011. The projects include road projects, dam repair, building remodeling and restoration, and new juvenile correctional facilities. At year-end, the State's commitments with contractors are as follows (expressed in thousands):

Agency – Project	Spent to Date	Remaining Commitment	Funding Source
<b>Primary Government:</b>			
<b>Department of Social and Rehabilitation Services</b>			
Construction Project - Kansas Neurological Institution	\$ 1,344	\$ 223	Debt service - State Institution Building Fund
<b>Department of Administration</b>			
Statehouse restoration and renovation	243,801	66,226	Debt service - Lease revenue bonds secured by lease rents
<b>Department of Transportation</b>			
Various Roadway Projects - over 3,000 projects	1,035	655,600	Federal, State and local funds
<b>Adjutant General's Department</b>			
Great Plains Training Center	5,052	106	State bond funds
AFRC Wichita	2,240	6	Federal fund
Field Maintenance Shop Wichita	1,340	79	Federal fund
Salina Taxiway	1,895	7	State bond funds
<b>Component Units:</b>			
<b>Kansas State University</b>			
Recreation Center Complex	\$ 8,294	\$ 14,286	Bonds and restricted fees funds
Sheep and Meat Goat Facility	294	1,506	Restricted fees fund and private gifts
Utilities Infrastructure/Power Plant Improvements	13,828	4,595	Infrastructure maintenance and support funds
Jardine Apartment Housing	500	12,000	Bonds and restricted fees funds
NBAF Infrastructure	3,847	7,153	Restricted fee fund
Johnson Controls Energy Conservation Project	12,300	7,000	Bonds
<b>Emporia State University</b>			
Memorial Union Refurbishing	8,652	5,848	Bonds
	2,947	1,703	University finds
	1,500	0	Memorial Union
	198	0	Memorial Union refurbishing fund
<b>Pittsburg State University</b>			
Porter Hall Repair Project	2,178	0	Bonds and Education building fund.
New Student Housing	10,265	9	Bonds and housing & parking fee funds
Renovation of Existing Housing	3,213	1,079	Bonds and housing system operation fund
New Parking Expansion	3,879	277	Bonds and parking & student fee funds
Yates Hall HVAC Upgrade	1,006	2	Bonds, education building fund, general fund, student
University House	88	1,912	fees, private gifts, and auxiliary funds.
Fine and Performing Arts Center	709	29,291	R&R fund, education building fund & student fees/private gifts

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

---

**III. Detailed Notes On All Funds**

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<u>Agency – Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>	<u>Funding Source</u>
<b>Component Units:</b> (continued)			
<b>University of Kansas</b>			
Haworth Hall	1,666	2,794	Revenue bonds and private gifts funds
Murphy Hall	2,061	1,320	Infrastructure maintenance program & university interest
Edwards Campus - BEST Building	9,545	13,269	Bond proceeds secured by Edwards Campus sales tax
Energy Conservation Measures, PHASE III	16,102	5,494	Infrastructure maintenance program & university interest
Gertrude Sellards Pearson Renovation	831	13,919	Housing revenue bonds
<b>University of Kansas Medical Center</b>			
Various Projects	38,103	n/a	Bonds and State funds
<b>Wichita State University</b>			
AGED Building Construction	4,442	1,344	WSU Foundation
Duerksen Fine Arts Center HVAC Replacement	2,925	4,606	Federal Stimulus deferred maintenance Kansas deferred maintenance, repair and rehabilitation Kansas infrastructure maintenance
Rhatigan Student Center Remodel	339	900	Bonds and State funds
<b>Total</b>	<u>\$ 406,419</u>	<u>\$ 852,554</u>	

*Significant encumbrances at June 30, 2011 (amounts in thousands)*

<b>Fund</b>	<b>Amount</b>
General	\$ 22,329
Transportation	2
Health Policy Authority	15,822
Transportation Capital Projects	4
Other Governmental Funds	251,998
<b>Total</b>	<u>\$ 290,155</u>

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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**I. Interfund Receivables, Payables, and Transfers**

*Due from/to other funds*

Due from/to other funds represent interfund accounts receivable and payable. The total of due from/to other funds at June 30, 2011, is as follows (expressed in thousands):

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 6,068	\$ 20,286
Social & Rehabilitation	0	188
Transportation Fund	85	0
Non-major Governmental Funds	22,102	635
Internal Service Funds	0	993
Non-major Enterprise Funds	0	6,153
Total	<u>\$ 28,255</u>	<u>\$ 28,255</u>

*Advances to/from other funds*

Advances to/from other funds represent long-term loans from one fund to another fund. Advances at June 30, 2011, were as follows (expressed in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 0	\$ 64,199
Social & Rehabilitation	0	1,408
Non-major Governmental Funds	67,317	2,047
Non-major Enterprise Funds	1,000	0
Internal Service Funds	0	663
Total	<u>\$ 68,317</u>	<u>\$ 68,317</u>

The interfund balances designated as due from/to other funds are short-term receivables and payables resulting from the time lag between the dates that a) interfund goods and services are provided or reimbursable expenditures occur; b) transactions are recorded in the accounting system; and c) payments between funds are made.



State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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**Transfers**

Net transfers by major funds are as follows (expressed in thousands):

Fund	Net Transfers In	Net Transfers Out
General	\$ 76,327	\$ 0
Social and Rehabilitation Services	918,514	0
Transportation	0	420,449
Transportation-Capital Projects	0	41,264
Health Policy Authority	0	930,517
Non-major Governmental	471,796	0
Unemployment Insurance	0	13,200
Health Care Stabilization	0	202
Non-major Enterprise Funds	0	56,128
Internal Service Funds	0	4,877
Total	<u>\$ 1,466,637</u>	<u>\$ 1,466,637</u>

Transfers are used to (1) move revenues from fund that the statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts and (3) use unrestricted revenues collected in a fund that is used to finance various programs and capital outlay projects accounted for in another fund in accordance with budgetary authorizations. Any transfers within the governmental funds or within the proprietary funds have been eliminated in the Government-Wide Statement of Activities.

**J. Short-term Obligations**

Short-term obligations at June 30, 2011, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2010		6/30/2011	
	Beginning Balance	Additions	Deletions	Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 700,000	\$ 700,000	\$ 0
Accrued receivables:				
State Building Fund	0	42,783	42,783	0
Children's Initiatives Fund	0	29,059	29,059	0
Correctional Institution Building Fund	0	3,994	3,994	0
State Economic Development	0	21,616	21,616	0
Kansas Endowment for Youth Fund	0	207	207	0
27 <sup>th</sup> Paycheck	0	3,789	3,789	0
Total short-term obligations	<u>\$ 0</u>	<u>\$ 801,448</u>	<u>\$ 801,448</u>	<u>\$ 0</u>

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$700 million was issued on July 1, 2010, and redeemed on June 27, 2011.

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### **III. Detailed Notes On All Funds**

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Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for the State Buildings Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2011, \$28.5 million was posted to the Kansas Educational Building Fund and \$14.3 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in June 2011.

Per Senate Bill 572, Section 61(f) of the 2010 Session, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2011 a receivable was posted for \$29.1 million and was reduced to zero in April 2011.

Per Senate Bill 572, Section 61(h) of the 2010 Session, on July 1, 2010, receivables are to be posted to the State Treasurer's receivables for the Correctional Institutions Building Fund by an amount certified by the director of budget which is to be 80 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2011, a receivable was posted for \$4.0 million and was reduced to zero in February, 2011.

Per Senate Bill 572, Section 61(g) of the 2010 Session, on July 1, 2010, receivables are to be posted to the State Treasurer's receivables for the State Economic Development Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2011, a receivable was posted for \$21.6 million and was reduced to zero in November 2010.

Per Senate Bill 572, Section 61(i) of the 2010 Session, on July 1, 2010, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the director of budget which is to be 80 percent of the amount approved for expenditure during the fiscal year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2011, a receivable was posted for \$207 thousand and was reduced to zero in April 2011.

Per Senate Bill 572, Section 61(n) of the 2010 Session, on July 1, 2010, receivables are to be posted to the State Treasurer's receivables for the 27<sup>th</sup> payroll in the amount of \$32.7 million. This amount is reduced as moneys are received into the fund. In fiscal year 2011, a receivable was posted for \$3.8 million and was reduced to zero in September 2010.

#### **K. Long-term Obligations**

A summary of long-term obligations at June 30, 2011, for the fiscal year then ended is as follows (expressed in thousands):

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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	Government Activities	Business-Type Activities	Component Units	Total
Revenue bonds payable	\$ 3,077,604	\$ 767,878	\$ 691,971	\$ 4,537,453
Less bonds payable on demand	(641,725)	0	0	(641,725)
Sales tax limited obligation bonds	104,895	0	0	104,895
Sales tax accretion bonds	120,653	0	0	120,653
Notes payable	20,031	0	217,034	237,065
Capital leases payable	129,089	0	13,616	142,705
Arbitrage rebate payable	827	173	51	1,051
Unemployment benefits loan	0	170,821	0	170,821
Claims and judgments	88,797	221,160	0	309,957
Compensated absences	126,241	73	69,101	195,415
Other post employment benefits	47,188	300	41,794	89,282
Pollution remediation	73,660	0	3,700	77,360
Other	0	17,597	61,395	78,992
Total long-term obligations	<u>\$ 3,147,260</u>	<u>\$ 1,178,002</u>	<u>\$ 1,098,662</u>	<u>\$ 5,423,924</u>

State of Kansas  
Notes to the Financial Statements  
June 30, 2011

**III. Detailed Notes On All Funds**

Long-term obligations at June 30, 2011, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2010 Beginning Balance	Additions	Deletions	6/30/2011 Ending Balance	Amounts Due In One Year
<b>Governmental Activities</b>									
<u>Revenue bonds payable:</u>									
KDFA Series 2001 M	2002	3.50 - 5.00%	2011	\$ 32,390	\$ 4,135	\$ 0	\$ 4,135	\$ 0	\$ 0
KDFA Series 2003 H	2004	1.41 - 5.21%	2014	40,250	18,155	0	4,210	13,945	4,415
KDFA Series 2004 A-1, 2, & 3	2004	2.00 - 5.00%	2024	44,920	35,020	0	1,835	33,185	1,930
KDFA Series 2004 C	2004	3.43 - 5.50%	2034	500,000	479,515	0	10,805	468,710	11,255
KDFA Series 2005 H-1, 2, 3, 4 & 5	2006	3.25 - 5.00%	2032	88,175	75,490	0	3,380	72,110	4,425
KDFA Series 2005 N	2006	3.50 - 4.00%	2015	28,165	15,070	0	2,790	12,280	2,895
KDFA Series 2006 L-1, 2, 3	2006	4.00 - 5.00%	2027	209,490	188,445	0	7,600	180,845	7,910
KDFA Series 2006 A	2007	4.00 - 4.25%	2026	13,210	11,290	0	690	10,600	720
KDFA Series 2007 F	2007	4.00 - 4.97%	2017	34,505	25,860	0	3,210	22,650	3,340
KDFA Series 2007 K-1, 2A, 2B, & 3	2008	4.00 - 5.25%	2028	59,455	55,620	0	2,045	53,575	2,140
KDFA Series 2008 L-1, 2, & 3	2009	2.00 - 5.25%	2029	43,265	41,755	0	1,565	40,190	1,620
KDFA Series 2009 A	2009	2.50 - 5.00%	2035	3,825	3,825	0	0	3,825	0
KDFA Series 2009 B	2009	5.00%	2019	515	515	0	0	515	0
KDFA Series 2009 F	2009	3.00 - 5.00%	2019	49,425	49,425	0	0	49,425	5,435
KDFA Series 2009 M-1 & M-2	2010	3.00 - 6.31%	2034	85,265	84,615	0	2,215	82,400	2,675
KDFA Series 2009 N	2010	3.88 - 5.80%	2025	10,050	10,050	0	0	10,050	0
KDFA Series 2010 C	2010	5.00%	2020	52,755	52,755	0	0	52,755	4,785
KDFA Series 2010 E-1 & E-2	2010	2.00 - 6.12%	2035	84,160	84,160	0	0	84,160	530
KDFA Series 2010 F	2010	1.58 - 6.25%	2032	18,400	18,400	0	0	18,400	1,295
KDFA Series 2010 O-1 & O-2	2011	3.00 - 6.10%	2030	43,455	0	43,455	0	43,455	1,730
KDOT Series 1998	1998	3.65 - 5.50%	2014	189,195	313,360	0	19,895	11,465	0
KDOT Series 2002 A	2003	Variable	2012	199,600	33,525	0	2,185	11,690	11,690
KDOT Series 2002 B & C*	2003	3.39%	2020	320,005	320,005	0	0	320,005	20,975
KDOT Series 2002 D*	2003	Variable	2012	88,110	46,440	0	22,590	23,850	23,850
KDOT Series 2003 A & B	2004	3.13 - 5.00%	2014	248,190	207,360	0	40,565	166,795	53,455
KDOT Series 2004 A	2004	4.50 - 5.50%	2023	250,000	250,000	0	0	250,000	0
KDOT Series 2004 B	2005	4.30 - 5.00%	2025	200,000	200,000	0	0	200,000	0
KDOT Series 2004 C*	2005	Variable	2025	147,000	147,000	0	0	147,000	0
KDOT Series 2008 A*	2008	3.36%	2016	150,870	150,870	0	0	150,870	0
KDOT Series 2009 A	2010	2.25 - 5.00%	2021	176,680	176,680	0	0	176,680	0
KDOT Series 2010 A	2011	4.60%	2036	325,000	0	325,000	0	325,000	0
				(885,715)	(664,315)		(22,590)	3,036,430	167,070
Less bonds payable on demand*								(64,172.5)	(44,825)
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	74,096	216	9,556	64,756	0
Unamortized deferred refunding difference				0	(29,611)	0	(6,029)	(23,582)	0
Total revenue bonds payable				\$ 2,850,610	2,197,510	368,671	130,302	2,435,879	122,245
<u>Sales tax limited obligation bonds:</u>									
1999 KISC	1999	4.20 - 5.25%	2028	18,182	16,452	686	417	16,721	457
2001 Project Area B	2001	4.00 - 5.10%	2021	21,270	15,149	631	1,181	14,599	1,207
2002 Subordinate KISC	2002	5.00 - 8.00%	2011	4,628	1,865	78	1,943	0	0
400 Acres Refunding	2005	3.25 - 5.54%	2021	4,077	3,506	146	195	3,457	233
2 <sup>nd</sup> Lien 2005 Turbo	2006	4.75 - 5.00%	2011	129,216	94,025	3,918	29,509	68,434	0
Salt Museum	2006	5.00%	2021	4,063	2,195	79	590	1,684	623
Total sales tax limited obligation bonds				\$ 181,436	133,192	5,538	33,835	104,895	2,520
<u>Notes payable:</u>									
Water supply storage in Federal reservoirs				32,575	20,650	0	711	19,939	737
Expanded Lottery Operations				5,000	5,000	0	4,908	92	92
Printing plant				3,857	193	0	193	0	0
Total notes payable				\$ 41,432	25,843	0	5,812	20,031	829
Capital leases payable					138,821	2,060	11,792	129,089	16,948
Sales Tax Limited Obligation-2010 B Accretion Bonds					75,233	45,420	0	120,653	0
Arbitrage rebate payable					400	706	279	827	0
Claims and judgments					87,216	400,231	398,650	88,797	45,254
Compensated absences					129,921	0	3,680	126,241	61,561
Other post employment benefits					36,270	20,298	9,380	47,188	0
Pollution remediation					70,936	6,531	3,807	73,660	22,254
Total Governmental Activities				\$ 2,895,342	\$ 849,455	\$ 597,537	\$ 3,147,260	\$ 271,611	

State of Kansas  
Notes to the Financial Statements  
June 30, 2011

**III. Detailed Notes On All Funds**

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2010 Beginning Balance	Additions	Deletions	6/30/2011 Ending Balance	Amounts Due In One Year
<b>Business-Type Activities</b>									
<u>Revenue bonds payable:</u>									
KDFA Series 1998 II	1998	3.75 - 5.25%	2011	\$ 80,500	\$ 7,455	\$ 0	\$ 7,455	\$ 0	\$ 0
KDFA Series 2000 I&II	2000	4.60 - 6.00%	2011	82,915	4,430	0	4,430	0	0
KDFA Series 2001 I&II	2002	3.00 - 5.50%	2018	14,104	110,130	0	39,705	70,425	9,545
KDFA Series 2002 1&2	2002	4.00 - 5.50%	2012	51,805	20,490	0	18,365	2,125	2,125
KDFA Series 2002 II	2003	2.26 - 5.50%	2012	101,575	52,370	0	48,370	4,000	4,000
KDFA Series 2004 II	2004	4.92 - 5.25%	2023	45,140	43,640	0	14,970	28,670	2,190
KDFA Series 2004 1&2	2005	3.00 - 5.00%	2026	176,010	148,900	0	50,265	98,635	10,615
KDFA Series 2005 CW I&II	2006	3.00 - 5.00%	2027	118,860	98,090	0	7,215	90,875	8,530
KDFA Series 2008 CW I&II	2009	3.00 - 5.13%	2030	66,545	66,545	0	12,365	54,180	1,360
KDFA Series 2008 DW 1&2	2009	5.00%	2013	36,700	35,115	0	32,905	2,210	12,000
KDFA Series 2009 DW 1&2	2010	1.50 - 5.60%	2029	73,040	71,960	0	2,515	69,445	565
KDFA Series 2010 SRF 12 & 3 (CW & DW)	2011	1.68 - 5.95%	2030	213,950	0	213,950	0	213,950	3,390
KDFA Series 2011 SRF DW 1 & 2	2011	2.00 - 4.20%	2032	53,380	0	53,380	0	53,380	0
KDFA Series 2005 TR	2006	3.00 - 5.00%	2026	32,690	26,375	0	2,085	24,290	2,140
KDFA Series 2006 TR	2007	4.00 - 5.00%	2027	24,755	19,890	0	1,765	18,125	1,805
KDFA Series 2008 G	2009	4.60 - 5.05%	2023	14,200	11,613	0	1,198	10,415	1,253
KDFA Series 2009 TR	2009	2.50 - 4.78%	2028	30,950	29,670	0	2,175	27,495	2,280
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	19,225	20,253	10,165	29,313	0
Unamortized deferred refunding difference				0	(16,897)	(15,308)	(2,550)	(29,655)	0
Total revenue bonds payable				<u>\$ 1,344,060</u>	<u>749,001</u>	<u>272,275</u>	<u>253,398</u>	<u>767,878</u>	<u>50,998</u>
Arbitrage rebate payable					1,254	88	1,169	173	0
Unemployment benefits loan					88,159	82,662	0	170,821	0
Claims and judgments					215,402	5,758	0	221,160	17,297
Compensated absences					68	5	0	73	60
Other post employment benefits					224	85	9	300	0
Other					17,697	51	151	17,597	0
Total Business-type Activities					<u>\$ 1,071,805</u>	<u>\$ 360,924</u>	<u>\$ 254,727</u>	<u>\$ 1,178,002</u>	<u>\$ 68,355</u>

State of Kansas  
Notes to the Financial Statements  
June 30, 2011

**III. Detailed Notes On All Funds**

Component Units	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2010 Beginning Balance	Additions	Deletions	6/30/2011 Ending Balance	Amounts Due In One Year
<b>Revenue bonds payable:</b>									
KDFA Series 1997 C	1997	4.70 - 5.30%	2011	\$ 3,255	\$ 245	\$ 0	\$ 245	\$ 0	\$ 0
KDFA Series 1997 G-1	1998	5.05%	2012	626	1,174	60	0	1,234	1,234
KDFA Series 1998 B	1998	3.90 - 5.00%	2011	9,320	5,260	0	5,260	0	0
KDFA Series 1998 E	1999	3.40 - 4.90%	2011	4,750	3,570	0	3,570	0	0
KDFA Series 1998 L	1999	3.80 - 4.75%	2011	5,590	285	0	285	0	0
KDFA Series 1998 P	1999	3.00 - 4.85%	2011	3,650	2,250	0	2,250	0	0
KDFA Series 1999 A-1	1999	3.20 - 5.00%	2012	17,510	5,325	0	2,025	3,300	3,300
KDFA Series 1999 B	1999	3.60 - 5.00%	2011	2,920	1,785	0	1,785	0	0
KDFA Series 1999 C	1999	4.00 - 5.10%	2019	3,085	1,900	0	150	1,750	155
KDFA Series 1999 H	2000	3.75 - 5.20%	2012	17,830	1,625	0	790	835	835
KDFA Series 2000 D	2001	4.60 - 5.60%	2011	1,735	825	0	825	0	0
KDFA Series 2000 V	2001	4.35 - 4.75%	2011	16,370	1,075	0	1,075	0	0
KDFA Series 2001 B	2001	3.65 - 5.20%	2021	2,805	1,860	0	130	1,730	140
KDFA Series 2001 D	2001	4.25 - 5.25%	2021	48,895	32,795	0	2,290	30,505	2,400
KDFA Series 2001 F	2001	3.30 - 5.50%	2012	29,905	5,635	0	1,715	3,920	3,920
KDFA Series 2001 J	2002	3.50 - 4.30%	2013	5,300	1,235	0	540	695	460
KDFA Series 2001 N	2001	4.25 - 5.25%	2014	7,230	2,755	0	620	2,135	655
KDFA Series 2001 S	2002	4.13 - 5.50%	2016	15,095	2,785	0	720	2,065	755
KDFA Series 2001 U	2002	3.10 - 5.00%	2011	10,295	5,500	0	5,500	0	0
KDFA Series 2001 W-1,3,4 & 5	2002	3.00 - 5.00%	2022	44,470	18,205	0	1,705	16,500	1,970
KDFA Series 2002 A-1 & A-2	2002	3.50 - 5.00%	2017	26,560	9,515	0	1,320	8,185	1,380
KDFA Series 2002 C	2002	3.00 - 5.00%	2022	15,830	11,385	0	725	10,660	760
KDFA Series 2002 H	2003	2.50 - 4.10%	2016	3,765	2,550	0	170	2,380	175
KDFA Series 2002 K	2003	4.30%	2016	5,120	1,840	0	65	1,775	325
KDFA Series 2002 N-1 \$ N-2	2003	3.00 - 5.25%	2018	52,075	11,255	0	2,300	8,955	2,415
KDFA Series 2002 P	2003	3.00 - 5.00%	2021	12,150	8,695	0	560	8,135	580
KDFA Series 2003 A-1 & A-2	2003	1.80 - 5.50%	2023	2,610	1,950	0	110	1,840	115
KDFA Series 2003 C	2003	4.67 - 5.00%	2033	72,670	61,465	0	575	60,890	0
KDFA Series 2003 D-2	2003	2.00 - 4.70%	2028	1,150	725	0	70	655	70
KDFA Series 2003 J-1	2004	2.00 - 5.25%	2025	34,100	27,180	0	1,285	25,895	1,365
KDFA Series 2004 D	2005	3.00 - 4.75%	2020	1,195	970	0	85	885	90
KDFA Series 2004 F	2005	2.00 - 5.25%	2012	44,860	21,770	0	12,270	9,500	9,500
KDFA Series 2004 G-1	2005	2.50 - 5.13%	2024	19,795	15,085	0	820	14,265	845
KDFA Series 2005 A	2005	3.00 - 5.00%	2035	44,535	41,015	0	950	40,065	975
KDFA Series 2005 D	2005	3.79 - 5.18%	2022	66,530	44,225	0	6,630	37,595	5,200
KDFA Series 2005 E-1 & E-2	2005	3.00 - 5.00%	2030	19,360	17,375	0	560	16,815	585
KDFA Series 2005 F	2006	3.25 - 4.40%	2026	8,930	8,205	0	380	7,825	400
KDFA Series 2005 G	2006	3.30 - 4.60%	2026	7,205	6,895	0	320	6,575	330
KDFA Series 2006 B	2006	3.50 - 4.13%	2021	9,790	9,510	0	145	9,365	150
KDFA Series 2007 A	2007	3.75 - 4.39%	2037	27,750	26,325	0	555	25,770	575
KDFA Series 2007 E	2007	3.75 - 4.30%	2027	6,275	5,625	0	240	5,385	245
KDFA Series 2007 H	2008	3.60 - 4.50%	2037	17,855	17,170	0	360	16,810	375
KDFA Series 2007 M	2008	3.20 - 4.60%	2027	18,220	16,855	0	715	16,140	740
KDFA Series 2008 A	2008	3.00 - 4.00%	2016	20,000	15,000	0	2,500	12,500	2,500
KDFA Series 2008 D	2008	5.10%	2038	1,600	1,600	0	0	1,600	0
KDFA Series 2008 L	2009	2.00 - 5.25%	2029	21,070	20,350	0	735	19,615	755
KDFA Series 2009 C	2009	3.00 - 5.00%	2017	20,000	17,500	0	2,500	15,000	2,500
KDFA Series 2009 G	2009	2.50 - 4.75%	2024	825	775	0	45	730	45
KDFA Series 2009 H-1 & H-2	2009	2.50 - 7.30%	2035	14,630	14,630	0	0	14,630	380
KDFA Series 2009 J-1 & J-2	2009	2.50 - 7.00%	2030	4,545	4,545	0	160	4,385	165
KDFA Series 2009 K-1 & K-2	2010	2.63 - 5.63%	2040	6,140	6,140	0	0	6,140	0
KDFA Series 2009 M-1 & M-2	2010	3.00 - 6.31%	2030	31,650	31,650	0	0	31,650	1,115
KDFA Series 2010 A	2010	2.00 - 4.05%	2030	23,700	23,700	0	610	23,090	630
KDFA Series 2010 B	2010	2.50 - 3.75%	2027	21,650	21,650	0	275	21,375	1,075
KDFA Series 2010 D	2010	3.12%	2015	1,315	1,315	0	200	1,115	215
KDFA Series 2010 G-1 & G-2	2010	2.00 - 6.60%	2040	21,565	21,565	0	0	21,565	0
KDFA Series 2010 H	2010	2.00%	2016	1,530	1,530	0	250	1,280	250
KDFA Series 2010 J	2010	0.75 - 4.45%	2030	14,765	14,765	0	595	14,170	565
KDFA Series 2010 K-1 & K-2	2010	2.00 - 6.20%	2035	15,050	15,050	0	1,140	13,910	1,140
KDFA Series 2010 M-1 & M-2	2010	2.00 - 5.10%	2026	20,990	20,990	0	0	20,990	1,175
KDFA Series 2010 P-1 & P-2	2011	2.00 - 5.00%	2031	15,930	0	15,930	0	15,930	620
KDFA Series 2010 U-1 & U-2	2011	1.80 - 6.20%	2029	25,180	0	25,180	555	24,625	660
KDFA Series 2011 C	2011	2.00 - 4.50%	2036	13,450	0	13,450	0	13,450	385
KDFA Series 2011 D-1, 2 & 3	2011	2.00 - 4.40%	2024	9,465	0	9,465	0	9,465	740
<b>Plus deferred amounts:</b>									
Net unamortized premium (discount)				0	5,629	245	994	4,880	0
Unamortized Deferred Refunding				0	(12,50)	0	(92)	(1,158)	0
Total Revenue Bonds Payable				\$ 1,074,016	700,808	64,330	73,167	691,971	57,934
<b>Notes payable:</b>									
Component units of university system					174,530	58,510	16,006	217,034	11,321
Total notes payable					174,530	58,510	16,006	217,034	11,321
Arbitrage rebate payable					98	12	59	51	0
Capital leases					14,568	600	1,552	13,616	1,780
Compensated absences					65,691	3,410	0	69,101	56,880
Other post employment benefits					30,404	11,417	27	41,794	0
Pollution remediation					4,000	0	300	3,700	2,000
Other					110,928	8,414	57,947	61,395	3,371
Total Component Units					\$ 1,101,027	\$ 146,693	\$ 149,058	\$ 1,098,662	\$ 133,286

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

**III. Detailed Notes On All Funds**

The following table presents annual debt service requirements for those long-term debts outstanding, including bonds payable on demand, at June 30, 2011, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
<b>Revenue bonds:</b>						
2012	\$ 167,070	\$ 130,643	\$ 50,998	\$ 36,873	\$ 57,934	\$ 30,225
2013	167,240	122,912	55,435	32,870	42,585	28,236
2014	167,680	115,886	57,535	30,392	40,480	26,595
2015	178,865	109,203	57,089	27,793	38,370	25,094
2016	161,375	102,742	58,615	25,050	39,025	23,536
2017-2021	803,415	409,091	224,094	90,966	187,295	92,784
2022-2026	720,475	220,339	188,874	43,220	144,870	51,908
2027-2031	229,110	112,718	75,580	8,138	84,700	24,418
2032-2036	441,200	34,463	0	0	42,450	8,360
2037-2041	0	0	0	0	10,540	1,086
Less bonds payable on demand	(641,725)	(133,881)	0	0	0	0
Unamortized premium	64,756	0	29,313	0	4,880	0
Unamortized deferred refunding	(23,582)	0	(29,655)	0	(1,158)	0
Totals	<u>2,435,879</u>	<u>1,224,116</u>	<u>767,878</u>	<u>295,302</u>	<u>691,971</u>	<u>312,242</u>
<b>Sales tax limited obligation bonds:</b>						
2012	2,520	5,211	0	0	0	0
2013	2,660	5,133	0	0	0	0
2014	2,521	5,045	0	0	0	0
2015	2,248	4,974	0	0	0	0
2016	2,379	4,921	0	0	0	0
2017-2021	82,781	17,915	0	0	0	0
2022-2026	5,985	4,878	0	0	0	0
2027-2031	3,801	4,404	0	0	0	0
Totals	<u>104,895</u>	<u>52,481</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Notes payable:</b>						
2012	829	765	0	0	11,321	9,255
2013	763	725	0	0	11,449	9,077
2014	791	698	0	0	11,472	8,604
2015	819	669	0	0	13,890	8,033
2016	848	640	0	0	11,418	8,315
2017-2021	4,730	2,712	0	0	54,563	33,782
2022-2026	5,215	1,783	0	0	55,370	19,855
2027-2031	4,502	805	0	0	26,541	9,797
2032-2036	975	334	0	0	13,685	3,260
2037-2041	559	46	0	0	7,325	756
Totals	<u>20,031</u>	<u>9,177</u>	<u>0</u>	<u>0</u>	<u>217,034</u>	<u>110,734</u>
Capital leases payable	129,089	42,542	0	0	13,616	2,908
<b>Long-term debt without scheduled debt service:</b>						
Arbitrage rebate payable	827	0	173	0	51	0
Sales tax ltd oblig: accretion bonds	120,653	0	0	0	0	0
Unemployment benefits loan	0	0	170,821	0	0	0
Claims and judgments	88,797	0	221,160	0	0	0
Compensated absences	126,241	0	73	0	69,101	0
Other post employment benefits	47,188	0	300	0	41,794	0
Pollution remediation	73,660	0	0	0	3,700	0
Other	0	0	17,597	0	61,395	0
Totallong-term obligations	<u>\$ 3,147,260</u>	<u>\$ 1,328,316</u>	<u>\$ 1,178,002</u>	<u>\$ 295,302</u>	<u>\$ 1,098,662</u>	<u>\$ 425,884</u>

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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### III. Detailed Notes On All Funds

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Included in the debt service requirements to maturity table above are variable rate debt maturities for the Kansas Department of Transportation. For those variable rate bonds the following table represents the aggregate debt service requirements and net receipts/payments on associated hedging derivative instruments. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary.

*(expressed in thousands)*

Fiscal Year Ended June 30	Principal	Interest	Hedging Derivative Instruments (Net)	Total
2012	\$ 20,975	\$ 244	\$ 16,508	\$ 37,727
2013	40,295	229	15,592	56,116
2014	45,520	210	14,294	60,024
2015	113,110	170	11,773	125,053
2016	75,100	136	8,794	84,030
2017 - 2021	175,875	439	22,715	199,029
2022 - 2025	147,000	105	4,974	152,079
Total	<u>\$ 617,875</u>	<u>\$ 1,533</u>	<u>\$ 94,650</u>	<u>\$ 714,058</u>

#### General Obligation Bonds

The State does not have the statutory authority to issue general obligation bonds. However, the Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

#### Revenue Bonds

**Kansas Development Finance Authority (K DFA)** was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses. The K DFA has issued numerous outstanding series of bonds. These revenue bonds are secured by and payable from various pledged revenues, which include selected tax receipts such as withholding taxes, fees for services such as parking and residential halls, and appropriations. Please reference Note K. above for K DFA revenue bonds and future principal and interest payments.

**Kansas Department of Transportation (KDOT)** has 13 outstanding series of Highway Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of highways in the State as part of the State's Transportation Works for Kansas (T-Works) Program. The State's T-Works Program was developed by KDOT after extensive study of the transportation needs in the State and was implemented by the 2010 Kansas Legislature. Principal and interest payments on these bond issues are paid from revenues collected in the State Highway Fund, which include motor fuels taxes, state sales taxes, compensating use taxes, and drivers' license and vehicle registration fees. KDOT also has four outstanding series secured by pledges of revenues from loans and leases. Please reference Note K. above for KDOT revenue bonds and future principal and interest payments.

The coupon interest rate on outstanding bonds varies from 2.25 percent to 5.50 percent. In addition, various bonds were issued as variable rate instruments whose rates change on a weekly basis. During the year, interest rates ranged from 0.03 percent to 1.00 percent on the weekly adjustable bonds. The Series 2002 B, C and D, 2004 C and 2008 A Bonds are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, the liquidity provider has agreed to purchase the bonds and hold them for a maximum of 180 days. Through June 30, 2011, all bonds tendered have been remarketed. However, since there is not a long-term financing option



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### **III. Detailed Notes On All Funds**

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in place at June 30, 2011, for these tendered bonds, these bonds have been recorded as obligations of the Transportation - Capital Project Fund resulting in a deficit fund balance in that fund.

#### **Sales Tax Limited Obligation Bonds**

In March 1998, the Unified Government of Wyandotte County/Kansas City, Kansas established the Prairie Delaware Redevelopment District (District). The District was created for development of a major tourism area, including the Kansas International Speedway. In connection with various projects in the District, the Unified Government has issued Sales Tax Limited Obligation Revenue Bonds (STAR bonds). Pursuant to issuance of the STAR bonds, the Unified Government and the State have entered into a Redevelopment District Tax Distribution Agreement. The agreement provides that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally by the Unified Government and the State, based on each entity's respective share of sales taxes generated within the District. Prior to July 1, 2010, the State's proportional share is was approximately 72 percent. Therefore, 72 percent of the outstanding obligation on each STAR bond issue was recorded with the State's long-term debt. This proportional share changed on July 1, 2010, with the increase of 1% in the State sales tax rate. The proportional share increased to 75 percent and the increase is reflected in the amounts recorded in the long term debt. In addition, the State's proportional share in the 2010 B bond issue is capped at \$144.5 million.

In March 2006, the City of Hutchinson created the Underground Salt Museum Redevelopment District. The District was created for the development of the Kansas Underground Salt Museum as a tourist destination. The City issued Sales Tax Limited Obligation Revenue Bonds (STAR bonds). Pursuant to issuance of the STAR bonds, the City and the State have entered into a Redevelopment District Tax Distribution Agreement. The agreement provides that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally by the City and the State, based on each entity's respective share of sales taxes generated within the District. Prior to July 1, 2010, the State's proportional share was approximately 83 percent. Therefore, 83 percent of the outstanding obligation on each STAR bond issue was recorded with the State's long-term debt. This proportional share changed July 1, 2010, with the increase of 1% in the state sales tax rate. The proportional share increased to 86 percent and the increase is reflected in the amounts recorded in the long term debt. Further details regarding STAR bonds may be found in the chart at the beginning of Note III, Section K.

#### **Special Obligation and Private Activity Bonds**

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special limited obligations of K DFA, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by K DFA or the State. Accordingly, such special obligation bonds are not included in K DFA's June 30, 2011, balance sheet. K DFA's special obligation bonds at June 30, 2011, total \$2.6 billion.

Private activity bonds are special limited obligations of K DFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on K DFA's June 30, 2011, balance sheet. K DFA's private activity bonds at June 30, 2011, total \$1.7 billion.

#### **Notes Payable**

The Pooled Money Investment Board is authorized as directed by statute to loan funds from the State treasury to State agencies for various capital projects including the purchase of the State's printing plant and finance the Expanded Lottery operations.. These internal loans are recorded as loans receivable in the State treasury's cash balance in Note III, Section A, Deposits and Investments, and in corresponding amounts of notes payable in Note III, Section K, Long-term Obligations and Section J, Short-term Obligations.

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 37 years for water supply storage capacity in large Federal multipurpose lakes under the

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### III. Detailed Notes On All Funds

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provisions of the 1958 Federal Water Supply Act. Nine of these agreements provide for long-term (fifty-year) repayment with interest of the costs incurred by the Federal Government in construction of the water supply storage space. The Kansas Water Office is authorized by K.S.A. 82a-934 to enter into such agreements, subject to legislative approval through appropriations. Generally, however, receipts from the sale of water to local municipal and industrial water supply users are adequate to make the annual payments due under the long-term contracts with the Federal Government. Portions of the storage in some reservoirs have been designated as "future use" storage, and as such; the State is not required to make payments on that portion of storage until it is needed by users. The State has not recorded a liability at June 30, 2011, for portions of the storage designated as "future use" storage.

#### Lease Commitments

The State leases office buildings, space, and equipment. Although the lease terms vary under a variety of agreements, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered non-cancelable for financial reporting purposes. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures.

#### Operating Leases

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2011 are as follows (expressed in thousands):

<u>Fiscal Year</u>	
2012	\$ 12,013
2013	11,411
2014	10,176
2015	8,962
2016	7,420
2017-2021	28,117
2022-2026	14,254
2027-2029	<u>3,806</u>
Total future minimum lease payments	<u>\$ 96,159</u>
Rent expenditures/expenses for operating leases for the year ended June 30, 2011	 <u>\$ 12,616</u>

#### Capital Leases

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases and are reported as capital lease obligations. At the date of acquisition, the assets are valued on the Statement of Net Assets at the present value of the future minimum lease payments. Interest expense for capital leases is not capitalized.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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The following schedule presents future minimum lease payments as of June 30, 2011 (expressed in thousands):

Year Ending June 30	Governmental Activities	
	Principal	Interest
2012	\$ 16,948	\$ 5,173
2013	16,897	5,345
2014	16,777	6,103
2015	11,594	3,739
2016	4,667	2,930
2017-2021	24,679	11,455
2022-2026	21,339	6,165
2027-2031	16,188	1,632
<b>Total</b>	<b>\$ 129,089</b>	<b>\$ 42,542</b>

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2011, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	\$ 9,510
Buildings	87,726
Software	18,381
Equipment	60,830
Less: Accumulated depreciation	(46,256)
<b>Total</b>	<b>\$ 130,191</b>

**Master Lease Purchase Program**

The Master Lease Purchase Program, administered by the Department of Administration, provides low interest, equipment lease purchase financing and energy conservation project financing to State agencies. The Program began in 1985 with the issuance of Certificates of Participation and evolved into the current Program, which utilizes lines of credit. Lease purchase obligations under the Program are not general obligations of the State, but are payable from appropriations of State agencies participating in the Program, subject to annual appropriation. Financing terms of two years through fifteen years are available. The financing term should not exceed the useful life of the purchased item. The interest component of each lease/purchase payment is subject to a separate determination.

*Defeasance of Debt*

**Primary Government**

For financial reporting purposes, the State has in substance defeased certain bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2011, and changes for the fiscal year then ended are as follows (expressed in thousands):

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

**III. Detailed Notes On All Funds**

Bond Issue	6/30/2010 Beginning Balance	Current Year Defeased	Payments	6/30/2011 Ending Balance
<b>Governmental Activities</b>				
KDOT Series 1994	\$ 9,825	\$ 0	\$ 9,825	\$ 0
KDOT Series 1998	55,300	0	0	55,300
KDOT Series 2000 A	139,900	0	139,900	0
KDFA Series 2003 J	4,310	0	400	3,910
KDFA Series 2004 A	4,355	0	315	4,040
Total governmental activities	<u>\$ 213,690</u>	<u>\$ 0</u>	<u>\$ 150,440</u>	<u>\$ 63,250</u>

Bond Issue	6/30/2010 Beginning Balance	Current Year Defeased	Payments	6/30/2011 Ending Balance
<b>Business-type Activities</b>				
KDFA Series 2000 I	\$ 1,965	\$ 0	\$ 1,965	\$ 0
KDFA Series 2000 II (Nov.)	54,945	0	54,945	0
KDFA Series 2000 1 & 2	39,755	0	39,755	0
KDFA Series 2001 I & II	2,790	33,705	0	36,495
KDFA Series 2002 II	26,845	44,920	0	71,765
KDFA Series 2002 1 & 2	20,690	16,320	0	37,010
KDFA Series 2004 II	0	13,220	0	13,220
KDFA Series 2004 2	4,405	42,505	0	46,910
KDFA Series 2008 CW II	0	11,000	0	11,000
KDFA Series 2008 DW 2	0	31,540	0	31,540
Total business-type activities	<u>\$ 151,395</u>	<u>\$ 193,210</u>	<u>\$ 96,665</u>	<u>\$ 247,940</u>

Information on bonds defeased in the current fiscal year is as follows (expressed in thousands):

Bond Issues	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Sevice Reduction**
<b>Business-type Activities</b>				
KDFA Series 2001 I & II, 2002 II, 2002 1 & 2, 2004 II, 2004 2, 2008 CW II, 2008 DW 2	\$ 193,210	\$ 193,210	\$ 19,046	\$ 74,452
Total defeased	<u>\$ 193,210</u>	<u>\$ 193,210</u>	<u>\$ 19,046</u>	<u>\$ 74,452</u>

**Component Unit**

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain revenue and lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2011, and changes for the fiscal year then ended are as follows (expressed in thousands):

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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Bond Issue	6/30/2010 Beginning Balance	Current Year Defeased	Payments	6/30/2011 Ending Balance
KDFA Series 1998 B	\$ 0	\$ 5,260	\$ 5,260	\$ 0
KDFA Series 1998 E	0	3,415	3,415	0
KDFA Series 1998 P	0	2,080	2,080	0
KDFA Series 1999 B	0	1,785	1,785	0
KDFA Series 1999 H	10,030	0	0	10,030
KDFA Series 2000 D	0	825	825	0
KDFA Series 2000 T	1,010	0	1,010	0
KDFA Series 2000 V	7,215	0	7,215	0
KDFA Series 2001 S	7,540	0	7,540	0
KDFA Series 2001 U	0	4,120	4,120	0
KDFA Series 2001 W	17,765	0	140	17,625
KDFA Series 2002 A	8,230	0	0	8,230
KDFA Series 2002 K	3,280	0	0	3,280
KDFA Series 2002 N	28,040	0	0	28,040
KDFA Series 2003 D-1	4,275	0	4,275	0
Total component units	<u>\$ 87,385</u>	<u>\$ 17,485</u>	<u>\$ 37,665</u>	<u>\$ 67,205</u>

Information on bonds defeased in the current fiscal year is as follows (expressed in thousands):

Bond Issues	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Service Reduction**
KDFA Series 1998 B	\$ 5,260	\$ 0	\$ 751	\$ 804
KDFA Series 1998 E	3,415	0	297	474
KDFA Series 1998 P	2,080	0	221	281
KDFA Series 1999 B	1,785	0	249	262
KDFA Series 2000 D	825	0	99	103
KDFA Series 2001 U	4,120	0	603	752
Total defeased	<u>\$ 17,485</u>	<u>\$ 0</u>	<u>\$ 2,220</u>	<u>\$ 2,676</u>

\* The economic gain is defined as the difference between the present values of the old and the new debt service payments.

\*\* The aggregate debt service reduction is defined as the difference between the refunded debt and the refunding debt.

**Arbitrage Rebate Payable**

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$827,000 for Governmental Activities, \$173,000 for Business-type Activities, and \$51,000 for Component Units.

**Derivative Instruments**

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2011, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2011 financial statements are as follows debit (credit)(expressed in thousands):

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**III. Detailed Notes On All Funds**

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	<u>Change in Fair Value</u>		<u>Fair Value at June 30,2011</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
<b>Governmental activities</b>					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ 4,750	Debt	\$ (46,876)	\$ 542,280
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	(4,800)	Investment	(3,775)	98,480
Basis swap	Investment revenue	(1,713)	Investment	6,455	75,000

**Kansas Department of Transportation: Recently issued and adopted accounting principles**

In June 2008, the GASB issued Statement 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. KDOT adopted GASB 53 in Fiscal Year 2010. All derivatives are to be reported on the statement of net assets at fair value, and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net assets as a deferral, or in the statement of activities as investment revenue or loss. Most derivatives are stand-alone instruments. At certain instances as outlined in GASB 53, for those that have an additional embedded instrument, or hybrid instruments, the statement calls for bifurcating and accounting for the transaction as two separate components.

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

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

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

(i) Mitigate the effect of fluctuations in variable interest rates. This is the primary function of the swaps employed where KDOT pays a fixed rate, and receives a floating rate. In an interest rate environment whose level is generally higher than the rate at which KDOT is fixed, the swap would result in a positive value to KDOT. Correspondingly, in a lower rate environment than the rate at which KDOT is fixed, the swap would result in a negative value to

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### III. Detailed Notes On All Funds

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KDOT. The value primarily depends on the overall level of interest rates on the reporting date compared to what KDOT pays. The overall level of long term interest rates from period to period is the primary driver of changes in value recorded from the investment derivatives where KDOT pays fixed and receives a floating rate. Interest rates have trended lower since inception of the pay fixed swaps, therefore, the mark-to-market value is generally more negative to KDOT.

(ii) Reduce interest expense by expected change between short and long term rates. This is the function of a swap where KDOT receives floating rates based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which KDOT pays on the variable bonds. Therefore, when shorter term interest rates came close to, or exceeded longer term rates, KDOT entered into a swap whose receipts on the floating leg are based on a longer term index that is expected to outperform the payments on KDOT's variable debt. Part of the fair value of this swap is determined by the prevailing level of short term versus long term rates, that is, the steepness of the yield curve. The higher the level of long term rates compared to shorter term rates, the higher the expected benefit to KDOT, therefore, the higher the mark-to-market value of the swap. KDOT pays a fixed rate on one of these two swap transactions, therefore the other part of the value of this swap is determined by the prevailing level of interest rates compared to when KDOT entered into the swap transaction. Since interest rates have trended lower since inception, the mark-to-market value will be more negative to KDOT, even though KDOT may be receiving a net benefit from the receipts based on the 10 Year CMS Index. Since the long term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem such transactions investment instruments.

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

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2011 (expressed in thousands):

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

**III. Detailed Notes On All Funds**

Associated KDOT Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Rating
Series 2002 D**	\$ 86,875	\$ 23,480	12/17/2002	3/1/2012	5.2400% Contractual; 2.9936% GASB 53 At- the-Market	67% of USD-LIBOR	\$ (669)	Merrill Lynch Capital Services, Inc.	A2/A/A+
Series 2002 B & C <sup>1,*</sup>	200,000	200,000	10/23/2002	9/1/2019	3.164%	67% of USD-LIBOR	(16,845)	Goldman Sachs Bank USA	Aa3/A/A+
Series 2002 B & C <sup>1,*</sup>	120,005	120,005	10/23/2002	9/1/2019	3.164%	67% of USD-LIBOR	(10,102)	Citigroup Financial Products Inc.	A3/A/A+
Series 2008 A*	150,275	150,275	12/2/2003	9/1/2015	3.3590% Contractual; 2.3493% GASB 53 At- the-Market	Lesser of ABR/71% of USD-LIBOR 'til 9/2010; 71% USD-LIBOR thereafter	(11,360)	Merrill Lynch Capital Services, Inc.	A2/A/A+
Series 2004 C*	147,000	72,000	11/23/2004	9/1/2024	3.571%	63.5% USD-LIBOR + 0.29 <sup>1</sup>	(8,569)	Goldman Sachs Bank USA	Aa3/A/A+
Series 2004 C**	75,000	75,000	7/1/2007	9/1/2024	3.571%	62.329% of 10 Year CMS	(3,106)	Goldman Sachs Bank USA	Aa3/A/A+
Series 2004 B**	75,000	75,000	7/10/2007	9/1/2024	67% of USD-LIBOR	61.56% of 10 Year CMS	6,455	JPMorgan Chase Bank N.A.	Aa1/AA/AA-
							Total Termination Value	<u>\$ (44,196)</u>	

<sup>1</sup> - two counterparties.

\* - considered a fair value hedge

\*\* - considered an investment derivative

**KDOT derivative instruments detailed discussion**

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

*Terms, fair values, and credit risk.* The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2011, are shown above. KDOT's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

*KDOT Series 2002D Swap* - In connection with the issuance of \$86.9 million of variable-rate bonds to refund outstanding KDOT Series 1993A bonds, on August 27, 2002, KDOT competitively bid the sale of an option on a floating-to-fixed 67 percent of LIBOR interest rate swap. Merrill Lynch provided the winning bid with a swaption premium amount of \$11.9 million that was paid to KDOT in two installments of \$6.5 million on March 1, 2006, and \$5.4 million on March 1, 2007. The swaption allowed KDOT to effect a synthetic forward refunding of the bonds to lock in savings based on then prevailing market conditions. Under U.S. tax law, the bonds were not eligible for a traditional current refunding until December 1, 2002. The terms of the option were structured to mirror the terms on the optional redemption feature on the Series 1993A Bonds. The swaption generated expected PV savings of \$10.4 million (11.92 percent of the bonds' par amount). Merrill Lynch has since exercised the option resulting in a floating-to-fixed 67 percent of LIBOR interest rate swap, whereby KDOT pays a fixed rate of 5.24 percent.

Under GASB 53, the sold option described is a hybrid instrument that is constituted of a companion instrument or borrowing (intrinsic value), and an embedded derivative instrument (time value), and an at-the-market swap with a fixed rate determined on the date the swaption is sold. Governments carry borrowings at historic cost, while derivatives are carried at fair value. The subsequent swap that Merrill Lynch exercised with KDOT is also considered a hybrid instrument consisting of an embedded at-the-market swap rate computed at the time the original option was sold, and a borrowing. At June 20, 2011, a borrowing in the amount of \$527,000 was recorded as a borrowing payable.

*KDOT Series 2002B and C Swaps* - In connection with the issuance of \$320 million of variable-rate KDOT Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002, KDOT competitively bid a floating-to-fixed



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### III. Detailed Notes On All Funds

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67 percent of LIBOR interest rate swap. Goldman Sachs was awarded \$200 million of notional principal and Salomon Smith Barney was awarded \$120 million of notional principal. The executed transaction consisted of a \$320 million 17-year amortizing interest rate swap under which KDOT pays Goldman/Citibank a fixed rate of 3.164 percent and receives 67 percent of LIBOR. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

*KDOT Series 2008A Swap (formerly 2003C Swap)* - In connection with the issuance of \$150.3 million of variable-rate KDOT Series 2003C Highway Revenue Refunding Bonds, on November 20, 2003, KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$150.3 million 12-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.359 percent and receives the lesser of the Actual Bond Rate and 71 percent of one month LIBOR until September 1, 2010, and 71 percent of LIBOR thereafter. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

On May 13, 2008, KDOT refunded the Series 2003C Bonds with KDOT Series 2008A Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship, and a subsequent new hedging relationship is entered into between the swap and new bonds. This can result in a hybrid instrument that consists of an at-the-market fixed rate swap with a pay fixed rate computed on the date of the refunding, and an imputed borrowing that is considered a cost of refunding, and therefore amortized over the shorter of the life of the new bonds or refunded bonds. At June 30, 2011, a borrowing in the amount of \$2.2 million was recorded as a borrowing payable.

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

Since many tax-exempt and municipal issuers fund capital projects with long-term traditional or synthetic fixed-rate debt, but are constrained to investing short-term for liquidity reasons, in a normal or upwardly sloped yield curve they incur "negative carry" (cost of borrowing exceeds investment rate). KDOT determined that it could mitigate this imbalance through the execution of the two Constant Maturity Swaps (CMS). On June 15, 2007, based on the results of a previously distributed competitively bid request for quotes for a swap provider, effective July 1, 2007, KDOT amended the floating index from 63.5 percent + 29 basis points to 62.329 percent of the 10-year LIBOR CMS rate on \$75 million of the existing \$147 million swap. On July 10, 2007, a CMS became effective on the previously unhedged 2004B series bonds so that KDOT pays Bear Stearns Financial Products Inc. ("BSFP") 67 percent of one-month LIBOR and receives 61.56 percent of the 10-year LIBOR CMS rate on \$75 million. Following the merger of BSFP with and into JPMorgan Chase Bank N.A. ("JPM"), and an Assignment Agreement dated as of March 18, 2009, by and among BSFP, KDOT and JPM, the bank counterparty on this swap is now JPM.

*Fair value.* These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

*Credit risk.* As of June 30, 2011, KDOT has credit risk exposure to JPMorgan Chase Bank N.A. on the swap associated with the KDOT Series 2004B Revenue Bonds. This is because the transaction has a positive fair value, meaning KDOT is exposed to the counterparty in the amount of the derivative's fair value. However, should interest rates change and the fair value of the swap become negative, KDOT would not be exposed to credit risk.

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### III. Detailed Notes On All Funds

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KDOT has no credit risk exposure on the rest of the swap transactions because the swaps have negative fair values, meaning the counterparties are exposed to KDOT in the amount of the derivatives' fair values. However, should interest rates change and the fair values of the swaps become positive, KDOT would be exposed to credit risk.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

*Basis risk.* Basis risk is the risk that the interest rate paid by KDOT on underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. KDOT bears basis risk on each of its swaps. The swaps have basis risk since KDOT receives a percentage of LIBOR to offset the actual variable bond rate KDOT pays on its bonds. KDOT is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate KDOT pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

*Termination risk.* KDOT or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If the swap were terminated by KDOT and at the time of termination the swap had a negative fair value, KDOT would be liable to the counterparty for a payment equal to the swap's fair value.

#### L. Revisions to Beginning Net Assets

Various adjustments were made to the beginning fund balances to correct errors in the prior year financial statements. The following table summarizes the changes to the fund balances and net assets as reported in the prior year financial statements (expressed in thousands):

	<u>Governmental</u>	<u>Business type</u>	<u>Total</u>	<u>Component Units</u>
Capital asset data correction	(368,250)	(11)	(368,261)	(3,770)
Deferred revenue for income taxes	(333,465)	0	(333,465)	0
Medicaid	40,093	0	40,093	0
Correction of liability accounts	(8,293)	0	(8,293)	0
Miscellaneous Regent adjustments	0	0	0	6,180
Regents KUMC investment correction	0	0	0	17,133

*Capital assets.* On July 1, 2010 most State agencies began using the asset management module in the State's new centralized accounting system (SMART) to record capital assets and calculate depreciation. During implementation, agencies made corrections (reclassification of asset category, removal of data not meeting the State's threshold, etc.) as needed. Prior to July, each agency maintained their own asset records and the depreciation was calculated centrally. Since SMART calculates the depreciation for each asset separately based on purchase date, the State now has a more accurate record of capital assets. The corrections to capital asset records reduce net assets by \$368.3 million in governmental activities, which includes internal service funds, and \$3.7 million in component unit funds.

*Deferred revenue for income taxes.* A prior period adjustment for \$333.4 million has been recorded in the General Fund. This change has been made to defer corporate and individual income tax revenues which were not recorded in fiscal year 2010 in the general fund.

*Medicaid.* The State corrected an error in calculating the accounts receivable and payable. Since the average lag time for payment is 27 days, it was determined that using payments made in the first 30 days of the fiscal year would result in more accurate calculation. Overall the fund balance and net assets increased by \$40.1 million due to this change.

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### **III. Detailed Notes On All Funds**

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Liability corrections. During the conversion to the State's new centralized computer system, corrections were made certain liability accounts. These corrections reduced fund balance and net assets by \$8.3 million.

Miscellaneous Regent corrections. Net assets was increased by \$6.2 million due to changes in the financial statements of the Regent component units for corrections of prior year information.

Kansas University Medical Center (KUMC)/Kansas University Medical Center Research Institute (KUMCRI). Beginning balance of net assets for the Regents has been increased \$17.1 million because it was discovered that investments related to Kansas University Medical Center residual Facilities and Administrative overhead reimbursements were not accurately reflected. KUMCRI manages these funds on behalf of KUMC and on KUMCRI's balance sheet these investments are treated as "agency funds" and reflected within the investment total with an offsetting liability "deposits held for others". This year it was discovered these investments were not properly recorded on KUMC's balance sheet in fiscal year 2010.

#### **M. Restatement of Fiscal Year 2011 Financial Statements**

In May 2012, the State determined that operating grant revenues for the Social and Rehabilitation fund and the Health and Environment fund were understated due to the exclusion of non-monetary funding received as part of federal funding programs. Accordingly, the financial statements for 2011 were reissued. The restatement increased previously reported operating grant income and human resources expenditures by \$445,368,325 for the Social and Rehabilitation fund and increased the previously reported operating grant income and health and environment expenditures by \$24,968,598 for the Health and Environment fund. This restatement had no effect on change in fund balance for either fund.

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## IV. Other Information

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### A. Risk Management

The State maintains a combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished through risk management and various outside entity commercial insurance providers. It is the policy of the State to cover the risk of certain losses to which it may be exposed through risk management activities. In general, the State is self-insured for certain health care claims (prescription drug and dental plus three of seven medical health plan options), State employee workers' compensation, long-term disability, tort liability, personal property, and real estate property losses up to \$500,000 (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles, and a statewide commercial policy on real property valued at \$500,000 or more (except where separate coverage is required by bond covenant). Insurance settlements have not exceeded insurance coverage for the past three fiscal years.

Coverage for health care claims for prescription drugs and dental claims plus three of seven medical health plan options is provided by The Health and Dental Care Claims (Active Employees) Health and Hospitalization Fund for all active employees, and The Post Employment Health and Dental Care Claims Health and Hospitalization Fund for post-employment populations (retirees). Risk is managed by the performance of full experience studies twice a year. The liability for unpaid claims is the plan reimbursement for services rendered or prescriptions received where the payment to the provider, the member, or the claims administrator has not occurred. These liabilities are estimated by analyzing the prior payment patterns for the same coverage or medical option.

The State Self-insurance Fund (SSIF) is self-insured and self-administered for providing workers' compensation coverage to the State's employees. The agencies make contributions to the SSIF to cover projected losses and net expenses. The SSIF also maintains a partial reserve to reduce the likelihood of additional required contributions due to adverse loss experience. The liability represents results from an annual actuarial study for claims reported but unpaid plus an estimate for claims incurred but not reported.

The remaining risk management activities of the State are included in the State General Fund. The State has not encountered difficulty in resolving past losses by using resources available at the time the loss occurred.

The Tort Claims Fund (TCF) provides payment of compromises, settlements, and final judgments arising from claims against the State or an employee of the State under the Kansas Tort Claims Act, and costs of defending the State or an employee. When the balance in the TCF is insufficient to pay a claim, a transfer is made from the State General Fund to the TCF. The maximum claim liability allowed under The Kansas Tort Claims Act is \$500,000 per occurrence or accident. At June 30, 2011, there were no material claims incurred but unpaid.

The State's self-insurance program covers all personal property losses and real estate property losses up to \$500,000,000 (except where separate coverage is required by bond covenant). Claims in excess of \$500,000,000 are covered by commercial insurance under a statewide policy. The statewide policy has a limit of \$100,000,000 per occurrence for most buildings except flood and earthquake, which are applied as annual aggregates separately to each peril, and a deductible of \$5,000,000 per occurrence for most buildings. For the four buildings in the Capitol Complex, the limit is \$200,000,000 per occurrence. The self-insurance program for personal and real estate property loss represents an estimate of amounts to be paid from currently expendable available financial resources.

Liabilities of the funds are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR's). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of payments), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**IV. Other Information**

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The following table presents the changes in claims liability balances (both current and non-current) during the current fiscal year ended June 30, 2011 (expressed in thousands):

	Claims Liability Beginning Balance	Plus: Current Year Claims and Changes in Estimates	Less: Claim Payments	Claims Liability Ending Balance	Non-current Liability	Current Liability
<b><i>Current fiscal year</i></b>						
State Self-insurance Fund	\$ 57,970	\$ 28,618	\$ (25,828)	\$ 60,760	\$ 43,514	\$ 17,246
Health and Dental Care Claims	27,477	348,249	(349,447)	26,279	27	26,252
(Active Employees) Health and Hospitalization Fund						
Post Employment Health and Dental Care Claims	1,770	23,362	(23,374)	1,758	2	1,756
Total	<u>\$ 87,217</u>	<u>\$ 400,229</u>	<u>\$ (398,649)</u>	<u>\$ 88,797</u>	<u>\$ 43,543</u>	<u>\$ 45,254</u>
<b><i>Prior fiscal year</i></b>						
State Self-insurance Fund	\$ 51,454	\$ 28,516	\$ (22,000)	\$ 57,970	\$ 41,317	\$ 16,653
Health and Dental Care Claims	32,268	371,900	(376,691)	27,477	35	27,442
(Active Employees) Health and Hospitalization Fund						
Post Employment Health and Dental Care Claims	2,198	23,842	(24,270)	1,770	2	1,768
Total	<u>\$ 85,920</u>	<u>\$ 424,258</u>	<u>\$ (422,961)</u>	<u>\$ 87,217</u>	<u>\$ 41,354</u>	<u>\$ 45,863</u>

**Notes:**

1. Claims liability ending balance is based on Aon's BIN modeling estimates using claims lag data through June 30, 2011.
2. Future projections of claims liabilities are only estimates. All estimates, based upon the information available at a point in time to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate.
3. IBNR includes 3% expense load and 3.5% margin.
4. Non-current liability represents the remaining IBNR reserve for the prior fiscal year.

**B. Contingencies and Commitments**

***Litigation***

The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws. Known claims, asserted and unasserted, have been evaluated for the likelihood of an unfavorable outcome and estimates have been made regarding the amount or range of potential loss in the event of an unfavorable outcome. After review, it is the State's opinion that its ultimate liability in these cases, if any, is not expected to have a material adverse affect on the financial position of the State, except for cases below.

In *State of Kansas v. RJ Reynolds Tobacco Co.*, regarding adjustment claims originated from the Tobacco Master Settlement Agreement (MSA) entered into in 1998 that settled litigation and claims by Kansas and 51 other states and jurisdictions against the major tobacco manufacturers. Pursuant to the MSA, Participating Manufacturers agreed to make annual payments to the states, however, these payments were subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturers adjustment, which can be triggered if the Participating Manufacturers suffer a specified market share loss attributable in significant part to their compliance with MSA. Because it has been determined or agreed to that, the Participating Manufacturers did experience such as market-

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## **IV. Other Information**

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share loss in 2002 through 2011, and likely beyond, the total potential Non-Participating Manufacturer adjustment for all states is approximately \$7.2 billion. There are many potential outcomes to this litigation for Kansas, anywhere from no loss to a loss of approximately \$500 million in subsequent MSA payouts. Due to the complexities of the case, the many parties involved, and uncertainty over the final resolution of the Non-Participating Manufacturer adjustment claim asserted by the Participating Manufacturers, we are unable to evaluate a likely outcome at this time.

In *Grand River Enterprises Six Nations, Ltd. V. William Pryor, et. al.* the plaintiffs challenged certain state statutes enacted following the execution of the MSA. On March 17, 2011, the court ruled in favor of the states on all counts. Plaintiffs have filed a motion to amend the final judgment and vacate the summary judgment order alleging, among other things, new material facts. The State believes a ruling for the plaintiffs is unlikely, however, should the plaintiffs obtain a judgment declaring the States' escrow statutes invalid, the result could make it more likely that the so-called NPM Adjustment referred to in the preceding paragraph, could be significant but cannot be estimated at this time.

In *Gannon, et. Al. v. State of Kansas*, 32 individual plaintiffs and four school districts have brought various legal challenges to the school finance formula. The case is presently in discovery, and trial is anticipated to be scheduled for the summer of 2012. The range of potential monetary losses is \$250 to 300 million per year in increased spending on education by the State.

During 2012, the State, through the Health Care Stabilization Fund, is the defendant in a medical negligence case filed in the District Court of Shawnee County, Kansas. The State provides coverage through the Fund in amounts not-to-exceed \$800,000 for each individual defendant listed in the case. The likelihood of an unfavorable outcome and a potential range of loss are not able to be determined at this time.

### ***Federal Financial Assistance***

The State receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable Federal regulations. Grants are subject to the Federal Single Audit Act or to financial and compliance audits by grantor agencies. Disallowances by Federal officials as a result of these audits may become liabilities of the State.

On July 22, 2011, the U.S. District Court for the District of Columbia granted a summary judgment to the U.S. Department of Health and Human Services. This has the effect of disallowing \$3,883,143 in federal funding that KHPA claimed for medical services provided to children residing in Psychiatric Residential Treatment Facilities. KHPA will likely appeal this decision.

### **C. Pollution Remediation**

The Governmental Accounting Standards Board Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations" requires the State to record any known pollution remediation for which it is legally responsible. When the State has not been able to reasonably estimate the liability amount, a disclosure has been made.

### ***Oil Well Plugging***

Legislation requires the Kansas Corporation Commission (KCC) to prepare and maintain an inventory of all abandoned wells with a special focus on wells which, (1) the State has assumed the plugging liability because of the lack of a potentially responsible party; and (2) pose either an ongoing or potential threat to the environment. In fiscal year 2011, KCC plugged approximately 365 wells. The number of known wells needing to be plugged in the future is expected to increase as more wells are discovered in remote areas and also as KCC develops a more refined

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## **IV. Other Information**

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well inventory process. The fiscal year 2011 pollution remediation liability is estimated at \$45.9 million. No recoveries for these well pluggings are expected.

### ***Superfund Program Obligations***

The Kansas Department of Health and Environment (KDHE) is contractually obligated to perform or fund remediation within the Superfund Program. A number of sites in the State fall within the jurisdiction of the U.S. Environmental Protection Agency (EPA) under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), also known as Superfund. These sites have been scored and placed on the National Priority List (NPL). The NPL is the listing of the most severely contaminated sites in the nation that have been identified for possible long-term cleanup.

The NPL sites are addressed through a lengthy process, generally under the direct supervision of the EPA with active State participation. Some of these sites are “orphan” sites, that is, there is not an identified responsible party. Remedial activities at these orphan sites are funded with Federal Superfund monies. Two of the CERCLA requirements have significant impact on the State financial obligations. One is the ten percent State cost share of remedial design and remedial action at Superfund financed sites. The other is the requirement that the State assume responsibility and financial burden for the long term operation and maintenance (O&M) of the site.

After the formal process to list a site on the NPL is completed, the EPA develops a design for remediation of the site that provides the proposed costs of implementation of the remedial action including the long term O&M for the site. The State is required to sign a contract with EPA obligating the State to provide the ten percent match and perform the long term O&M for the site. While the actual schedule is somewhat hard to anticipate, a cost schedule is projected with the proposed cost share and O&M estimates. The State has recorded \$7.4 million in liabilities for the Superfund Program.

### ***State Water Plan Orphan Sites Program***

KDHE also operates an orphan sites program to perform remedial activities at sites where a responsible party cannot be identified and other State or Federal programs are not available to fund those remedial activities. There are approximately 100 contaminated sites across the State included in this orphan sites program. Due to limited funding, KDHE has prioritized the sites that pose the greatest threat to the public health and/or the environment. The State Water Plan – Contamination Remediation fund is the primary source of funding to address environmental contamination issues at these abandoned sites that impact or threaten to impact State water resources and/or public health. While most of these sites are not Superfund-caliber sites that could be worked by the EPA, many still pose a substantial risk to the water supplies and/or public health of many Kansas communities.

The State Water Plan – Contamination Remediation fund is the primary source of funding to provide the State cost share or State O&M requirements for NPL sites. It is difficult to predict what the future costs for the State Water Plan will be, however, the State has recorded a liability for \$0.79 million which is the amount known to be budgeted in fiscal year 2011 for this program.

### ***State Funded Reimbursement Fund Programs***

KDHE obtains State and Federal funds to implement regulatory programs to address corrective action from specific types of pollution sources. While some of these programs provide funding to reimburse responsible parties for their approved cost of corrective action, the State is only obligated to reimburse costs if prior approval is obtained and the State program has funding available.

The Storage Tank Act establishes two separate Trust Funds to assist owners and operators of petroleum storage tanks with the cost of remedial actions. Both funds are designed to provide financial assistance to owners and operators of facilities where contamination from petroleum storage tanks has occurred. The Trust Funds are financed from a \$.01 fee placed on each gallon of petroleum (except aviation fuel) product manufactured in or

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## **IV. Other Information**

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imported into the State. The funds will be abolished on July 1, 2014, by the sunset provision unless reenacted by the Legislature.

K.S.A. 65-34,120 (d) of the Storage Tank Act indicates “This act is intended to assist an owner or operator only to the extent provided for in this act, and it is in no way intended to relieve the owner or operator of any liability that cannot be satisfied by the provisions of this act.”

K.S.A. 65-34,120 (e) of the Storage Tank Act indicates “Neither the secretary nor the State shall have any liability or responsibility to make any payments for corrective action if the respective fund created herein is insufficient to do so. In the event the respective fund is insufficient to make the payments at the time the claim is filed, such claims shall be paid in the order of filing at such time as moneys are paid into the respective fund.”

To date, 2207 sites have been approved to receive reimbursement of approved costs under the Underground Storage Tank (UST) fund identified in K.S.A. 65-34,114 if funding is available.

A similar reimbursement fund has been created for Aboveground Petroleum Storage tanks (AST). 182 sites have been approved to receive reimbursement of approved costs under the AST fund identified in K.S.A. 65-34,129 if funding is available.

In addition to providing reimbursements of approved cost, the statute contains a provision that allows KDHE’s secretary to take whatever emergency action is necessary or appropriate to assure that the public health or safety is not threatened whenever there is a release or potential release from an UST or AST. The statute permits the secretary to take corrective action where the release or potential release presents an actual or potential threat to human health or the environment, if the owner or operator has not been identified or is unable or unwilling to perform corrective action, including but not limited to providing for alternative water supplies. The exact amount of future costs is unknown. The State has recorded a liability of \$16.5 million for UST Program and \$1.8 million for AST Program which represents the amounts budgeted for fiscal year 2011.

### ***Kansas Drycleaner Environmental Response Act***

The Kansas Drycleaner Environmental Response Act established a trust fund described in K.S.A. 65-34,146. The Kansas Dry Cleaning Trust Fund (KDFRTF) is a State-led corrective action program which was established in 1995 to provide funding for implementation of the Kansas Drycleaner Environmental Response Act. Money in the KDFRTF is expended for direct costs for administration and enforcement of Kansas Drycleaner Environmental Response Act and corrective action at sites contaminated by dry cleaning facilities operating as a retail dry cleaning operation.

The corrective action at these sites is performed based on a site prioritization system and KDHE is not liable for costs of corrective action in excess of the \$5 million cap at each site or in excess of the funding available to the program. An estimate of future costs is unknown, however, the State has recorded a liability of \$1.19 million for the Drycleaner Environmental Response Program. This amount represents the amount currently budgeted for future corrective action.

### ***Kansas State University – Old Chemical Waste Landfill***

Kansas State University (KSU) has been given approval to begin work on remediation of the Old Chemical Waste Landfill, located north of Kimball Avenue and west of the Grain Science Complex. KSU’s clean-up plan is being done in collaboration with the Kansas Department of Health and Environment and the Environmental Protection Agency. The landfill, used from the mid-1960s to 1987, was created with the approval of the U.S. Atomic Energy Commission and was a burying ground for tritium, carbon-14 and other short-lived radioactive elements. KSU also disposed of chemicals from 1979 to 1983. KSU has been monitoring the site since 1990 to ensure there are no problems with contamination to the community. The complete clean-up is expected to be completed by April 2013. The State has recorded a liability of \$4 million for this remediation work.



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## IV. Other Information

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### *Kansas State University – Schilling Air Force Base*

Site assessments and investigations have been completed at the former Schilling Air Force Base in Salina, KS and settlement negotiations are underway with the Federal Government to correct soil and groundwater contamination resulting primarily from the use of the chemical Trichloroethylene (TCE). No liability is recorded in the financial statements because an estimate of the State's portion of the liability, if any, is unknown at this time.

### *Kansas State University - Jacksonville, Florida*

KSU is one of over 150 parties who were notified of potential remediation activity at a waste disposal site in Jacksonville, Florida. The primary source of the soil and groundwater contamination is Polychlorinated biphenyl (PCB) and other chlorinated solvents. No liability is recorded in the financial statements because an estimate of the State's portion of the liability, if any, is unknown at this time.

### **D. Other Post Employment Benefits**

*Description.* Kansas statute provides that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements. The health insurance benefit generally provides the same coverage for retirees and their dependants as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Policy Authority. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. Non-Medicare participants are subsidized by the State, thus resulting in a liability to the State. The accounting for the health insurance for retirees is included in the State's Self-Insurance Health fund, with the subsidy provided from the Self-Insurance Health fund.

*Funding Policy.* The State provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 75-6511). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs.

The State does not pay retiree benefits directly; they are paid implicitly over time through employer subsidization of active premiums that would be lower if retirees were not part of the experience group. In fiscal year 2011, non-Medicare retired plan members receiving benefits contributed \$11.5 million to the plan and the State contributed \$9.4 million to the plan, which was paid implicitly through rate subsidization.

*Annual OPEB Cost and Net OPEB Obligation.* The State's annual Other Post Employment Benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of the State's annual OPEB cost for the year, the amounts contributed to the plan, and changes in the State's net OPEB obligation (expressed in thousands):

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**IV. Other Information**

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	Primary Government	Component Units	Pension Trust	Total
Amortization of UAAL	\$ 11,263	5,050	33	\$ 16,346
Normal cost (with interest)	9,797	6,878	39	16,714
Interest on amortized liability	0	0	0	0
Annual required contribution	<u>21,060</u>	<u>11,928</u>	<u>72</u>	<u>33,060</u>
Interest on net OPEB obligation	1,408	1,168	7	2,583
Adjustment to ARC	<u>(2,077)</u>	<u>(1,722)</u>	<u>(10)</u>	<u>(3,809)</u>
Annual OPEB cost	20,391	11,374	69	31,834
Net employer contributions	(9,416)	0	0	(9,416)
Net OPEB obligation July 1, 2010	<u>36,481</u>	<u>30,417</u>	<u>183</u>	<u>67,081</u>
Net OPEB obligation June 30, 2011	<u><u>\$ 47,456</u></u>	<u><u>\$ 31,791</u></u>	<u><u>\$ 252</u></u>	<u><u>\$ 89,499</u></u>

**Schedule of Employer Contributions (for fiscal year ended)**  
(expressed in thousands)

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2009	\$ 25,646	\$ 7,420	28.93%	\$ 46,974
2010	29,481	9,374	31.80%	67,081
2011	31,834	9,416	29.58%	89,499

*Funded Status and Funding Progress.* As of June 30, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$305.5 million. The State's policy is to fund the benefits on a pay as you go basis, that is paid implicitly through rate subsidization, resulting in an unfunded actuarial accrued liability (UAAL) of \$305.5 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.04 billion, and the ratio of the UAAL to the covered payroll was 14.95 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 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 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 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 cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011, actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of

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**IV. Other Information**

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13.0 to 17.0 percent in the first sixteen years and an ultimate rate of 13.0 percent after sixteen 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 over a 30 year open period in level dollar amounts.

**Primary Government**

In addition to the pension benefits described in the Employee Retirement Systems and Pension Plans note, the State provided post-employment health care benefits to retirees who elect the Kansas medical option. This subsidy was ended for post-employment retirees as of December 31, 2006. Retirees that elected the health insurance that the State provides now pays 100 percent of the premium. The monthly amount of premium cost individual ranges from \$395.86 to \$520.02 for early retirees. Early retirees are defined as those retirees not yet Medicare eligible. The employer contribution, according to GASB Statement No. 45, is the aggregate amount of the subsidies, which is calculated into the employer contribution for active employees.

	Eligible State Retiree Participants	Eligible State Retiree and Family Participants	Enabling Legislation
Kansas Major Medical Post-Employment Benefits	6,892	7,165	K.S.A. 75-6504

The State funds post-employment health care benefits on a pay-as-you-go basis as part of the overall retirement benefit ending on June 30, 2011. No separation of pension obligation and health insurance obligation is made and assets are not allocated between obligations.

**E. Employee Retirement Systems and Pension Plans**

***Kansas Public Employees Retirement System - Plan Descriptions***

The Kansas Public Employees Retirement System (KPERs) is an umbrella organization administering the following three statewide retirement systems under one plan as provided by K.S.A. 74 Article 49: Kansas Public Employees Retirement System, Kansas Police and Firemen's Retirement System (KP&F) and Kansas Retirement System for Judges (Judges). All three systems are part of a tax-exempt, defined benefit, contributory plan covering substantially all public employees in Kansas. The Kansas Retirement System for Judges is a single employer group, while the other two are multi-employer cost-sharing groups. Participation by the State is mandatory, whereas participation by local political subdivisions is optional, but irrevocable once elected. The State Elected Officials Special Members Retirement System is also administered by KPERs. This is closed to new members and only a small group is participating.

KPERs publishes its own financial report, which is available by contacting KPERs at 611 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603 or telephone 1-888-275-5737.

KPERs provides retirement, death and disability benefits to State employees, public school employees and employees of counties, municipalities, and certain other State political subdivisions. Although public schools are outside the State reporting entity, the State provides the required employers' contribution for public school employees' retirement benefits.

KPERs total covered salaries and wages paid were approximately \$6.5 billion. The State's total salaries and wages paid were approximately \$2.04 billion of which approximately \$1.06 billion or approximately 52.3 percent relates to employees participating in the System. The remaining approximately 47.3 percent represents salaries and wages paid to employees, such as educational institution employees not participating in the System, and those employees who are classified as other than "permanent" and are not eligible for participation. Information on participating employees and retirement system membership at June 30, 2011, unless otherwise noted is as follows:

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**IV. Other Information**

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<u>Participating Employers</u>	<u>Membership</u>
KPERS	1,416
KP&F	94
Judges	1
Total	<u><u>1,511</u></u>

MEMBERSHIP BY RETIREMENT SYSTEMS \*

	<u>KPERS</u>	<u>KP&amp;F</u>	<u>Judges</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits**	72,354	4,184	206	76,744
Terminated employees entitled to benefits but not yet receiving them	12,826	174	10	13,010
Inactive members, deferred disabled	2,749	181	0	2,930
Inactive members not entitled to benefits	27,296	995	0	28,291
Current employees	<u>150,482</u>	<u>7,173</u>	<u>264</u>	<u>157,919</u>
Total	<u><u>265,707</u></u>	<u><u>12,707</u></u>	<u><u>480</u></u>	<u><u>278,894</u></u>

\*Represents KPERS membership at December 31, 2010.

\*\* Number of retirement payees as of December 31, 2010.

***KPERS Plan Benefits***

Members 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 a member'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, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member'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. 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.

***KPERS Contributions***

Member contributions (from 4.0 to 7.0 percent of gross compensation), employer contributions and net investment income fund KPERS reserves. Member contribution rates are established by state law, and are paid by the employee according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on a actuarial reserve basis. For fiscal years beginning in 1995, Kansas legislation placed a statutory limit of 0.1 percent of payroll increases in contribution rates for KPERS

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**IV. Other Information**

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employers. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 0.15 percent over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group increased to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group increased to 0.4 percent in calendar year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993.

The State's contributions to each retirement system in fiscal years 2009 to 2011 are as follows:

	Fiscal Year	Actuarially Required Funding Rate	Actual Contribution	Contribution as a Percentage of Required Contribution
KPERS	2011	11.30%	\$ 353,443,409	71.74%
	2010	10.98%	331,647,190	67.22%
	2009	10.86%	306,100,644	66.41%
KP&F	2011	17.88%	\$ 62,356,417	100.00% *
	2010	12.86%	59,480,448	100.00%
	2009	13.51%	61,081,537	100.00%
Judges	2011	19.49%	\$ 5,322,341	100.00%
	2010	20.50%	5,574,125	100.00%
	2009	22.08%	6,016,733	100.00%

\* Corridor issue due to prior year actuarial valuation - required contribution revised due to magnitude of change  
KP&F Contributions viewed as 100% for 2011

***Basis of Accounting***

KPERS financial statements are reported using the economic resource measurement focus and the accrual basis of accounting. Contributions are due to KPERS when employee services have been performed and paid. Contributions are recognized as revenues when due pursuant to statutory requirements. Benefit and refunds are recognized when due and payable and expenses are recorded when the corresponding liabilities are incurred, regardless of when contributions are received or payment made.

***Schedule of Funding Status and Funding Progress per KPERS 2011 CAFR***

The funding status of KPERS at December 31, 2010, the most recent actuarial valuation date (expressed in thousands):

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 Percentage of Covered Payroll ((b-a)/c)
12/31/2010	\$13,589,658	\$ 21,853,783	\$8,264,125	62%	\$ 6,494,048	127%

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2011

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**IV. Other Information**

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Additional information as of the latest actuarial valuation follows:

	KPERS	KP&F	Judges
Valuation Date	12/31/2010	12/31/2010	12/31/2010
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent closed	Level Percent closed	Level Dollar closed
Remaining amortization period	22 years	22 years	22 years
Asset valuation method	Difference between actual return and expected return on market value recognized evenly over five-year period. Value must be within corridor of 80 percent to 120 percent of market value.		
Actuarial assumptions:			
Investment rate of return*	8%	8%	8%
Projected salary increases*	4.0% - 12.0%	4.0% - 12.5%	4.50%
Cost of Living Adjustment	none	none	none

\*Salary increases and investment rate of return include an inflation component of 3.5 percent.

***Other Retirement Plans***

Faculty and other eligible unclassified employees of the Board of Regents (Regents) office and State universities must participate in the Regents' mandatory retirement plan. Authorized by statute, this 403(b) defined contribution plan is funded through contributions by the employees and the employer (the Regents office or the State university). Employees are required to serve a one-year waiting period before becoming eligible to participate in the plan, but participation can begin earlier if certain waiver provisions are met. The contributions and earnings are fully vested with the first contribution.

Employees participating in the Regents' mandatory retirement plan are required to contribute 5.5 percent of their salary, up to the maximum dollar amount permitted by the Internal Revenue Code. During fiscal year 2011, employees contributed approximately \$38.6 million. During fiscal year 2011, the 8.5 percent employer contribution totaled \$60.5 million, representing covered wages of approximately \$724.5 million. These employees, along with employees who participate in the KPERS retirement program, may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in the Regents' voluntary retirement plan, which allows the member to purchase a 403(b) contract to supplement the mandatory retirement plan. These employees, along with employees who participate in the KPERS retirement program, may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in the State's 457 deferred compensation program, to supplement their mandatory retirement plan.

The retirement plan for the School for the Blind and the School for the Deaf are also covered by KPERS in the 401(a) defined benefit plan. The KPERS employee rate is 4 percent and 7.97 percent employer rate (6.97 percent employer and 1 percent death & disability).

**F. Subsequent Events**

***2011 Voluntary Retirement Incentive Program***

In August 2011, the State offered a Voluntary Retirement Incentive Program to eligible employees in the Executive Branch who offer to retire between August 2, 2011 and September 19, 2011. On August 31, 2011 the program was extended through October 31, 2011. Eligible employees could choose between two incentive options. Under option one, the State pays the employer share of active State employee rates for Group Health Insurance. For employees receiving member only coverage, the payments are made for the sooner of 60 months or until the participate reaches

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## **IV. Other Information**

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65. Employees receiving member plus coverage, the payments are made for the for the sooner of 42 months or until participant reaches 65. Option two provided a lump-sum \$6,500 payment at the time of retirement.

A total of 1,027 employees opted to accept the incentive. The liability over the next five years is estimated to be \$24.5 million.

### ***Bonds and Notes***

#### **Short-term Debt**

*Certificate of Indebtedness* – On July 1, 2011, the Pooled Money Investment Board (PMIB) issued a \$600 million Certificate of Indebtedness per K.S.A. 75-3725a, subject to redemption not later than June 30, 2012. See Section III-J, Short-term Obligations, for additional information on issuance of a Certificate of Indebtedness.

*Accrued Receivables for Ad Valorem Taxes* – In July 2011, receivables were posted to the State Treasurer’s receivables in the amount of \$27.9 million for the Kansas Educational Building Fund and \$13.9 million for the State Institutions Building Fund per K.S.A. 76-6b11. See Section III-J, Short-term Obligations, for additional information.

*Accrued Receivables for Children’s Initiatives Fund* – In July 2011, receivables were posted to the State Treasurer’s receivables for the Children’s Initiatives Fund in the amount of \$35.5 million per House Bill No. 2014, Section 97(f), Session of 2011. The percentage accrued increased from 50 to 65 percent of the estimate of the annual transfer. See Section III-J, Short-term Obligations, for additional information.

*Accrued Receivables for Economic Development Initiatives Fund* – In July 2011, receivables were posted to the State Treasurer’s receivables for the Economic Development Initiatives Fund in the amount of \$21.4 million per House Bill No.2014, Section 97(g), Session of 2011.

*Accrued Receivables for Correctional Institutions’ Building Fund* – In July 2011, receivables were posted to the State Treasurer’s receivables for the Correctional Institutions’ Building Fund in the amount of \$4.0 million per House Bill No.2014, Section 97(h), Session of 2011.

*Accrued Receivables for Kansas Endowment for Youth Fund* – In July 2011, receivables were posted to the State Treasurer’s receivables for the Kansas Endowment for Youth Fund in the amount of \$210 thousand per House Bill No.2014, Section 97(i), Session of 2011.

*Bond Anticipation Note* – In March 2012, the Kansas Development Finance Authority (KDFA) issued Bond Anticipation Note Series 2012-1 for \$1.6 million to Kansas Department of Wildlife and Parks for energy conservation projects. The note is due March 15, 2013, with an initial interest rate of 0.5 percent that will reset on July 1 and January 1.

#### **Long-term Debt**

*Revenue Bonds* – In September, 2011, \$4.5 million of proceeds from the Series 2009M-1 bonds were transferred from the School of Pharmacy project to the State Capital renovation project. There were no other changes related to the 2009M-1 terms of the bonds.

*Revenue Bonds* – In November 2011, the KDFA issued Revenue Bonds Series 2011B to fund the ongoing renovation of the State Capitol. The bonds totaled \$53.8 million with interest rates ranging from 2.0 to 4.13 percent. The bonds final maturity is on May 1, 2031.

*Revenue Bonds* – In November 2011, the KDFA issued Revenue Bonds Series 2011G for Kansas State University to fund projects for redeveloping, renovating and equipping housing facilities and for landfill site remediation. The

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## IV. Other Information

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bonds totaled \$16.3 million with interest rates ranging from 0.5 to 4.13 percent. The bonds final maturity is on April 1, 2041.

*Revenue Bonds* – In December 2011, the KDFA issued Revenue Bonds Series 2011K for the Kansas Department of Commerce to fund various projects pursuant to the Kansas Investments in Major Projects and Comprehensive Training Program and to currently refund the outstanding balance of the Revenue Bond Series 2005N bonds of \$12.3 million. The bonds totaled \$109.1 million with interest rates ranging from 3.0 to 5.0 percent. The bonds final maturity is on June 1, 2023.

*Revenue Bonds* – In March 2012, the KDFA issued Revenue Refunding Bonds 2012D for the University of Kansas to refund the KDFA Series1993C and 2002K bonds and defease the KDFA Series 2002A-2, 2003C and 2003J-1 bonds. The bonds totaled \$49.2 million with interest rates ranging from 2.0 to 4.5 percent. The bonds final maturity is May 1,2029.

*Loans* – In September 2011, the Pool Money Investment Board loaned \$4.6 million to the Department of Labor for payment of interest on the Unemployment Benefits loan from the federal government. The loan is due April 30, 2013, with an initial interest rate of 0.5 percent that will reset each January 1<sup>st</sup> and July 1<sup>st</sup>

*Loans* – The Department of Labor repaid principal on the Unemployment Benefits loan from the federal government of \$137.8 million in October 2011, and \$21.4 million in November 2011,. After the payment in October 2011, the Department of Labor resumed loan draws, which totaled \$105.8 million through March 19 2012.

### G. Economic Condition (unaudited)

Although the U.S. economy has been growing for two years and is expected to continue to do so, the anticipated rate of growth has decelerated somewhat relative to prior expectations. Additional energy price volatility as a result of political upheavals in the Middle East, the U.S. debt downgrade, and the European Union debt crisis all point to continued uncertainty regarding growth in the state and national economies. The current assumption is that modest growth will continue in the national and state economies during the forecast period. Nominal Gross Domestic Product is now expected to grow by 4.0 percent in calendar year (CY) 2011 and 4.2 percent in CY 2012; and nominal Kansas Gross State Product is now forecast to grow by 4.2 and 4.3 percent for the two years, respectively. Although various economic indicator indices also suggest a continued, if slowing, expansion, reservations remain as to the result of the aforementioned international situations and a sluggish domestic residential housing market.



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## IV. Other Information

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<b>Key Economic Indicators</b>			
	CY 2011	CY 2012	CY 2013
Consumer Price Index for All Urban Consumers	3.4 %	2.0 %	2.2 %
Real U.S. Gross Domestic Product	1.9	2.7	3.1
Nominal U.S. Gross Domestic Product	4.0	4.2	5.5
Nominal U.S. Personal Income	5.0	5.3	6.0
Corporate Profits before Taxes	3.0	3.0	4.0
Nominal Kansas Gross State Product	4.2	4.3	5.5
Nominal Kansas Personal Income:			
Dollars in Millions	\$117,878	\$123,772	\$129,713
<i>Percentage Change</i>	5.7 %	5.0 %	4.8 %
Nominal Kansas Disposable Income:			
Dollars in Millions	\$105,701	\$109,823	\$114,216
<i>Percentage Change</i>	4.4 %	3.9 %	4.0 %
Interest Rate for State General Fund (based on fiscal year)	0.44	0.10	.010
Kansas Unemployment Rate	6.7	6.4	6.4

### Personal Income

Kansas Personal Income (KPI) in CY 2011 is expected to increase by a relatively healthy 5.7 percent above the CY 2010 level, although it is important to note that this figure would have been 4.9 percent but for the enactment of a Social Security payroll tax cut by the federal government. Additional personal income generated from that provision is not subject to the income tax. Both figures are nevertheless higher than the 4.1 percent KPI growth for CY 2011 that had been estimated in April. The new forecast calls for additional KPI growth of 5.0 percent in CY 2012 and 4.8 percent in CY 2013.

### Employment

Data obtained from the Kansas Department of Labor (KDOL) verify that employment has begun to rebound. The most recent monthly data from the KDOL show that total Kansas non-farm private sector employment from September 2010 to September 2011 increased by about 7,800 jobs; while public sector jobs fell by 2,600. From its peak in April of 2008 to its low point in February of 2011, the state lost 89,100 jobs. Sectors with the biggest percentage increases over the last year include manufacturing; professional and business services; and private education and health services. The current average estimates used by KDOL indicate that the overall Kansas unemployment rate, which was 7.0 percent in CY 2010, is expected to be 6.7 percent in CY 2011 before further declining to 6.4 percent in CY 2012. One positive sign relates to initial unemployment claims data, which throughout CY 2011 have been well below the same time periods studied for CY 2010. The national unemployment rate is expected to remain well above the Kansas rate, with the U.S. rate now expected to be CY 9.1 percent in 2011 and 8.7 percent in CY 2012.

### Agriculture

Although net farm income increased significantly in CY 2010, the outlook for CY2011 has been significantly affected by drought. Subsoil moisture supplies as of late October were rated as short or very short in 75 percent of the state. Wheat production alone is expected to have fallen by 23 percent below CY 2010 levels, with the fewest

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## IV. Other Information

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number of acres harvested since 1957. The availability of crop insurance has helped mitigate some of the losses, and grain and livestock prices are generally higher than a year ago. High input prices, especially energy and fertilizer costs, remain an ongoing concern for the agricultural sector.

### Unemployment Benefits

Unemployment payments provided to individuals to replace part of their wages lost as a result of involuntary unemployment are expected to be \$735.9 million for FY 2012. The amount that had been estimated during the 2011 Legislative Session for unemployment benefits was \$667.8 million for FY 2011. Because of the continued sluggish economy, KDOL has had an upward revision of unemployment benefit payments from approved levels for FY 2012. However, benefit payments have significantly dropped from the peak year in FY 2010 of \$1,381.3 million. For FY 2013, the agency estimates that benefit payments will drop to \$450.6 million, which shows that more Kansans are finding jobs and the economy is improving.

### School Finance

Litigation filed in 1999 by two school districts and approximately three dozen students in Shawnee County District Court, alleged the financing system established by the Legislature does not meet the Kansas Constitution's requirement that the Legislature "make suitable provision for finance of the educational interests of the State," violating the students' due process rights (*Montoy v. State*). The case progressed from the district court to the State's Supreme Court. In response to various court opinions, the 2005 and 2006 Legislatures enacted legislation to alter the State's school finance formula and hundreds of millions of additional State aid was appropriated in fiscal years 2006, 2007 and 2008. Financial difficulties beginning with FY 2009, however, compelled State aid to be lowered to bring the State's budget into balance. In response, local officials have filed suit again to reopen the issue and restore the budget cuts. The Supreme Court indicated earlier this year that it would not be willing to reopen the *Montoy* case, and directed the plaintiffs to return to district court.

It is not anticipated that any decision from the courts ordering action by the Legislature on the subject of school finance would be rendered within this fiscal year. It is possible that the 2012 Legislature may address the issue of school finance as the 2005 and 2006 Legislatures did. Because the timing of such action will likely coincide, as it did previously, with an economic upturn for State tax revenues, it is possible that the Legislature could have the option of appropriating additional State aid to schools within available tax resources, depending on the size of the restoration. It should be noted, however, that the increased State sales tax will revert entirely to the State Highway Fund, effective with FY 2014, so available resources in the General Fund are not anticipated to grow as dramatically as in 2004-2007 timeframe.

### Management Policies

The General Fund accounts for nearly one half of all budgeted State spending. Various types of special revenue funds dedicated for specific purposes account for the remainder.

Since the General Fund revenue sources (income, sales, and other taxes) have a direct relationship with the Kansas economy it also can serve as a barometer of the economic conditions across Kansas. Both the executive and legislative branches of state government play significant roles in maintaining fiscal controls over the State's budget, the General Fund, and overall State spending through the State's budgeting and appropriation processes.

Steps have been taken to ensure that the General Fund does not drop below zero. From a cashflow standpoint, tax refunds, school aid payments and other payments have been temporarily delayed from time to time. However, at no time has any debt service payment ever been delayed. No Medicaid provider payments have been slowed to ensure federal rules on timely reimbursement are followed. Payrolls have been met in a timely manner in every instance as well. The Division of the Budget monitors payment schedules and available cash on a daily basis to ensure necessary payments can be made.

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## IV. Other Information

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On a budgetary basis, General Fund spending has been reduced in recent years to bring spending in line with available resources. In making these reductions, State assistance to individuals, State aid to local governments, and aid to school districts have all been greatly affected. For agency operations, no statewide furlough or mandatory salary cuts have been imposed. Agencies have been directed to manage their way through the cuts to ensure that staffing essential positions is at the necessary functioning levels (such as at the correctional facilities and state hospitals).

### Operating Policies

The State observes the following financial policies to manage its fiscal affairs responsibly. The State, through performance budgeting principles, allocates available public resources in keeping with the goals and objectives of State agencies as embodied in their strategic plans.

The State emphasizes the preservation of existing capital facilities over the construction of new ones. A major portion of the Educational Building Fund for universities, Correctional Institutions Building Fund for correctional facilities, and State Institutions Building Fund for hospitals and juvenile correctional facilities is dedicated to rehabilitation and repair.

### Revenue Policies

The State maximizes the use of fee funds, federal funds, and other special revenues to preserve the integrity of the General Fund and ensure budgetary flexibility.

The State uses consensus revenue estimates developed by executive and legislative professional staff as well as university economist consultants as the basis for budgetary decisionmaking.

The State collects taxes, penalties and interest, and other revenues. Internally, State collection units make multiple efforts to collect amounts due the State by using administrative procedures and liens against property. Persistent delinquencies are pursued through legal proceedings and, after exhausting all remedies, may be referred to a private collection agency.

### Cash Management Policies

On a daily basis, the State monitors receipts into, and expenditures out of, the State treasury. Ensuring the State has adequate resources at the time obligations occur is the primary goal. Certificates of indebtedness are the first tool used to meet this goal. Managing the timing of expenditures is a secondary tool.

The State invests idle funds to match these anticipated cashflow needs by using commercial paper, repurchase agreements, government securities and collateralized bank deposits to provide safety, liquidity, and yield in that order.

### Debt Service Policies

The State incurs debt through the issuance of revenue bonds mainly to finance capital improvements, equipment, certain grant programs, and reducing the unfunded liability of the KPERS Fund. The use of debt financing for operating expenses in State government is limited.

The constitution allows for the issuance of general obligation bonds subject to certain restrictions. However, the State has not exercised this authority for many years.

The most recent issuer credit ratings for the State are AA+ by Standard and Poor's and Aa1 by Moody's Corporation. These ratings indicate that the State has a strong capacity to meet its financial commitments and reflect

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## **IV. Other Information**

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the following credit factors: a relatively diverse economic base, conservative fiscal management, and a low debt burden.

### **Governor's Budget Report**

The Governor, by KSA 75-3721, must present spending recommendations to the Legislature. *The Governor's Budget Report* reflects expenditures for both the current and upcoming fiscal years and identifies the sources of financing for them.

The Legislature uses *The Governor's Budget Report* as a guide as it appropriates the money necessary for State agencies to operate. Only the Legislature can authorize expenditures by the State. The Governor recommends spending levels, while the Legislature chooses whether to accept or modify those recommendations. The Governor may veto legislative appropriations, although the Legislature may override any veto by a two-thirds majority vote.

### **Financing of State Spending**

Frequent reference is made to *General Fund* expenditures and expenditures from *all funding sources*. Expenditures from all funding sources include both General Fund expenditures and expenditures from special revenue funds. All money spent by the State must first be appropriated by the Legislature, either from the General Fund or from special revenue funds.

The General Fund receives the most attention in the budget because it is the largest source of the "uncommitted" revenue available to the State. It is also the fund to which most general tax receipts are credited. The Legislature may spend General Fund dollars for any governmental purpose. Special revenue funds, by contrast, are dedicated to a specific purpose.

### **Revenue Estimates**

The tool used by both the Governor and the Legislature to determine General Fund revenue is the "consensus revenue estimate" prepared by the Consensus Revenue Estimating Group. The consensus revenue estimate is important because both the Governor and the Legislature base their budget decisions on it. The estimate is categorized by major source and covers a two-year period: the current year and the budget year. In addition, KSA 75-6701 requires that the Director of the Budget and the Director of the Legislative Research Department certify a joint estimate of General Fund resources to the Legislature. The revenue estimating process is the source of that estimate.

The Consensus Revenue Estimating Group is composed of representatives of the Division of the Budget, the Department of Revenue, the Legislative Research Department, and one consulting economist each from the University of Kansas, Kansas State University, and Wichita State University. The Director of the Budget serves as unofficial chairperson.

The Consensus Revenue Estimating Group meets each spring and fall. Before December 4 (typically in November) of each year, the group makes its initial estimate for the budget year and revises its estimate for the current year. The results are reported to the Governor, Legislature, and public in a joint memorandum from the Director of Legislative Research and the Director of the Budget. The group meets again before April 20 to review the fall estimate and additional data. The group then publishes a revised estimate which the Legislature may use in adjusting expenditures, if necessary.

The consensus revenue estimate is the official revenue projection for the General Fund. Estimates of revenues to other funds are prepared by individual State agencies, reviewed by the Division of the Budget, and included in *The Governor's Budget Report*. The General Fund consensus revenue estimate for FY 2013 is \$6.3 billion, which is subject to revision in April 2012.

## IV. Other Information

### Budget Balancing Mechanisms

This term refers to KSA 75-6701 to 75-6704. The “spending lid” statute requires *The Governor’s Budget Report* and actions of the Legislature to comply with its provisions. An “Omnibus Reconciliation Spending Limit Bill” must be the last appropriation bill passed by the Legislature. The purpose of the bill is to reconcile General Fund expenditures and revenues by reducing expenditures, if necessary, to meet the provisions of the “spending lid.”

The final provision of the “spending lid” act allows the Governor to reduce General Fund expenditures in the current fiscal year, when the Legislature is not in session, by an amount not to exceed that necessary to retain an ending balance in the General Fund of \$100.0 million. The Governor must make the reductions “across the board” by reducing each line item of expenditure by a fixed percentage. The only exceptions are debt service obligations, State retirement contributions for school employees, and transfers to the School District Capital Improvements Fund. The reductions must be approved by the State Finance Council.

In addition to the “spending lid” act, the Governor has the authority under a statutory allotment system to limit expenditures of the General Fund and special revenue funds when it appears that available moneys are not sufficient to satisfy expenditure obligations. This authority applies to agencies of the Executive Branch but not the Legislature or the Judiciary. Allotments can be made on a case-by-case basis and do not have to be across the board. Agencies have the right to appeal any allotment amount and the Governor makes the final determination.

Prior to FY 2003, the allotment system had not been used for 30 years; however, the Governor imposed two rounds of allotments that year. In FY 2009, the Governor imposed one allotment and two rounds were imposed for FY 2010 to bring General Fund expenditures in balance with anticipated revenues. In FY 2011, the current Governor imposed one targeted allotment, totaling \$72 million. It is not anticipated that any allotment will be required in FY 2012. Available balances now exist to serve as a buffer in the event Kansas experiences another revenue downturn.

### KPERS Unfunded Actuarial Liability

KPERS most recent actuarial valuation shows a \$587.1 million increase in the unfunded actuarial liability (UAL), decreasing the funded ratio to 62 percent. This means that KPERS does not have enough assets to provide all the benefits already earned by members and to pay off the UAL in the adopted amortization period ending in 2033.

At this time, GASB does not require unfunded pension actuarial liabilities to be recorded in the financial statements, therefore they are not included in the statement amounts, however the State group portion of KPERS unfunded liability is \$932 million. If the State were to record the unfunded liability amount, the net assets in governmental funds would decrease by \$881.9 million and the business-type funds would decrease by \$50.1 million as shown below (expressed in thousands):

	Governmental Activities	Business-Type Activities
Net assets as reported in the		
Government-wide statements	\$ 10,212,560	\$ 563,337
KPERS unfunded liability	(881,879)	(50,121)
Total	\$ 9,330,681	\$ 513,216

### Economic Summary

The State of Kansas, like many states, has experienced significant economic challenges over recent years. Despite tremendous financial challenges with the most recent global and national economic downturns, the State of Kansas continues to uphold its fiduciary responsibility to Kansas citizens to provide for public services in a fiscally responsible manner through the prudent use of taxing and borrowing authorities, the legislative appropriation process and controls over State spending, consensus revenue estimating, the executive branch budgeting process,

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## IV. Other Information

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and budget balancing mechanisms. By doing so it has managed its way through and ensured its finances remain in good standing.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**

## **Budgetary Information**

Annual budgets are adopted on a cash basis with encumbrance modifications for all governmental funds. Appropriations may be re-appropriated if the balance is greater than \$100, or lapsed at fiscal year end.

On or before October 1, agencies are required to submit annual or biennial budget estimates for the next fiscal year to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However, in the case of the regular legislative session immediately following the election of a governor who was elected to the Office of Governor for the first time, that governor must submit the budget report to the legislature on or before the 21<sup>st</sup> calendar day of that regular session.

The State maintains budgetary restrictions and controls, imposed through annual appropriations and limitations, approved by the Legislature. Agency, fund, and budget unit usually establish the level of budgetary control in the central accounting system. Budgetary control is maintained by mechanisms in the accounting system that prevent expenditures and firm encumbrances in excess of appropriations or limitations and/or available cash. Encumbrances are reported as expenditures for budgetary purposes and as reserved fund balances in the governmental financial statements in this report. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the budget unit level. The supplemental budgetary appropriations made in the General Fund were not material. Due to the volume of data, the detailed budget information at the budget unit level is not presented here.



State of Kansas  
**Required Supplementary Information**  
June 30, 2011

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual**  
*General Fund*  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues and other financing sources:</b>				
Property tax	\$ 24,000	\$ 25,500	\$ 23,168	\$ (2,332)
Income and inheritance tax	2,868,000	2,850,898	2,956,463	105,565
State sales tax	1,690,000	1,990,000	1,965,388	(24,612)
Consumer's and retailer's compensating use tax	230,000	283,000	287,730	4,730
Tobacco and liquor taxes	189,800	187,150	187,801	651
Severance taxes	98,400	102,900	98,666	(4,234)
Insurance premiums taxes	123,000	132,000	141,707	9,707
Other taxes	18,800	25,800	26,346	546
Investment earnings	25,000	18,400	11,538	(6,862)
Transfers	(228,491)	114,930	126,286	11,356
Charges for services, other revenues and financing sources	56,200	49,000	56,176	7,176
Total revenues and other financing sources	<u>5,094,709</u>	<u>5,779,578</u>	<u>5,881,269</u>	<u>101,691</u>
<b>Expenditures and other financing uses:</b>				
Current:				
General government	652,102	682,351	676,828	5,523
Human resources	803,180	831,506	829,506	2,000
Education	3,887,727	3,753,378	3,746,934	6,444
Public safety	371,811	365,478	362,572	2,906
Agriculture and natural resources	19,438	19,354	19,271	83
Health and environment	30,694	30,773	30,387	386
Total expenditures and other financing uses	<u>5,764,952</u>	<u>5,682,840</u>	<u>5,665,498</u>	<u>17,342</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(670,243)</u>	<u>96,738</u>	<u>215,771</u>	<u>\$ 119,033</u>
Fund balances, beginning of year	<u>(62,049)</u>	<u>(70,891)</u>	<u>(21,388)</u>	
Fund balances, end of year	<u>\$ (732,292)</u>	<u>\$ 25,847</u>	<u>\$ 194,383</u>	

State of Kansas  
**Required Supplementary Information**  
June 30, 2011

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**Reconciliation of the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the *General Fund* For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

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	<u>General Fund</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ 215,771
Current year encumbrances are reported as expenditures for budgetary reporting purposes	14,932
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	366,679
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(748,290)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>484,388</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 333,480</u></u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2011

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual**  
*Social and Rehabilitation Fund*  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues and other financing sources:</b>				
Tobacco and liquor taxes	\$ 2,690	\$ 2,690	\$ 2,755	\$ 65
Operating grants	894,212	894,212	859,044	(35,168)
Investment earnings	13	13	79	66
Transfers	941,871	941,871	918,532	(23,339)
Charges for services, other revenues and financing sources	111,240	111,240	130,670	19,430
Total revenues and other financing sources	<u>1,950,026</u>	<u>1,950,026</u>	<u>1,911,080</u>	<u>(38,946)</u>
<b>Expenditures and other financing uses:</b>				
Current:				
Human resources	1,907,138	1,926,495	1,908,168	18,327
Total expenditures and other financing uses	<u>1,907,138</u>	<u>1,926,495</u>	<u>1,908,168</u>	<u>18,327</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>42,888</u>	<u>23,531</u>	<u>2,912</u>	<u>\$ (20,619)</u>
Fund balances, end of year	<u>\$ 42,888</u>	<u>\$ 23,531</u>	<u>\$ 2,912</u>	

State of Kansas  
**Required Supplementary Information**  
June 30, 2011

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**Reconciliation of the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the *Social and Rehabilitation Fund* For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

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	<u>Social and Rehabilitation Fund</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ 2,912
Current year encumbrances are reported as expenditures for budgetary reporting purposes	22,991
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	2,537
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	2,027
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>(17)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u>\$ 30,450</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2011

**Schedule of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual**  
*Transportation Fund*  
**For the Year Ended June 30, 2011**  
*(expressed in thousands)*

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues:</b>				
Motor fuel taxes	\$ 296,603	\$ 281,417	\$ 287,203	\$ 5,786
Vehicle registrations and permits	174,438	177,408	178,638	1,230
Intergovernmental	515,121	559,364	664,081	104,717
Sales and use taxes	277,194	289,523	292,782	3,259
Investment earnings	6,556	13,603	2,193	(11,410)
Other	4,798	8,115	19,508	11,393
Transfers from other state funds	6,481	204,464	64,237	(140,227)
Total revenues	<u>1,281,191</u>	<u>1,533,894</u>	<u>1,508,642</u>	<u>(25,252)</u>
<b>Expenditures, with legal limits:</b>				
<b>Current operating:</b>				
Maintenance	140,236	143,304	139,219	4,085
Construction	60,978	60,205	56,448	3,757
Local support	8,134	8,214	7,384	830
Management	61,625	59,250	56,589	2,661
Capital improvements	8,402	8,388	8,459	(71)
Transfers to other state funds	257,867	257,871	257,871	0
Expenditures with legal limits	<u>537,242</u>	<u>537,232</u>	<u>525,970</u>	<u>11,262</u>
<b>Expenditures, without legal limits:</b>				
<b>Current operating:</b>				
Maintenance	153,434	368,577	370,416	(1,839)
Local support	20,238	20,625	24,288	(3,663)
Management	4,124	5,261	13,135	(7,874)
Capital improvements	250,472	374,362	446,283	(71,921)
Transfers to other state funds	1,797	1,797	1,785	12
Expenditures without legal limits	<u>430,065</u>	<u>770,622</u>	<u>855,907</u>	<u>(85,285)</u>
Total expenditures	<u>967,307</u>	<u>1,307,854</u>	<u>1,381,877</u>	<u>(74,023)</u>
Excess (deficiency) of revenues over expenditures	<u>313,884</u>	<u>226,040</u>	<u>126,765</u>	<u>(99,275)</u>
<b>Other financing sources (uses):</b>				
Transfers-in	0	0	0	0
Transfers-out	(177,577)	(254,065)	(223,931)	30,134
Total other financing sources (uses)	<u>(177,577)</u>	<u>(254,065)</u>	<u>(223,931)</u>	<u>30,134</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ 136,307</u>	<u>\$ (28,025)</u>	<u>\$ (97,166)</u>	<u>\$ (69,141)</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2011

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**Reconciliation of the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the *Transportation Fund* For the Fiscal Year Ended June 30, 2011**

*(expressed in thousands)*

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	<u>Transportation Fund</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ (97,166)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	(61,226)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	615,546
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	<u>(440,772)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 16,382</u></u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2011

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual**  
*Health Policy Authority Fund*  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues and Other Financing Sources:</b>				
Operating grants	\$1,803,539	\$1,798,873	\$1,888,864	\$ 89,991
Investment earnings	202	202	85	(117)
Transfers	(878,084)	(897,475)	(930,917)	(33,442)
Charges for services, other revenues & financing sources	156,477	102,167	212,582	110,415
Total revenues and other financing sources	<u>1,082,134</u>	<u>1,003,767</u>	<u>1,170,614</u>	<u>166,847</u>
<b>Expenditures and Other Financing Uses:</b>				
Current:				
Human resources	1,204,889	1,208,959	1,206,198	2,761
Total expenditures and other financing uses	<u>1,204,889</u>	<u>1,208,959</u>	<u>1,206,198</u>	<u>2,761</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (122,755)</u>	<u>\$ (205,192)</u>	<u>\$ (35,584)</u>	<u>\$ 169,608</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2011

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**Reconciliation of the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the *Health Policy Authority Fund* For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

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	Health Policy Authority Fund
	<u>                    </u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ (35,584)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	15,153
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(5,604)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	17,513
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>400</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u>\$ (8,122)</u>



## Support of Modified Approach for Kansas Department of Transportation Infrastructure Reporting

### Roadways

The highways in the State are made up of two systems: interstate highways and non-interstate highways. The condition of these systems is assessed annually using a pavement management system that measures the condition of the pavement surface to classify the roads into the following three performance levels:

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

PL-2 Roadway surface needs at least routine maintenance.

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

While KDOT has goals to maintain these systems at higher levels, minimum acceptable condition levels have been defined as having at least 80 percent of the interstate miles in PL-1 and at least 75 percent of the non-interstate miles in PL-1. The following table compares the minimum acceptable condition level with the actual condition for the current and prior years.

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum	Actual	Minimum	Actual
	Acceptable	Condition	Acceptable	Condition
	Condition	Level*	Condition	Level*
2009	80%	97%	75%	86%
2010	80%	97%	75%	86%
2011	80%	96%	75%	84%

\*Percent of miles in PL-1

KDOT's goal is to continually improve the condition of the State highway system. To achieve this goal it is necessary to perform maintenance activities and replace those assets that can no longer be economically maintained. To maintain the interstate highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$110 million annually. To maintain the non-interstate highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$260 million. The following table compares the estimated expenditures needed to maintain the system at a minimum acceptable condition level with actual amounts spent for the current and prior years (expressed in thousands).

Fiscal Year	Interstate Highways		Non-interstate Highways	
	Minimum	Actual	Minimum	Actual
	Acceptable	Expenses	Acceptable	Expenses
	Condition	Level	Condition	Level
2007	110,000	\$ 62,935	260,000	\$ 384,627
2008	110,000	68,654	260,000	363,582
2009	110,000	67,603	260,000	392,237
2010	110,000	54,807	260,000	335,108
2011	110,000	57,550	260,000	395,726

KDOT is in the process of reviewing and updating the methodology used in estimating required funding and related asset allocation to appropriately maintain its infrastructure assets.

State of Kansas  
**Required Supplementary Information**  
June 30, 2011

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**Bridges**

The condition of the bridge system in the state is assessed annually using the Pontis Bridge Management System. This system evaluates the condition of several elements (decks, girders, floor beams, columns, etc.) within each bridge using a rating scale of 1 to 5. These element ratings are weighted and aggregated to establish a health index of 0 to 100 for each bridge which, in turn, are aggregated to establish a health index for the entire system.

The goal of KDOT is to maintain the bridge system at a higher level, but has defined an overall statewide health index of 80 as the minimum acceptable condition level. This table compares the minimum acceptable health index with the actual health index for the current and prior years.

<u>Fiscal Year</u>	<u>Minimum Acceptable Health Index</u>	<u>Actual Health Index</u>
2009	80	94
2010	80	94
2011	80	94

KDOT's goal is to continually improve the condition of the State's bridge system. To achieve this goal it is necessary to perform maintenance activities and to replace those bridges that can no longer be economically maintained. To maintain the State's bridges at or above the stated minimum acceptable health index it is estimated that annual preservation and replacement expenditures must be approximately \$75 million. The following table compares the estimated annual expenditures needed to maintain the bridges system with the actual expenditures for the current and prior years (expressed in thousands).

<u>Fiscal Year</u>	<u>Minimum Acceptable Health Index</u>	<u>Actual Expenses</u>
2007	\$ 75,000	\$ 76,536
2008	75,000	72,941
2009	75,000	50,992
2010	75,000	29,219
2011	75,000	69,620

KDOT is in the process of reviewing and updating the methodology used in estimating required funding and related asset allocation to appropriately maintain its infrastructure assets.

**OPEB Schedule of Funding Progress**

(expressed in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets ( a )</u>	<u>Accrued Liability (AAL) ( b )</u>	<u>Unfunded AAL ( b-a )</u>	<u>Funded Ratio ( a/b )</u>	<u>Covered Payroll ( c )</u>	<u>Percent of Covered Payroll ((b-a)/c)</u>
6/30/2009	\$0	\$ 236,910	\$ 236,910	0%	\$ 2,033,724	11.65%
6/30/2010	0	278,394	278,394	0%	2,023,243	13.76%
6/30/2011	0	305,489	305,489	0%	2,042,911	14.95%

**OTHER  
SUPPLEMENTARY  
INFORMATION**

**Listing of Non-Major Governmental Funds**

**Special Revenue Funds**

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for particular purposes:

State Regulatory Boards and Commissions  
Correctional Facilities  
Tobacco Settlement for Children's Initiatives  
Adjutant General  
Agriculture  
Attorney General  
Administration  
Health and Environment  
Highway Patrol  
Historical Society  
Labor  
Commerce  
Insurance  
Judicial  
State Library  
Revenue  
Education  
Secretary of State  
State Treasurer  
Wildlife and Parks  
Executive  
Legislative  
Transportation Special Revenue  
State Water Plan  
Peace Officer Training

**Capital Projects Funds**

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds:

State Buildings (Appropriated)  
Capitol Complex Buildings  
State Library

### **Debt Service Funds**

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principle and interest:

Master Lease Program  
Corrections  
Pooled Fund  
Armories  
Public Broadcasting Digital  
Vital Statistics Project  
Highway Patrol  
Labor  
Social and Rehabilitation Services  
Bond and Interest  
Highway Debt Service  
STAR bond liability fund for GAAP purposes

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds		
	State Regulatory Boards and Commissions	Correctional Facilities	Tobacco Settlement for Children's Initiative
<b>ASSETS</b>			
Cash and cash equivalents	\$ 50,520	\$ 7,761	\$ 12,129
Receivables, net	2,692	861	0
Due from other funds	0	0	0
Advances to other funds	0	0	0
Restricted cash and cash equivalents	0	1	0
Restricted investments	0	0	0
<b>Total assets</b>	<b>\$ 53,212</b>	<b>\$ 8,623</b>	<b>\$ 12,129</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 4,987	\$ 2,142	\$ 6,922
Due to other funds	0	0	0
Deferred revenue	0	0	0
Advances from other funds	0	192	0
<b>Total liabilities</b>	<b>4,987</b>	<b>2,334</b>	<b>6,922</b>
Fund balances:			
<b>Restricted for:</b>			
Capital projects	0	0	0
Debt service	0	0	0
General government	37,181	0	0
Human resources	1,020	0	5,207
Education	37	0	0
Public safety	5,653	6,289	0
Agriculture and natural resources	4,334	0	0
Highways and other transportation	0	0	0
Health and environment	0	0	0
<b>Assigned to:</b>			
Debt service	0	0	0
<b>Total fund balances</b>	<b>48,225</b>	<b>6,289</b>	<b>5,207</b>
<b>Total liabilities and fund balances</b>	<b>\$ 53,212</b>	<b>\$ 8,623</b>	<b>\$ 12,129</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds		
	Adjutant General	Agriculture	Attorney General
<b>ASSETS</b>			
Cash and cash equivalents	\$ (10,761)	\$ 5,809	\$ 19,341
Receivables, net	21,038	93	201
Due from other funds	0	0	0
Advances to other funds	0	0	0
Restricted cash and cash equivalents	0	0	0
Restricted investments	0	0	0
<b>Total assets</b>	<b>\$ 10,277</b>	<b>\$ 5,902</b>	<b>\$ 19,542</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 2,711	\$ 1,261	\$ 2,008
Due to other funds	0	0	0
Deferred revenue	0	0	0
Advances from other funds	0	0	0
Total liabilities	2,711	1,261	2,008
Fund balances:			
<b>Restricted for:</b>			
Capital projects	0	0	0
Debt service	0	0	0
General government	0	0	13,295
Human resources	0	0	0
Education	0	0	0
Public safety	7,566	0	4,239
Agriculture and natural resources	0	4,641	0
Highways and other transportation	0	0	0
Health and environment	0	0	0
<b>Assigned to:</b>			
Debt service	0	0	0
Total fund balances	7,566	4,641	17,534
<b>Total liabilities and fund balances</b>	<b>\$ 10,277</b>	<b>\$ 5,902</b>	<b>\$ 19,542</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds			
	Administration	Health and Environment	Highway Patrol	Historical Society
<b>ASSETS</b>				
Cash and cash equivalents	\$ 27,096	\$ 56,212	\$ 17,691	\$ 5,095
Receivables, net	22	2,644	1,483	286
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	1	0	0	0
Restricted investments	0	0	0	0
<b>Total assets</b>	<b>\$ 27,119</b>	<b>\$ 58,856</b>	<b>\$ 19,174</b>	<b>\$ 5,381</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 6,059	\$ 15,396	\$ 2,853	\$ 257
Due to other funds	0	452	0	0
Deferred revenue	0	211	0	0
Advances from other funds	0	1,504	0	0
<b>Total liabilities</b>	<b>6,059</b>	<b>17,563</b>	<b>2,853</b>	<b>257</b>
Fund balances:				
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	0	0	0	0
General government	21,060	0	0	0
Human resources	0	0	0	0
Education	0	0	0	5,124
Public safety	0	0	16,321	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	41,293	0	0
<b>Assigned to:</b>				
Debt service	0	0	0	0
<b>Total fund balances</b>	<b>21,060</b>	<b>41,293</b>	<b>16,321</b>	<b>5,124</b>
<b>Total liabilities and fund balances</b>	<b>\$ 27,119</b>	<b>\$ 58,856</b>	<b>\$ 19,174</b>	<b>\$ 5,381</b>



State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds			
	Labor	Commerce	Insurance	Judicial
<b>ASSETS</b>				
Cash and cash equivalents	\$ 6,888	\$ 111,741	\$ 26,543	\$ 13,660
Receivables, net	284	2,125	23	178
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	684	0	0
Restricted investments	0	6,267	0	0
<b>Total assets</b>	<b>\$ 7,172</b>	<b>\$ 120,817</b>	<b>\$ 26,566</b>	<b>\$ 13,838</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 2,020	\$ 2,612	\$ 9,973	\$ 1,605
Due to other funds	100	0	83	0
Deferred revenue	0	0	0	0
Advances from other funds	19	0	332	0
<b>Total liabilities</b>	<b>2,139</b>	<b>2,612</b>	<b>10,388</b>	<b>1,605</b>
Fund balances:				
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	0	0	0	0
General government	0	118,205	16,178	12,233
Human resources	5,033	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
<b>Assigned to:</b>				
Debt service	0	0	0	0
<b>Total fund balances</b>	<b>5,033</b>	<b>118,205</b>	<b>16,178</b>	<b>12,233</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,172</b>	<b>\$ 120,817</b>	<b>\$ 26,566</b>	<b>\$ 13,838</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds			
	State Library	Revenue	Education	Secretary of State
<b>ASSETS</b>				
Cash and cash equivalents	\$ 319	\$ 24,013	\$ 6,992	\$ 11,991
Receivables, net	0	540	65	107
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	0	0	0
Restricted investments	0	0	0	0
<b>Total assets</b>	<b>\$ 319</b>	<b>\$ 24,553</b>	<b>\$ 7,057</b>	<b>\$ 12,098</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 15	\$ 5,368	\$ 3,563	\$ 784
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
<b>Total liabilities</b>	<b>15</b>	<b>5,368</b>	<b>3,563</b>	<b>784</b>
Fund balances:				
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	0	0	0	0
General government	0	19,185	0	0
Human resources	0	0	0	11,314
Education	304	0	3,494	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
<b>Assigned to:</b>				
Debt service	0	0	0	0
<b>Total fund balances</b>	<b>304</b>	<b>19,185</b>	<b>3,494</b>	<b>11,314</b>
<b>Total liabilities and fund balances</b>	<b>\$ 319</b>	<b>\$ 24,553</b>	<b>\$ 7,057</b>	<b>\$ 12,098</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds			
	State Treasurer	Wildlife and Parks	Executive	Legislative
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,864	\$ 30,983	\$ 4,094	\$ 92
Receivables, net	0	487	102	0
Due from other funds	18,100	0	0	0
Advances to other funds	58,245	0	0	0
Restricted cash and cash equivalents	0	314	0	0
Restricted investments	0	0	0	0
<b>Total assets</b>	<b>\$ 79,209</b>	<b>\$ 31,784</b>	<b>\$ 4,196</b>	<b>\$ 92</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 76,597	\$ 3,743	\$ 601	\$ 0
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
<b>Total liabilities</b>	<b>76,597</b>	<b>3,743</b>	<b>601</b>	<b>0</b>
Fund balances:				
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	0	0	0	0
General government	2,612	0	3,595	92
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	28,041	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
<b>Assigned to:</b>				
Debt service	0	0	0	0
<b>Total fund balances</b>	<b>2,612</b>	<b>28,041</b>	<b>3,595</b>	<b>92</b>
<b>Total liabilities and fund balances</b>	<b>\$ 79,209</b>	<b>\$ 31,784</b>	<b>\$ 4,196</b>	<b>\$ 92</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds		
	Transportation Special Revenue	State Water Plan	Peace Officer Training
<b>ASSETS</b>			
Cash and cash equivalents	\$ 20,818	\$ 9,404	\$ 284
Receivables, net	6,598	3,084	0
Due from other funds	0	0	0
Advances to other funds	0	0	0
Restricted cash and cash equivalents	0	0	0
Restricted investments	0	0	0
<b>Total assets</b>	<b>\$ 27,416</b>	<b>\$ 12,488</b>	<b>\$ 284</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 1,514	\$ 360	\$ 47
Due to other funds	0	0	0
Deferred revenue	0	1,481	0
Advances from other funds	0	0	0
<b>Total liabilities</b>	<b>1,514</b>	<b>1,841</b>	<b>47</b>
Fund balances:			
<b>Restricted for:</b>			
Capital projects	0	0	0
Debt service	0	0	0
General government	0	0	0
Human resources	0	0	0
Education	0	0	0
Public safety	0	0	237
Agriculture and natural resources	0	10,647	0
Highways and other transportation	25,902	0	0
Health and environment	0	0	0
<b>Assigned to:</b>			
Debt service	0	0	0
<b>Total fund balances</b>	<b>25,902</b>	<b>10,647</b>	<b>237</b>
<b>Total liabilities and fund balances</b>	<b>\$ 27,416</b>	<b>\$ 12,488</b>	<b>\$ 284</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2011**

*(expressed in thousands)*

	Capital Projects Funds		
	State Buildings (Appropriated)	Capitol Complex Buildings	State Library
<b>ASSETS</b>			
Cash and cash equivalents	\$ 30,470	\$ (44)	\$ 38
Receivables, net	0	0	0
Due from other funds	0	0	0
Advances to other funds	0	0	0
Restricted cash and cash equivalents	0	6,241	0
Restricted investments	0	0	0
<b>Total assets</b>	<b>\$ 30,470</b>	<b>\$ 6,197</b>	<b>\$ 38</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 1,181	\$ 2,390	\$ 0
Due to other funds	0	0	0
Deferred revenue	0	0	0
Advances from other funds	0	0	0
<b>Total liabilities</b>	<b>1,181</b>	<b>2,390</b>	<b>0</b>
Fund balances:			
<b>Restricted for:</b>			
Capital projects	29,289	3,807	38
Debt service	0	0	0
General government	0	0	0
Human resources	0	0	0
Education	0	0	0
Public safety	0	0	0
Agriculture and natural resources	0	0	0
Highways and other transportation	0	0	0
Health and environment	0	0	0
<b>Assigned to:</b>			
Debt service	0	0	0
<b>Total fund balances</b>	<b>29,289</b>	<b>3,807</b>	<b>38</b>
<b>Total liabilities and fund balances</b>	<b>\$ 30,470</b>	<b>\$ 6,197</b>	<b>\$ 38</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2011**

*(expressed in thousands)*

Debt Service Funds

	Master Lease Program	Corrections	Pooled Funds	Armories
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,482	\$ 0	\$ 0	\$ 0
Receivables, net	29,073	48	0	0
Due from other funds	4,002	0	0	0
Advances to other funds	9,072	0	0	0
Restricted cash and cash equivalents	0	1,090	71	4,908
Restricted investments	0	1,574	0	0
	<b>\$ 46,629</b>	<b>\$ 2,712</b>	<b>\$ 71</b>	<b>\$ 4,908</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 4	\$ 177	\$ 0	\$ 162
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
Total liabilities	4	177	0	162
Fund balances:				
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	46,625	2,535	71	4,746
General government	0	0	0	0
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
<b>Assigned to:</b>				
Debt service	0	0	0	0
Total fund balances	46,625	2,535	71	4,746
<b>Total liabilities and fund balances</b>	<b>\$ 46,629</b>	<b>\$ 2,712</b>	<b>\$ 71</b>	<b>\$ 4,908</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2011**

*(expressed in thousands)*

	Debt Service Funds			
	Public Broadcasting Digital	Vital Statistics Project	Highway Patrol	Labor
<b>ASSETS</b>				
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 0
Receivables, net	0	0	0	0
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	12	1	1	8
Restricted investments	0	0	0	0
	0	0	0	0
<b>Total assets</b>	<b>\$ 12</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 8</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 0	\$ 0	\$ 0	\$ 0
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
Total liabilities	0	0	0	0
Fund balances:				
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	12	1	1	8
General government	0	0	0	0
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
<b>Assigned to:</b>				
Debt service	0	0	0	0
Total fund balances	12	1	1	8
<b>Total liabilities and fund balances</b>	<b>\$ 12</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 8</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Balance Sheet - Nonmajor Governmental Funds - Concluded**  
**June 30, 2011**

*(expressed in thousands)*

	Debt Service Funds			
	Bond and Interest	Highway Debt Service	STAR Bonds Debt Service	Total Nonmajor Governmental
<b>ASSETS</b>				
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 496,525
Receivables, net	0	275	0	72,309
Due from other funds	0	0	0	22,102
Advances to other funds	0	0	0	67,317
Restricted cash and cash equivalents	203	106,741	47,002	167,278
Restricted investments	0	0	0	7,841
<b>Total assets</b>	<b>\$ 203</b>	<b>\$ 107,016</b>	<b>\$ 47,002</b>	<b>\$ 833,372</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 0	\$ 978	\$ 0	\$ 158,290
Due to other funds	0	0	0	635
Deferred revenue	0	0	0	1,692
Advances from other funds	0	0	0	2,047
<b>Total liabilities</b>	<b>0</b>	<b>978</b>	<b>0</b>	<b>162,664</b>
Fund balances:				
<b>Restricted for:</b>				
Capital projects	0	0	0	33,134
Debt service	203	0	47,002	101,204
General government	0	0	0	243,636
Human resources	0	0	0	22,574
Education	0	0	0	8,959
Public safety	0	0	0	40,305
Agriculture and natural resources	0	0	0	47,663
Highways and other transportation	0	0	0	25,902
Health and environment	0	0	0	41,293
<b>Assigned to:</b>				
Debt service	0	106,038	0	106,038
<b>Total fund balances</b>	<b>203</b>	<b>106,038</b>	<b>47,002</b>	<b>670,708</b>
<b>Total liabilities and fund balances</b>	<b>\$ 203</b>	<b>\$ 107,016</b>	<b>\$ 47,002</b>	<b>\$ 833,372</b>



State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds		
	State Regulatory Boards and Commissions	Correctional Facilities	Tobacco Settlement for Children's Initiative
<b>REVENUES</b>			
Property tax	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0
Sales and excise tax	1	0	0
Gross receipts tax	5,451	0	0
Charges for services	94,306	15,746	56,856
Operating grants	12,146	43,183	0
Capital grants	0	0	0
Investment earnings	45	8	235
Other revenues	5,828	5,940	26
<b>Total revenues</b>	<u>117,777</u>	<u>64,877</u>	<u>57,117</u>
<b>EXPENDITURES</b>			
Current:			
General government	59,532	0	0
Human resources	10,779	0	36,838
Education	780	0	12,239
Public safety	6,578	75,974	0
Agriculture and natural resources	10,929	0	0
Highways and other transportation	0	0	0
Health and environment	0	0	9,182
Debt service:			
Principal	6,874	540	0
Interest	2,675	54	0
<b>Total expenditures</b>	<u>98,147</u>	<u>76,568</u>	<u>58,259</u>
<b>Excess of revenues over (under) expenditures</b>	<u>19,630</u>	<u>(11,691)</u>	<u>(1,142)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of debt	0	0	0
Transfers, net	(12,939)	14,798	(478)
<b>Total other financing sources (uses)</b>	<u>(12,939)</u>	<u>14,798</u>	<u>(478)</u>
<b>Net change in fund balances</b>	6,691	3,107	(1,620)
<b>Fund balances, beginning of year</b>	41,534	3,275	6,827
Revisions to beginning fund balances	0	(93)	0
Fund balances, beginning of year (restated)	<u>41,534</u>	<u>3,182</u>	<u>6,827</u>
<b>Fund balances, end of year</b>	<u>\$ 48,225</u>	<u>\$ 6,289</u>	<u>\$ 5,207</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Special Revenue Funds		
	Adjutant General	Agriculture	Attorney General
<b>REVENUES</b>			
Property tax	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0
Sales and excise tax	0	0	0
Gross receipts tax	0	0	0
Charges for services	7	10,812	16,071
Operating grants	211,547	6,274	8,080
Capital grants	0	0	0
Investment earnings	0	3	5
Other revenues	39	516	4,004
<b>Total revenues</b>	<u>211,593</u>	<u>17,605</u>	<u>28,160</u>
<b>EXPENDITURES</b>			
Current:			
General government	0	0	16,810
Human resources	0	0	0
Education	0	0	0
Public safety	215,823	0	13,378
Agriculture and natural resources	0	17,988	0
Highways and other transportation	0	0	0
Health and environment	0	0	0
Debt service:			
Principal	0	0	0
Interest	0	0	0
<b>Total expenditures</b>	<u>215,823</u>	<u>17,988</u>	<u>30,188</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(4,230)</u>	<u>(383)</u>	<u>(2,028)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of debt	0	0	0
Transfers, net	12,153	372	4,859
<b>Total other financing sources (uses)</b>	<u>12,153</u>	<u>372</u>	<u>4,859</u>
<b>Net change in fund balances</b>	7,923	(11)	2,831
<b>Fund balances, beginning of year</b>	(357)	4,652	14,703
Revisions to beginning fund balances	0	0	0
Fund balances, beginning of year (restated)	(357)	4,652	14,703
<b>Fund balances, end of year</b>	<u>\$ 7,566</u>	<u>\$ 4,641</u>	<u>\$ 17,534</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds			
	Administration	Health and Environment	Highway Patrol	Historical Society
<b>REVENUES</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	696	2,424	1,021
Gross receipts tax	0	861	0	0
Charges for services	10,996	23,889	10,192	1,193
Operating grants	285	162,311	20,681	743
Capital grants	0	0	0	90
Investment earnings	83	232	12	15
Other revenues	13,029	14,318	525	114
<b>Total revenues</b>	<u>24,393</u>	<u>202,307</u>	<u>33,834</u>	<u>3,176</u>
<b>EXPENDITURES</b>				
Current:				
General government	25,270	0	0	0
Human resources	0	0	0	0
Education	0	0	0	3,041
Public safety	0	0	44,611	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	217,980	0	0
Debt service:				
Principal	11,090	0	0	0
Interest	25,342	0	0	0
<b>Total expenditures</b>	<u>61,702</u>	<u>217,980</u>	<u>44,611</u>	<u>3,041</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(37,309)</u>	<u>(15,673)</u>	<u>(10,777)</u>	<u>135</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of debt	0	0	0	0
Transfers, net	33,640	2,477	16,606	117
<b>Total other financing sources (uses)</b>	<u>33,640</u>	<u>2,477</u>	<u>16,606</u>	<u>117</u>
<b>Net change in fund balances</b>	(3,669)	(13,196)	5,829	252
<b>Fund balances, beginning of year</b>	24,729	54,489	10,492	4,872
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	24,729	54,489	10,492	4,872
<b>Fund balances, end of year</b>	<u>\$ 21,060</u>	<u>\$ 41,293</u>	<u>\$ 16,321</u>	<u>\$ 5,124</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds			
	Labor	Commerce	Insurance	Judicial
<b>REVENUES</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	14,502	0	0
Sales and excise tax	0	0	0	0
Gross receipts tax	0	30	12,023	0
Charges for services	1,645	7,854	11,514	23,302
Operating grants	34,098	59,459	746	719
Capital grants	0	526	0	0
Investment earnings	0	915	0	16
Other revenues	12,379	(3,549)	140	2,115
<b>Total revenues</b>	<u>48,122</u>	<u>79,737</u>	<u>24,423</u>	<u>26,152</u>
<b>EXPENDITURES</b>				
Current:				
General government	0	129,417	19,104	24,551
Human resources	55,945	0	0	0
Education	0	2,756	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	10,215	0	0
Interest	0	6,808	0	0
<b>Total expenditures</b>	<u>55,945</u>	<u>149,196</u>	<u>19,104</u>	<u>24,551</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(7,823)</u>	<u>(69,459)</u>	<u>5,319</u>	<u>1,601</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of debt	0	0	0	0
Transfers, net	9,494	42,799	(5,472)	102
<b>Total other financing sources (uses)</b>	<u>9,494</u>	<u>42,799</u>	<u>(5,472)</u>	<u>102</u>
<b>Net change in fund balances</b>	1,671	(26,660)	(153)	1,703
<b>Fund balances, beginning of year</b>	3,362	144,865	16,331	10,530
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	3,362	144,865	16,331	10,530
<b>Fund balances, end of year</b>	<u>\$ 5,033</u>	<u>\$ 118,205</u>	<u>\$ 16,178</u>	<u>\$ 12,233</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Special Revenue Funds			
	State Library	Revenue	Education	Secretary of State
<b>REVENUES</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	(3,398)	0	0
Sales and excise tax	0	18,928	0	0
Gross receipts tax	0	122	0	0
Charges for services	0	16,559	4,640	4,173
Operating grants	1,640	705	686,591	1,931
Capital grants	0	0	0	0
Investment earnings	0	0	0	64
Other revenues	0	(2)	50,965	77
<b>Total revenues</b>	<u>1,640</u>	<u>32,914</u>	<u>742,196</u>	<u>6,245</u>
<b>EXPENDITURES</b>				
Current:				
General government	0	80,129	0	8,453
Human resources	0	0	0	0
Education	1,612	0	838,463	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	0	0	0
Interest	0	0	0	0
<b>Total expenditures</b>	<u>1,612</u>	<u>80,129</u>	<u>838,463</u>	<u>8,453</u>
<b>Excess of revenues over (under) expenditures</b>	<u>28</u>	<u>(47,215)</u>	<u>(96,267)</u>	<u>(2,208)</u>
<b>Other financing sources (uses):</b>				
Proceeds from sale of debt	0	0	0	0
Transfers, net	0	48,050	90,863	(6)
<b>Total other financing sources (uses)</b>	<u>0</u>	<u>48,050</u>	<u>90,863</u>	<u>(6)</u>
<b>Net change in fund balances</b>	28	835	(5,404)	(2,214)
<b>Fund balances, beginning of year</b>	275	18,350	8,898	13,528
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	<u>275</u>	<u>18,350</u>	<u>8,898</u>	<u>13,528</u>
<b>Fund balances, end of year</b>	<u>\$ 303</u>	<u>\$ 19,185</u>	<u>\$ 3,494</u>	<u>\$ 11,314</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2011**

*(expressed in thousands)*

	Special Revenue Funds			
	State Treasurer	Wildlife and Parks	Executive	Legislative
<b>REVENUES</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	1,005	0	0
Gross receipts tax	0	(2)	0	0
Charges for services	765	33,705	211	85
Operating grants	0	16,415	18,344	0
Capital grants	0	0	0	0
Investment earnings	3,171	82	45	0
Other revenues	19,063	250	84	20
<b>Total revenues</b>	<u>22,999</u>	<u>51,455</u>	<u>18,684</u>	<u>105</u>
<b>EXPENDITURES</b>				
Current:				
General government	19,862	0	15,732	89
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	55,540	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	45	0	0
Interest	0	88	0	0
<b>Total expenditures</b>	<u>19,862</u>	<u>55,673</u>	<u>15,732</u>	<u>89</u>
<b>Excess of revenues over (under) expenditures</b>	<u>3,137</u>	<u>(4,218)</u>	<u>2,952</u>	<u>16</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of debt	0	0	0	0
Transfers, net	(2,528)	3,115	(7,576)	0
<b>Total other financing sources (uses)</b>	<u>(2,528)</u>	<u>3,115</u>	<u>(7,576)</u>	<u>0</u>
<b>Net change in fund balances</b>	609	(1,103)	(4,624)	16
<b>Fund balances, beginning of year</b>	2,003	29,144	8,219	76
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	<u>2,003</u>	<u>29,144</u>	<u>8,219</u>	<u>76</u>
<b>Fund balances, end of year</b>	<u>\$ 2,612</u>	<u>\$ 28,041</u>	<u>\$ 3,595</u>	<u>\$ 92</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Special Revenue Funds		
	Transportation Special Revenue	State Water Plan	Peace Officer Training
<b>REVENUES</b>			
Property tax	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0
Sales and excise tax	0	2,846	0
Gross receipts tax	0	0	0
Charges for services	0	5,387	648
Operating grants	5,325	0	0
Capital grants	0	0	0
Investment earnings	138	0	0
Other revenues	2,086	4,430	0
<b>Total revenues</b>	<u>7,549</u>	<u>12,663</u>	<u>648</u>
<b>EXPENDITURES</b>			
Current:			
General government	0	0	0
Human resources	0	0	0
Education	0	29	0
Public safety	0	0	505
Agriculture and natural resources	0	12,313	0
Highways and other transportation	24,123	0	0
Health and environment	0	2,829	0
Debt service:			
Principal	0	0	0
Interest	0	0	0
<b>Total expenditures</b>	<u>24,123</u>	<u>15,171</u>	<u>505</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(16,574)</u>	<u>(2,508)</u>	<u>143</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of debt	0	0	0
Transfers, net	13,868	3,079	(701)
<b>Total other financing sources (uses)</b>	<u>13,868</u>	<u>3,079</u>	<u>(701)</u>
<b>Net change in fund balances</b>	(2,706)	571	(558)
<b>Fund balances, beginning of year</b>	28,608	10,076	795
Revisions to beginning fund balances	0	0	0
Fund balances, beginning of year (restated)	28,608	10,076	795
<b>Fund balances, end of year</b>	<u>\$ 25,902</u>	<u>\$ 10,647</u>	<u>\$ 237</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2011**

*(expressed in thousands)*

	Capital Projects Funds		
	State Buildings (Appropriated)	Capital Complex Buildings	State Library
<b>REVENUES</b>			
Property tax	\$ 48,707	\$ 0	\$ 0
Income and inheritance tax	0	0	0
Sales and excise tax	0	0	0
Gross receipts tax	0	0	0
Charges for services	(3)	0	16
Operating grants	0	0	26
Capital grants	0	0	0
Investment earnings	0	123	0
Other revenues	451	0	2
<b>Total revenues</b>	<u>49,155</u>	<u>123</u>	<u>44</u>
<b>EXPENDITURES</b>			
Current:			
General government	188	33,360	0
Human resources	4,382	0	0
Education	25,720	0	165
Public safety	4,505	0	0
Agriculture and natural resources	0	0	0
Highways and other transportation	0	0	0
Health and environment	0	0	0
Debt service:			
Principal	0	6,655	0
Interest	0	7,877	0
<b>Total expenditures</b>	<u>34,795</u>	<u>47,892</u>	<u>165</u>
<b>Excess of revenues over (under) expenditures</b>	<u>14,360</u>	<u>(47,769)</u>	<u>(121)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of debt	0	40,470	0
Transfers, net	(22,714)	12,741	0
<b>Total other financing sources (uses)</b>	<u>(22,714)</u>	<u>53,211</u>	<u>0</u>
<b>Net change in fund balances</b>	(8,354)	5,442	(121)
<b>Fund balances, beginning of year</b>	37,644	(1,635)	159
Revisions to beginning fund balances	0	0	0
Fund balances, beginning of year (restated)	37,644	(1,635)	159
<b>Fund balances, end of year</b>	<u>\$ 29,290</u>	<u>\$ 3,807</u>	<u>\$ 38</u>



State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2011**

*(expressed in thousands)*

	Debt Service Funds				
	Master Lease Program	Corrections	Pooled Funds	Armories	Public Broadcasting Digital
<b>REVENUES</b>					
Property tax	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0	0
Sales and excise tax	0	0	0	0	0
Gross receipts tax	0	0	0	0	0
Charges for services	0	0	0	0	0
Operating grants	0	0	0	0	0
Capital grants	0	0	0	0	0
Investment earnings	32	106	11	26	1
Other revenues	0	0	2	0	0
<b>Total revenues</b>	<u>32</u>	<u>106</u>	<u>13</u>	<u>26</u>	<u>1</u>
<b>EXPENDITURES</b>					
Current:					
General government	(641)	0	200	0	273
Human resources	0	0	0	0	0
Education	0	0	0	0	0
Public safety	0	920	0	806	0
Agriculture and natural resources	0	0	0	0	0
Highways and other transportation	0	0	0	0	0
Health and environment	0	0	0	0	0
Debt service:					
Principal	8,158	5,420	2,170	1,505	340
Interest	1,833	2,421	8,366	1,209	165
<b>Total expenditures</b>	<u>9,350</u>	<u>8,761</u>	<u>10,736</u>	<u>3,520</u>	<u>778</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(9,318)</u>	<u>(8,655)</u>	<u>(10,723)</u>	<u>(3,494)</u>	<u>(777)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of debt	1,382	0	0	3,201	0
Transfers, net	0	7,657	8,698	2,499	452
<b>Total other financing sources (uses)</b>	<u>1,382</u>	<u>7,657</u>	<u>8,698</u>	<u>5,700</u>	<u>452</u>
<b>Net change in fund balances</b>	(7,936)	(998)	(2,025)	2,206	(325)
<b>Fund balances, beginning of year</b>	54,561	3,533	2,096	2,540	337
Revisions to beginning fund balances	0	0	0	0	0
Fund balances, beginning of year (restated)	54,561	3,533	2,096	2,540	337
<b>Fund balances, end of year</b>	<u>\$ 46,625</u>	<u>\$ 2,535</u>	<u>\$ 71</u>	<u>\$ 4,746</u>	<u>\$ 12</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Debt Service Funds			
	Vital Statistics Project	Highway Patrol	Labor	Social and Rehabilitation Services
<b>REVENUES</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	0	0	0
Gross receipts tax	0	0	0	0
Charges for services	0	0	0	0
Operating grants	0	0	0	0
Capital grants	0	0	0	0
Investment earnings	0	0	1	0
Other revenues	0	0	0	37
<b>Total revenues</b>	<u>0</u>	<u>0</u>	<u>1</u>	<u>37</u>
<b>EXPENDITURES</b>				
Current:				
General government	0	0	0	0
Human resources	0	0	100	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	255	2,200	3,390
Interest	0	118	756	3,068
<b>Total expenditures</b>	<u>0</u>	<u>373</u>	<u>3,056</u>	<u>6,458</u>
<b>Excess of revenues over (under) expenditures</b>	<u>0</u>	<u>(373)</u>	<u>(3,055)</u>	<u>(6,421)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of debt	0	0	0	0
Transfers, net	0	373	2,883	6,409
<b>Total other financing sources (uses)</b>	<u>0</u>	<u>373</u>	<u>2,883</u>	<u>6,409</u>
<b>Net change in fund balances</b>	0	0	(172)	(12)
<b>Fund balances, beginning of year</b>	1	1	180	12
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	1	1	180	12
<b>Fund balances, end of year</b>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ 0</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Concluded  
For the Fiscal Year Ended June 30, 2011**

*(expressed in thousands)*

	Debt Service Funds			
	Bond and Interest	Highway Debt Service	STAR Bonds Debt Service	Total Nonmajor Governmental
<b>REVENUES</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 48,707
Income and inheritance tax	0	0	0	11,104
Sales and excise tax	0	0	36,937	63,858
Gross receipts tax	0	0	0	18,485
Charges for services	0	0	0	350,569
Operating grants	0	0	0	1,291,249
Capital grants	0	0	0	616
Investment earnings	5	330	0	5,704
Other revenues	1,669	0	0	134,558
<b>Total revenues</b>	<u>1,674</u>	<u>330</u>	<u>36,937</u>	<u>1,924,850</u>
<b>EXPENDITURES</b>				
Current:				
General government	0	0	51,953	484,282
Human resources	0	0	0	108,044
Education	0	0	0	884,805
Public safety	320	0	0	363,420
Agriculture and natural resources	0	0	0	96,770
Highways and other transportation	0	0	0	24,123
Health and environment	0	0	0	229,991
Debt service:				
Principal	5,245	89,895	33,835	187,832
Interest	2,453	83,952	6,073	153,258
<b>Total expenditures</b>	<u>8,018</u>	<u>173,847</u>	<u>91,861</u>	<u>2,532,525</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(6,344)</u>	<u>(173,517)</u>	<u>(54,924)</u>	<u>(607,675)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of debt	0	0	0	45,053
Transfers, net	6,056	180,713	0	472,459
<b>Total other financing sources (uses)</b>	<u>6,056</u>	<u>180,713</u>	<u>0</u>	<u>517,512</u>
<b>Net change in fund balances</b>	(288)	7,196	(54,924)	(90,163)
<b>Fund balances, beginning of year</b>	491	98,842	101,926	760,964
Revisions to beginning fund balances	0	0	0	(93)
Fund balances, beginning of year (restated)	491	98,842	101,926	760,871
<b>Fund balances, end of year</b>	<u>\$ 203</u>	<u>\$ 106,038</u>	<u>\$ 47,002</u>	<u>\$ 670,708</u>

**Listing of Non-Major Proprietary Funds**

**Enterprise Funds**

Enterprise funds may be used to report any activity for which a fee for goods or services is charged external users. Enterprise funds are (1) required for any activity that operates under laws or regulations that its costs be recovered with fees and charges, rather than with taxes or similar revenues, (2) required for any activity for which management establishes fees, pursuant to its pricing policy, designed to recover its costs of providing services, and (3) required for activity that is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity:

Workers' Compensation  
Lottery  
Intergovernmental Transfer Program  
Transportation Revolving Fund  
Communication Systems Revolving Fund

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Net Assets - Nonmajor Proprietary Funds**  
**June 30, 2011**  
*(expressed in thousands)*

	Business-Type Activities					Total
	Workers Compensa- tion	Lottery	Intergover- mental Transfer Program	Transporta- tion Revolving Fund	Communica- tion Systems Revolving Fund	
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 7,765	\$ 6,318	\$ 872	\$ 0	\$ 2,289	\$ 17,244
Restricted cash and cash equivalents	0	0	0	32,148	0	32,148
Receivables, net	1,307	10,169	1	8,136	1,985	21,598
Inventories	0	1,731	0	0	0	1,731
<b>Total current assets</b>	<b>9,072</b>	<b>18,218</b>	<b>873</b>	<b>40,284</b>	<b>4,274</b>	<b>72,721</b>
Noncurrent assets:						
Investments	0	0	0	15,277	0	15,277
Receivables, net	0	0	0	72,450	12,885	85,335
Advances to other funds	1,000	0	0	0	0	1,000
Capital assets (net of accumulated depreciation)	0	6,172	0	0	0	6,172
Other noncurrent assets	0	0	0	628	62	690
<b>Total noncurrent assets</b>	<b>1,000</b>	<b>6,172</b>	<b>0</b>	<b>88,355</b>	<b>12,947</b>	<b>108,474</b>
<b>Total assets</b>	<b>\$ 10,072</b>	<b>\$ 24,390</b>	<b>\$ 873</b>	<b>\$ 128,639</b>	<b>\$ 17,221</b>	<b>\$ 181,195</b>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other liabilities	\$ 9	\$ 9,438	\$ 0	\$ 794	\$ 120	\$ 10,361
Deferred revenue	0	0	0	0	3,749	3,749
Due to other funds	0	6,068	0	0	85	6,153
Short-term compensated absences	6	0	0	0	0	6
Short-term portion of long-term liabilities	4,948	0	0	6,225	1,253	12,426
<b>Total current liabilities</b>	<b>4,963</b>	<b>15,506</b>	<b>0</b>	<b>7,019</b>	<b>5,207</b>	<b>32,695</b>
Noncurrent liabilities:						
Compensated absences	1	0	0	0	0	1
Claims and judgements	26,551	0	0	0	0	26,551
Bonds, notes and loans payable	0	0	0	64,595	9,162	73,757
Arbitrage rebate payable	0	0	0	173	0	173
Other noncurrent liabilities	0	273	0	0	0	273
<b>Total noncurrent liabilities</b>	<b>26,552</b>	<b>273</b>	<b>0</b>	<b>64,768</b>	<b>9,162</b>	<b>100,755</b>
<b>Total liabilities</b>	<b>31,515</b>	<b>15,779</b>	<b>0</b>	<b>71,787</b>	<b>14,369</b>	<b>133,450</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	0	6,172	0	0	0	6,172
Restricted for:						
Debt service	0	0	0	15,277	0	15,277
Unrestricted	(21,443)	2,439	873	41,575	2,852	26,296
<b>Total net assets</b>	<b>(21,443)</b>	<b>8,611</b>	<b>873</b>	<b>56,852</b>	<b>2,852</b>	<b>47,745</b>
<b>Total liabilities and net assets</b>	<b>\$ 10,072</b>	<b>\$ 24,390</b>	<b>\$ 873</b>	<b>\$ 128,639</b>	<b>\$ 17,221</b>	<b>\$ 181,195</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenses, and Changes in  
Fund Net Assets - Nonmajor Proprietary Funds  
For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Business-Type Activities					Total
	Workers Compensa- tion	Lottery	Intergover- mental Transfer Program	Transporta- tion Revolving Fund	Communica- tion Systems Revolving Fund	
<b>OPERATING REVENUE</b>						
Charges for services	\$ 9,004	\$ 273,967	\$ 0	\$ 204	\$ 526	\$ 283,701
Other revenue	65	830	157	2,996	0	4,048
<b>Total operating revenues</b>	<u>9,069</u>	<u>274,797</u>	<u>157</u>	<u>3,200</u>	<u>526</u>	<u>287,749</u>
<b>OPERATING EXPENSES</b>						
Personal services	169	5,029	0	0	0	5,198
Supplies and services	2,113	44,160	0	36	20	46,329
Lottery prize awards	0	141,317	0	0	0	141,317
Depreciation	0	2,254	0	0	0	2,254
Insurance claims and expenses	1,937	0	0	0	0	1,937
Other expenses	998	1,423	170	0	2	2,593
<b>Total operating expenses</b>	<u>5,217</u>	<u>194,183</u>	<u>170</u>	<u>36</u>	<u>22</u>	<u>199,628</u>
<b>Operating income (loss)</b>	<u>3,852</u>	<u>80,614</u>	<u>(13)</u>	<u>3,164</u>	<u>504</u>	<u>88,121</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Capital grants	0	28	0	0	0	28
Investment earnings	0	0	143	802	11	956
Interest expense	0	0	0	(2,860)	(511)	(3,371)
Other expenses	0	(4,832)	0	0	0	(4,832)
<b>Total nonoperating revenues (expenses)</b>	<u>0</u>	<u>(4,804)</u>	<u>143</u>	<u>(2,058)</u>	<u>(500)</u>	<u>(7,219)</u>
<b>Net income (loss)</b>	3,852	75,810	130	1,106	4	80,902
Transfers in	0	0	0	45,820	0	45,820
Transfers out	(4)	(81,124)	0	(20,820)	0	(101,948)
Net change in net assets	<u>3,848</u>	<u>(5,314)</u>	<u>130</u>	<u>26,106</u>	<u>4</u>	<u>24,774</u>
Total net assets - beginning	(25,291)	13,925	743	30,746	2,848	22,971
<b>Total net assets - ending</b>	<u>\$ (21,443)</u>	<u>\$ 8,611</u>	<u>\$ 873</u>	<u>\$ 56,852</u>	<u>\$ 2,852</u>	<u>\$ 47,745</u>

### **Internal Service Funds**

Internal Service Funds are used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis:

Printing  
Accounting Services  
Motor Pool  
Information Technology  
Aircraft  
Building Maintenance  
Architectural Services  
State Workers' Compensation  
Capitol Security  
Osawatomie Motor Pool  
Wildlife Aircraft  
Personnel Services

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Net Assets - Internal Service Funds**  
**June 30, 2011**  
*(expressed in thousands)*

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 704	\$ 11,457	\$ 543	\$ 6,662	\$ 55	\$ 15,621
Receivables, net	161	8	0	382	0	209
<b>Total current assets</b>	<b>865</b>	<b>11,465</b>	<b>543</b>	<b>7,044</b>	<b>55</b>	<b>15,830</b>
Noncurrent assets:						
Receivables, net	0	0	0	0	0	1,512
Capital assets (net of accumulated depreciation)	2,105	35,933	370	13,283	0	63,375
<b>Total noncurrent assets</b>	<b>2,105</b>	<b>35,933</b>	<b>370</b>	<b>13,283</b>	<b>0</b>	<b>64,887</b>
<b>Total assets</b>	<b>\$ 2,970</b>	<b>\$ 47,398</b>	<b>\$ 913</b>	<b>\$ 20,327</b>	<b>\$ 55</b>	<b>\$ 80,717</b>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other liabilities	\$ 190	\$ 176	\$ 9	\$ 2,390	\$ 4	\$ 1,315
Due to other funds	0	0	45	908	0	40
Short-term compensated absences	118	216	2	705	0	370
Short-term portion of long-term liabilities	0	34,149	0	0	0	2,160
<b>Total current liabilities</b>	<b>308</b>	<b>34,541</b>	<b>56</b>	<b>4,003</b>	<b>4</b>	<b>3,885</b>
Noncurrent liabilities:						
Compensated absences	25	46	0	151	0	80
Claims and judgements	0	29	0	0	0	0
Bonds, notes and loans payable	0	12,918	0	0	0	54,197
Advances from other funds	0	0	82	560	0	21
<b>Total noncurrent liabilities</b>	<b>25</b>	<b>12,993</b>	<b>82</b>	<b>711</b>	<b>0</b>	<b>54,298</b>
<b>Total liabilities</b>	<b>333</b>	<b>47,534</b>	<b>138</b>	<b>4,714</b>	<b>4</b>	<b>58,183</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	2,105	35,933	370	13,283	0	63,375
Unrestricted	532	(36,069)	405	2,330	51	(40,841)
<b>Total net assets</b>	<b>2,637</b>	<b>(136)</b>	<b>775</b>	<b>15,613</b>	<b>51</b>	<b>22,534</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,970</b>	<b>\$ 47,398</b>	<b>\$ 913</b>	<b>\$ 20,327</b>	<b>\$ 55</b>	<b>\$ 80,717</b>



State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Net Assets - Internal Service Funds - Concluded**  
**June 30, 2011**  
*(expressed in thousands)*

	Architectural Service	State Workers Compensation	Capitol Security	Osawatomie Motor Pool	Wildlife Aircraft	Personnel Services	Total
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 1,418	\$ 6,514	\$ 171	\$ 29	\$ 224	\$ 305	\$ 43,703
Receivables, net	3	0	0	0	0	0	763
Total current assets	<u>1,421</u>	<u>6,514</u>	<u>171</u>	<u>29</u>	<u>224</u>	<u>305</u>	<u>44,466</u>
Noncurrent assets:							
Receivables, net	0	0	0	0	0	0	1,512
Capital assets (net of accumulated depreciation)	8	0	0	0	0	0	115,074
Total noncurrent assets	<u>8</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>116,586</u>
<b>Total assets</b>	<u>\$ 1,429</u>	<u>\$ 6,514</u>	<u>\$ 171</u>	<u>\$ 29</u>	<u>\$ 224</u>	<u>\$ 305</u>	<u>\$ 161,052</u>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and other liabilities	\$ 75	\$ 237	\$ 16	\$ 0	\$ 0	\$ 7	\$ 4,419
Due to other funds	0	0	0	0	0	0	993
Short-term compensated absences	67	62	4	0	0	0	1,544
Short-term portion of long-term liabilities	0	17,247	0	0	0	0	53,556
Total current liabilities	<u>142</u>	<u>17,546</u>	<u>20</u>	<u>0</u>	<u>0</u>	<u>7</u>	<u>60,512</u>
Noncurrent liabilities:							
Compensated absences	14	13	1	0	0	0	330
Claims and judgements	0	43,514	0	0	0	0	43,543
Bonds, notes and loans payable	0	0	0	0	0	0	67,115
Advances from other funds	0	0	0	0	0	0	663
Total noncurrent liabilities	<u>14</u>	<u>43,527</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>111,651</u>
<b>Total liabilities</b>	<u>156</u>	<u>61,073</u>	<u>21</u>	<u>0</u>	<u>0</u>	<u>7</u>	<u>172,163</u>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	0	0	0	0	0	0	115,066
Unrestricted	1,273	(54,559)	150	29	224	298	(126,177)
<b>Total net assets</b>	<u>1,273</u>	<u>(54,559)</u>	<u>150</u>	<u>29</u>	<u>224</u>	<u>298</u>	<u>(11,111)</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,429</u>	<u>\$ 6,514</u>	<u>\$ 171</u>	<u>\$ 29</u>	<u>\$ 224</u>	<u>\$ 305</u>	<u>\$ 161,052</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenses, and Changes in  
Fund Net Assets - Internal Service Funds  
For the Fiscal Year Ended June 30, 2011  
(expressed in thousands)**

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance
<b>OPERATING REVENUES</b>						
Charges for services	\$ 3,902	\$ 11,165	\$ 797	\$ 42,091	\$ 129	\$ 30,704
Other revenue	0	1,351	1,488	(29)	0	505
<b>Total operating revenues</b>	<u>3,902</u>	<u>12,516</u>	<u>2,285</u>	<u>42,062</u>	<u>129</u>	<u>31,209</u>
<b>OPERATING EXPENSES</b>						
Salaries and wages	2,179	4,283	49	13,094	0	8,574
Supplies and services	1,827	6,027	(300)	23,525	83	10,695
Depreciation	252	5,150	68	2,261	0	3,437
Insurance claims and expenses	0	0	0	0	0	0
Other expenses	0	0	0	4	0	0
<b>Total operating expenses</b>	<u>4,258</u>	<u>15,460</u>	<u>(183)</u>	<u>38,884</u>	<u>83</u>	<u>22,706</u>
<b>Operating income (loss)</b>	<u>(356)</u>	<u>(2,944)</u>	<u>2,468</u>	<u>3,178</u>	<u>46</u>	<u>8,503</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Capital grants	0	0	0	0	0	(327)
Investment earnings	0	0	0	0	0	55
Interest expense	0	(390)	0	0	0	(2,559)
Other expenses	0	0	0	0	0	(13)
<b>Total nonoperating revenues (expenses)</b>	<u>0</u>	<u>(390)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,844)</u>
<b>Net income (loss)</b>	(356)	(3,334)	2,468	3,178	46	5,659
Transfers in	6	858	0	3,134	0	650
Transfers out	(114)	(89)	(1,401)	(3,517)	0	(4,399)
<b>Net change in net assets</b>	<u>(464)</u>	<u>(2,565)</u>	<u>1,067</u>	<u>2,795</u>	<u>46</u>	<u>1,910</u>
Total net assets - beginning	3,390	2,505	(156)	19,966	5	21,237
Revisions to beginning net assets	(289)	(76)	(136)	(7,148)	0	(613)
Total net assets - beginning (restated)	<u>3,101</u>	<u>2,429</u>	<u>(292)</u>	<u>12,818</u>	<u>5</u>	<u>20,624</u>
<b>Total net assets - ending</b>	<u>\$ 2,637</u>	<u>\$ (136)</u>	<u>\$ 775</u>	<u>\$ 15,613</u>	<u>\$ 51</u>	<u>\$ 22,534</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2011

**Combining Statement of Revenues, Expenses, and Changes in  
Fund Net Assets - Internal Service Funds - Concluded  
For the Fiscal Year Ended June 30, 2011**  
*(expressed in thousands)*

	Architectural Service	State Workers Compensation	Capitol Security	Osawatomie Motor Pool	Wildlife Aircraft	Personnel Services	Total
<b>OPERATING REVENUES</b>							
Charges for services	\$ 2,533	\$ 4	\$ 199	\$ 36	\$ 31	\$ 150	\$ 91,741
Other revenue	54	22,739	124	0	0	0	26,232
<b>Total operating revenues</b>	<u>2,587</u>	<u>22,743</u>	<u>323</u>	<u>36</u>	<u>31</u>	<u>150</u>	<u>117,973</u>
<b>OPERATING EXPENSES</b>							
Salaries and wages	1,373	1,333	308	0	0	110	31,303
Supplies and services	148	2,334	(38)	16	9	113	32,226
Depreciation	2	0	0	0	0	0	23,383
Insurance claims and expenses	0	25,776	0	0	0	0	25,776
Other expenses	0	0	0	0	0	0	4
<b>Total operating expenses</b>	<u>1,523</u>	<u>29,443</u>	<u>270</u>	<u>16</u>	<u>9</u>	<u>223</u>	<u>112,692</u>
<b>Operating income (loss)</b>	<u>1,064</u>	<u>(6,700)</u>	<u>53</u>	<u>20</u>	<u>22</u>	<u>(73)</u>	<u>5,281</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Capital grants	0	0	0	0	0	0	(327)
Investment earnings	0	0	0	0	0	0	55
Interest expense	0	0	0	0	0	0	(2,949)
Other expenses	0	0	0	0	0	0	(13)
<b>Total nonoperating revenues (expenses)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,234)</u>
<b>Net income (loss)</b>	1,064	(6,700)	53	20	22	(73)	2,047
Transfers in	0	0	0	0	0	0	4,648
Transfers out	(2)	(3)	0	0	0	0	(9,525)
<b>Net change in net assets</b>	<u>1,062</u>	<u>(6,703)</u>	<u>53</u>	<u>20</u>	<u>22</u>	<u>(73)</u>	<u>(2,830)</u>
Total net assets - beginning	222	(47,856)	97	9	202	371	(8)
Revisions to beginning net assets	(11)	0	0	0	0	0	(8,273)
Total net assets - beginning (restated)	<u>211</u>	<u>(47,856)</u>	<u>97</u>	<u>9</u>	<u>202</u>	<u>371</u>	<u>(8,281)</u>
<b>Total net assets - ending</b>	<u>\$ 1,273</u>	<u>\$ (54,559)</u>	<u>\$ 150</u>	<u>\$ 29</u>	<u>\$ 224</u>	<u>\$ 298</u>	<u>\$ (11,111)</u>

**STATISTICAL  
SECTION**

State of Kansas  
**Statistical Section**  
June 30, 2011

<u><b>Contents</b></u>	<u><b>Page</b></u>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	163
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the state's most significant revenue source, the income and sales taxes.	174
<b>Debt Capacity</b> These schedules present information to help the reader assess the affordability of the State's current levels of outstanding debt and the State's ability to issue additional debt in the future.	176
<b>Demographic and Economic Information</b> These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	178
<b>Operating Information</b> These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	180

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

The State University System was changed from a business-type activity to a component unit of the State which significantly changes some amounts for fiscal year 2004 and beyond.

State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Net Assets by Fund Type**

**Last Ten Fiscal Years**

*(expressed in thousands)*

	<b>2002</b>	<b>2003</b>	<b>2004</b>
1 Governmental activities			
2       Invested in capital assets, net of related debt	\$ 7,494,576	\$ 7,758,504	\$ 7,855,107
3       Restricted	60,207	118,013	142,188
4       Unrestricted	1,583,141	1,194,510	831,722
5 Total governmental activities net assets	<u>\$ 9,137,924</u>	<u>\$ 9,071,027</u>	<u>\$ 8,829,017</u>
6			
7 Business-type activities <sup>1</sup>			
8       Invested in capital assets, net of related debt	\$ 714,933	\$ 844,948	\$ 479
9       Restricted	513,119	844,360	589,332
10       Unrestricted	406,782	(10,780)	57,317
11 Total business-type activities net assets	<u>\$ 1,634,834</u>	<u>\$ 1,678,528</u>	<u>\$ 647,128</u>
12			
13 Primary government			
14       Invested in capital assets net of related debt	\$ 8,209,509	\$ 8,603,452	\$ 7,855,586
15       Restricted	573,326	962,373	731,520
16       Unrestricted	1,989,923	1,183,730	889,039
17 Total primary government net assets	<u>\$ 10,772,758</u>	<u>\$ 10,749,555</u>	<u>\$ 9,476,145</u>

<sup>1</sup> In fiscal year 2004 the State University System was changed from a business-type activity to a component unit of the State

State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Net Assets by Fund Type**

**Last Ten Fiscal Years**

*(expressed in thousands)*

<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	
\$ 435,125	\$ 8,144,626	\$ 9,538,694	\$ 9,800,244	\$ 9,509,615	\$ 9,601,110	9,219,935	1
89,640	97,386	93,923	87,640	143,946	209,443	869,678	2
762,257	1,309,066	331,906	86,523	105,512	155,995	122,947	3
<u>\$ 9,287,022</u>	<u>\$ 9,551,078</u>	<u>\$ 9,964,523</u>	<u>\$ 9,974,407</u>	<u>\$ 9,759,073</u>	<u>\$ 9,966,548</u>	<u>10,212,560</u>	4
							5
							6
\$ 247	\$ 388	\$ 256	\$ 364	\$ 478	\$ 8,351	6,194	7
766,234	950,950	1,087,458	1,066,936	779,479	433,809	466,317	8
5,642	20,004	6,768	18,330	(6,394)	118,772	90,826	9
<u>\$ 772,123</u>	<u>\$ 971,342</u>	<u>\$ 1,094,482</u>	<u>\$ 1,085,630</u>	<u>\$ 773,563</u>	<u>\$ 560,932</u>	<u>563,337</u>	10
							11
							12
\$ 8,435,372	\$ 8,145,014	\$ 9,538,950	\$ 9,800,608	\$ 9,510,093	\$ 9,609,461	9,226,129	13
855,874	1,048,336	1,181,381	1,154,576	923,425	643,252	1,335,995	14
767,899	1,329,110	338,674	104,853	99,118	274,767	213,773	15
<u>\$ 10,059,145</u>	<u>\$ 10,522,460</u>	<u>\$ 11,059,005</u>	<u>\$ 11,060,037</u>	<u>\$ 10,532,636</u>	<u>\$ 10,527,480</u>	<u>10,775,897</u>	16
							17

State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Changes in Net Assets, Last Ten Fiscal Years**

*(expressed in thousands)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>1 Expenses</b>			
2 Governmental activities:			
3     General government	\$ 561,006	\$ 419,040	\$ 1,615,560
4     Human resources	2,723,207	2,804,932	3,106,382
5     Education	2,662,380	3,125,520	3,201,981
6     Public safety	476,638	446,867	438,540
7     Agriculture and natural resources	90,948	92,466	88,870
8     Highways and other transportation	860,035	798,083	777,697
9     Health and environment	166,038	174,249	176,436
10    Economic development	0	0	0
11    Interest expense	0	0	0
12    Total governmental activities expenses	<u>7,540,252</u>	<u>7,861,157</u>	<u>9,405,466</u>
13 Business-type activities:			
14     Water pollution and safety	42,370	22,489	28,975
15     Health care stabilization	27,588	34,955	33,874
16     Employment security	341,587	487,610	468,413
17     Workers' compensation	(856)	(38,177)	2,842
18     Lottery	132,284	140,103	154,774
19     Universities	1,857,220	1,749,824	0
20     Intergovernmental transfer program	94,823	35,953	1,210
21     Transportation revolving loans	0	0	0
22     Total business-type activities expenses	<u>2,495,016</u>	<u>2,432,757</u>	<u>690,088</u>
23     Total primary government expenses	<u>\$ 10,035,268</u>	<u>\$ 10,293,914</u>	<u>\$ 10,095,554</u>
24			
25 <b>Program Revenues</b>			
26 Governmental activities:			
27     General government	\$ 225,970	\$ 283,224	\$ 298,640
28     Human resources	1,723,828	1,782,338	1,982,802
29     Education	295,077	322,565	359,415
30     Public safety	111,009	85,705	79,468
31     Agriculture and natural resources	52,315	55,648	58,116
32     Highways and other transportation	583,663	588,536	493,479
33     Health and environment	99,249	119,147	130,810
34     Total governmental activities revenues	<u>3,091,111</u>	<u>3,237,163</u>	<u>3,402,730</u>
35 Business-type activities: <sup>1</sup>			
36     Water pollution and safety	35,799	23,769	50,634
37     Health care stabilization	27,684	26,201	22,236
38     Employment security	318,187	352,282	370,895
39     Workers' compensation	468	871	3,859
40     Lottery	191,064	203,939	225,457
41     Universities	800,899	1,026,479	0
42     Intergovernmental transfer program	0	67	191
43     Transportation revolving fund	0	0	0
44     Total business-type activities revenues	<u>1,374,101</u>	<u>1,633,608</u>	<u>673,272</u>
45     Total primary government revenues	<u>\$ 4,465,212</u>	<u>\$ 4,870,771</u>	<u>\$ 4,076,002</u>
46			
47 <b>Net (Expense) Revenue</b>			
48 Government activities	\$ (4,449,141)	\$ (4,623,994)	\$ (6,002,736)
49 Business-type activities	(1,120,915)	(799,149)	(16,816)
50 Total primary net (expense) revenue	<u>\$ (5,570,056)</u>	<u>\$ (5,423,143)</u>	<u>\$ (6,019,552)</u>



State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Changes in Net Assets, Last Ten Fiscal Years**

(expressed in thousands)

	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
\$	1,215,280	\$ 975,416	\$ 1,074,391	\$ 1,002,719	\$ 955,701	\$ 851,373	\$ 1,084,268
	3,124,978	2,979,056	3,080,465	3,279,850	3,691,535	3,785,792	4,053,711
	3,393,376	4,378,010	4,696,343	5,011,242	5,183,287	5,028,780	5,091,475
	514,904	583,340	607,343	742,254	754,869	786,682	711,734
	93,528	98,116	102,471	111,445	126,940	109,672	105,710
	679,952	893,582	639,384	848,375	437,099	516,629	885,153
	189,908	197,884	199,996	225,740	229,198	232,955	258,964
	3,293	3,780	3,125	251	0	0	0
	0	0	149,550	145,246	151,702	144,125	144,443
	<u>9,215,219</u>	<u>10,109,184</u>	<u>10,553,068</u>	<u>11,367,122</u>	<u>11,530,331</u>	<u>11,456,008</u>	<u>12,335,458</u>
	30,499	33,995	33,845	33,794	35,479	33,366	44,780
	39,897	32,500	24,013	56,030	45,641	30,347	30,286
	280,644	253,055	245,910	277,545	735,844	1,381,286	971,158
	2,273	4,888	4,342	5,050	4,511	4,540	5,217
	145,496	167,623	170,928	171,216	165,048	184,080	199,015
	0	0	0	0	0	0	0
	9,287	1,084	583	470	102	139	170
	-	1,145	1,977	2,681	3,384	4,561	3,429
	<u>508,096</u>	<u>494,290</u>	<u>481,598</u>	<u>546,786</u>	<u>990,009</u>	<u>1,638,319</u>	<u>1,254,055</u>
\$	<u>9,723,315</u>	<u>\$ 10,603,474</u>	<u>\$ 11,034,666</u>	<u>\$ 11,913,908</u>	<u>\$ 12,520,340</u>	<u>\$ 13,094,327</u>	<u>\$ 13,589,513</u>
	320,129	\$ 274,969	281,027	308,030	322,789	344,150	342,849
	1,861,855	2,090,961	2,099,064	2,163,300	2,609,468	2,839,446	2,988,161
	386,369	390,180	395,050	407,737	425,331	747,276	692,079
	126,632	149,638	165,609	255,683	266,768	350,512	312,685
	65,012	63,533	66,477	68,020	72,042	74,804	80,324
	563,126	586,235	697,979	697,233	579,323	690,597	850,859
	131,568	129,227	122,938	139,367	138,245	159,009	190,052
	<u>3,454,691</u>	<u>3,684,743</u>	<u>3,828,144</u>	<u>4,039,370</u>	<u>4,413,966</u>	<u>5,205,794</u>	<u>5,457,009</u>
	44,542	42,992	35,393	32,139	34,029	67,258	46,056
	21,244	27,402	36,010	38,079	43,108	26,719	31,570
	348,021	349,919	275,733	224,745	220,886	310,145	401,477
	3,464	1,182	7,395	5,508	4,049	3,148	9,004
	207,772	237,270	241,441	238,349	232,139	258,494	273,995
	0	0	0	0	0	0	0
	167	133	157	191	197	0	0
	-	70	912	127	901	674	730
	<u>625,210</u>	<u>658,968</u>	<u>597,041</u>	<u>539,138</u>	<u>535,309</u>	<u>666,438</u>	<u>762,832</u>
\$	<u>4,079,901</u>	<u>\$ 4,343,711</u>	<u>\$ 4,425,185</u>	<u>\$ 4,578,508</u>	<u>\$ 4,949,275</u>	<u>\$ 5,872,232</u>	<u>\$ 6,219,841</u>
	(5,760,528)	(6,424,441)	(6,724,924)	(7,327,752)	(7,116,365)	(6,250,214)	(6,878,449)
\$	117,114	164,678	115,443	(7,648)	(454,700)	(971,881)	(491,223)
	<u>(5,643,414)</u>	<u>\$ (6,259,763)</u>	<u>\$ (6,609,481)</u>	<u>\$ (7,335,400)</u>	<u>\$ (7,571,065)</u>	<u>\$ (7,222,095)</u>	<u>\$ (7,369,672)</u>

State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Revenues and Other Changes in Net Assets**

**Last Ten Fiscal Years**

*(Expressed in thousands)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>
51 Governmental activities:			
52 Taxes			
53 Property tax	\$ 54,535	\$ 446,611	\$ 648,604
54 Income and inheritance tax	2,010,550	1,936,916	2,104,072
55 Sales and excise tax	2,248,760	2,496,744	2,510,227
56 Gross receipts tax	103,825	115,282	127,953
57 Investment earnings	37,369	13,422	11,437
58 Other revenue	208,732	150,857	232,168
59 Extraordinary items	(570,470)	45,710	68,294
60 Transfers	0	(606,944)	0
61 Total governmental activities revenues	<u>4,093,301</u>	<u>4,598,598</u>	<u>5,702,755</u>
62 Business-type activities: <sup>1</sup>			
63 Investment earnings	(159)	(636)	28,290
64 Other revenue	582,437	204,634	28,024
65 Transfers	570,470	606,944	(68,294)
66 Total business-type activities revenues	<u>1,152,748</u>	<u>810,942</u>	<u>(11,980)</u>
67 Total primary government revenues	<u>\$ 5,246,049</u>	<u>\$ 5,409,540</u>	<u>\$ 5,690,775</u>
68			
69 <b>Change in Net Assets</b>			
70 Governmental activities	\$ (355,840)	\$ (25,396)	\$ (299,981)
71 Business-type activities	<u>13,833</u>	<u>11,793</u>	<u>(28,796)</u>
72 Total primary government	<u>\$ (342,007)</u>	<u>\$ (13,603)</u>	<u>\$ (328,777)</u>

<sup>1</sup> In fiscal year 2004 the State University System was changed from a business-type activity to a component unit of the State

State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Revenues and Other Changes in Net Assets**

**Last Ten Fiscal Years**

*(Expressed in thousands)*

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
							51
							52
\$ 666,698	\$ 548,725	\$ 593,229	\$ 613,222	\$ 631,800	\$ 625,862	\$ 610,463	53
2,385,369	2,866,019	3,210,696	3,431,970	2,997,595	2,562,404	3,033,559	54
2,660,026	2,789,933	2,863,794	2,949,551	2,883,012	2,764,218	3,289,025	55
127,336	132,928	134,872	138,094	138,532	139,813	161,280	56
26,401	61,617	106,727	35,563	17,811	30,229	48,684	57
275,320	244,009	218,482	106,339	232,779	278,082	237,319	58
77,383	0	0	0	0	0	0	59
0	66,868	69,881	78,160	78,177	81,784	69,530	60
<u>6,218,533</u>	<u>6,710,099</u>	<u>7,197,681</u>	<u>7,352,899</u>	<u>6,979,706</u>	<u>6,482,392</u>	<u>7,449,860</u>	61
							62
29,507	37,446	45,914	44,956	37,890	32,033	39,149	63
55,757	35,972	31,624	33,014	182,920	809,001	524,020	64
(77,383)	(66,868)	(69,881)	(78,160)	(78,177)	(81,784)	(69,530)	65
<u>7,881</u>	<u>6,550</u>	<u>7,657</u>	<u>(190)</u>	<u>142,633</u>	<u>759,250</u>	<u>493,639</u>	66
<u>\$ 6,226,414</u>	<u>\$ 6,716,649</u>	<u>\$ 7,205,338</u>	<u>\$ 7,352,709</u>	<u>\$ 7,122,339</u>	<u>\$ 7,241,642</u>	<u>\$ 7,943,499</u>	67
							68
							69
\$ 458,005	\$ 285,658	\$ 472,757	\$ 25,147	\$ (136,659)	\$ 232,178	\$ 571,411	70
124,995	171,228	123,100	(7,838)	(312,067)	(212,631)	2,416	71
<u>\$ 583,000</u>	<u>\$ 456,886</u>	<u>\$ 595,857</u>	<u>\$ 17,309</u>	<u>\$ (448,726)</u>	<u>\$ 19,547</u>	<u>\$ 573,827</u>	72

State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Fund Balances, Governmental Funds**

**Previous Nine Fiscal Years**

*(expressed in thousands)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>
1 General Fund			
2       Reserved	\$ 22,837	\$ 19,255	\$ 18,789
3       Unreserved	60,595	(53,782)	115,150
4 Total general fund	<u>\$ 83,432</u>	<u>\$ (34,527)</u>	<u>\$ 133,939</u>
5			
6 Social and Rehabilitation Fund <sup>1</sup>			
7       Reserved	\$ 20,445	\$ 15,762	\$ 15,763
8       Unreserved	(3,628)	4,961	45,747
9 Total social and rehabilitation fund	<u>\$ 16,817</u>	<u>\$ 20,723</u>	<u>\$ 61,510</u>
10			
11 Transportation Fund			
12       Reserved	\$ 732,505	\$ 971,806	\$ 1,011,621
13       Unreserved	183,896	(178,882)	(295,037)
14 Total transportation fund	<u>\$ 916,401</u>	<u>\$ 792,924</u>	<u>\$ 716,584</u>
15			
16 Transportation - Capital Projects Fund			
17       Reserved	\$ 0	\$ 0	\$ 0
18       Unreserved	(200,000)	(608,115)	(608,115)
19 Total transportation - capital projects fund	<u>\$ (200,000)</u>	<u>\$ (608,115)</u>	<u>\$ (608,115)</u>
20			
21 Health Policy Authority Fund			
22       Reserved	\$ 0	\$ 0	\$ 0
23       Unreserved	0	0	0
24 Total health policy authority fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
25			
26 All Other Governmental Funds			
27       Reserved reported in:			
28           Reserved for debt service	\$ 46,819	\$ 74,631	\$ 112,572
30           Reserved for encumbrances	147,834	163,830	167,582
31           Reserved for advances to other funds	0	60,164	79,888
32       Unreserved	285,994	204,844	324,311
33 Total all other governmental funds	<u>\$ 480,647</u>	<u>\$ 503,469</u>	<u>\$ 684,353</u>

<sup>1</sup> In fiscal year 2008 the Social and Rehabilitation Fund was no longer a major fund.  
In FY 2011, the State implemented GASB Statement No. 54; presentation is not comparable to prior years.

State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Fund Balances, Governmental Funds**

**Previous Nine Fiscal Years**

*(expressed in thousands)*

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	
						1
\$ 15,674	\$ 22,386	\$ 28,871	\$ 7,324	\$ 24,663	\$ 29,680	2
297,059	649,526	791,980	414,713	(201,007)	(278,000)	3
<u>\$ 312,733</u>	<u>\$ 671,912</u>	<u>\$ 820,851</u>	<u>\$ 422,037</u>	<u>\$ (176,344)</u>	<u>\$ (248,320)</u>	4
						5
						6
\$ 19,413	\$ 18,125	\$ 16,708	\$ 0	\$ 0	\$ 0	7
70,426	45,558	7,810	0	0	0	8
<u>\$ 89,839</u>	<u>\$ 63,683</u>	<u>\$ 24,518</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	9
						10
						11
\$ 942,114	\$ 962,147	\$ 977,154	\$ 735,930	\$ 1,022,259	\$ 781,308	12
(168,173)	(243,585)	(356,696)	(94,692)	(562,388)	(524,154)	13
<u>\$ 773,941</u>	<u>\$ 718,562</u>	<u>\$ 620,458</u>	<u>\$ 641,238</u>	<u>\$ 459,871</u>	<u>\$ 257,154</u>	14
						15
						16
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	17
(755,115)	(755,115)	(755,115)	(755,115)	(885,715)	(664,315)	18
<u>\$ (755,115)</u>	<u>\$ (755,115)</u>	<u>\$ (755,115)</u>	<u>\$ (755,115)</u>	<u>\$ (885,715)</u>	<u>\$ (664,315)</u>	19
						20
						21
\$ 0	\$ 4,152	\$ 8,405	\$ 0	\$ 7,964	\$ 5,204	22
0	4,917	15,785	1,464	8,722	4,312	23
<u>\$ 0</u>	<u>\$ 9,069</u>	<u>\$ 24,190</u>	<u>\$ 1,464</u>	<u>\$ 16,686</u>	<u>\$ 9,516</u>	24
						25
						26
						27
\$ 76,143	\$ 13,489	\$ 13,767	\$ 32,224	\$ 165,598	\$ 209,443	28
155,113	149,569	189,578	11,575	237,604	199,753	30
79,215	86,002	41,023	78,530	78,717	73,581	31
353,789	402,889	416,568	722,144	251,858	326,572	32
<u>\$ 664,260</u>	<u>\$ 651,949</u>	<u>\$ 660,936</u>	<u>\$ 844,473</u>	<u>\$ 733,777</u>	<u>\$ 809,349</u>	33

State of Kansas  
**Statistical Section**  
June 30, 2011

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**Financial Trends**

**Fund Balances, Governmental Funds**

**Current Fiscal Year**

*(expressed in thousands)*

---

	<u>2011</u>
<b>General Fund</b>	
Nonspendable:	
Inventory	6,620
Unassigned	(182,683)
Total General Fund	<u>\$ (176,063)</u>
<b>Social and Rehabilitation Fund</b>	
Restricted for:	
Human resources	56,200
Total Social and Rehabilitation Fund	<u>\$ 56,200</u>
<b>Transportation Fund</b>	
Nonspendable:	
Inventory	23,968
Restricted for:	
Highways and other transportation	248,808
Total Transportation Fund	<u>\$ 272,776</u>
<b>Transportation - Capital Projects Fund</b>	
Unassigned	(379,464)
Total Transportation - Capital Projects Fund	<u>\$ (379,464)</u>
<b>Health Policy Authority</b>	
Unassigned	(16,319)
Total Health Policy Authority Fund	<u>\$ (16,319)</u>
<b>All Other Governmental Funds</b>	
Restricted for:	
Capital projects	33,134
Debt Service	101,204
General government	243,636
Human resources	22,574
Education	8,959
Public safety	40,305
Agriculture and natural resources	47,663
Highways and other transportation	25,902
Health and environment	41,293
Assigned to:	
Debt Service	106,038
Total All Other Governmental Funds	<u>\$ 670,708</u>

**Note:** Beginning in fiscal year 2011, fund balance categories were reclassified as a result of implementing GASB Statement 54 but prior years were not restated.

State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Changes in Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

*(expressed in thousands)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>1 Revenues</b>				
2 Taxes	\$ 4,392,768	\$ 4,988,981	\$ 5,455,211	\$ 5,827,740
3 Charges for services	449,109	531,949	746,995	554,851
4 Intergovernmental (operating and capital grants)	2,657,395	2,730,334	2,697,149	2,910,532
5 Investment earnings	37,442	13,636	11,473	26,411
6 Other revenues (includes extraordinary items)	177,028	161,081	309,115	283,470
7 Total revenues	<u>7,713,742</u>	<u>8,425,981</u>	<u>9,219,943</u>	<u>9,603,004</u>
8				
9				
<b>10 Expenditures</b>				
11 General government	582,613	542,359	1,699,154	1,274,908
12 Human resources	2,727,508	2,805,640	3,111,624	3,125,941
13 Education	2,664,448	3,128,229	3,206,817	3,396,304
14 Public safety	482,523	467,663	451,511	507,215
15 Agriculture and natural resources	91,302	91,034	89,161	91,512
16 Highways and other transportation	920,930	898,645	1,018,471	1,026,447
17 Health and environment	166,504	175,636	186,653	190,761
18 Economic Development	0	0	0	3,293
19 Debt service:				
20       Principal	73,861	92,026	73,448	85,347
21       Interest	83,511	82,351	82,589	139,062
22 Total expenditures	<u>7,793,200</u>	<u>8,283,583</u>	<u>9,919,428</u>	<u>9,840,790</u>
23				
24 Excess of revenues over (under) expenditures	(79,458)	142,398	(699,485)	(237,786)
25				
26				
<b>27 Other Financing Sources (Uses)</b>				
28 Proceeds from sale of debt	164,740	383,863	1,321,417	257,125
29 Transfers, net	(573,043)	(612,542)	77,220	84,732
30 Other financing sources (uses)	(33,202)	(646,970)	(442,781)	(1,956)
31 Extraordinary items	0	45,710	0	0
32 Total other financing sources (uses)	<u>(441,505)</u>	<u>(829,939)</u>	<u>955,856</u>	<u>339,901</u>
33				
34 Net change in fund balances	<u>\$ (520,963)</u>	<u>\$ (687,541)</u>	<u>\$ 256,371</u>	<u>\$ 102,115</u>
35				
36 Debt service as a percentage of noncapital				
37       expenditures	2.02%	2.11%	1.57%	2.28%

State of Kansas  
**Statistical Section**  
June 30, 2011

**Financial Trends**

**Changes in Fund Balances, Governmental Funds**

**Last Nine Fiscal Years**

*(expressed in thousands)*

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
							1
\$	6,378,200	\$ 6,828,429	\$ 7,138,723	\$ 6,625,408	\$ 6,207,094	\$ 7,032,605	2
	655,564	744,423	654,744	845,364	704,012	752,092	3
	3,042,060	3,091,345	3,391,868	3,580,727	4,486,248	4,723,639	4
	61,625	106,733	35,573	17,821	29,636	42,170	5
	263,737	290,090	127,260	240,323	260,349	213,449	6
	<u>10,401,186</u>	<u>11,061,020</u>	<u>11,348,168</u>	<u>11,309,643</u>	<u>11,687,339</u>	<u>12,763,955</u>	7
							8
							9
							10
	999,533	1,101,740	1,044,775	1,082,627	991,136	1,052,688	11
	2,982,450	3,089,907	3,289,095	3,697,593	3,777,533	4,040,706	12
	4,380,427	3,879,673	5,014,160	5,185,294	5,026,615	5,090,986	13
	577,042	611,471	749,165	755,762	779,411	720,548	14
	96,026	102,387	111,419	126,182	108,018	114,677	15
	1,027,094	1,033,768	1,033,419	1,010,200	988,028	1,022,332	16
	199,016	200,906	227,102	227,159	233,173	259,139	17
	3,780	3,125	251	0	0	0	18
							19
	93,570	112,398	135,524	134,367	190,938	187,832	20
	142,316	147,770	145,694	146,375	141,200	153,293	21
	<u>10,501,254</u>	<u>10,283,145</u>	<u>11,750,604</u>	<u>12,365,559</u>	<u>12,236,052</u>	<u>12,642,201</u>	22
							23
	(100,068)	777,875	(402,436)	(1,055,916)	(548,713)	121,754	24
							25
							26
							27
	532,422	54,188	225,171	117,248	561,972	370,053	28
	37,830	(797,276)	83,167	84,246	86,169	75,071	29
	(177,402)	0	(150,275)	0	0	0	30
	0	0	0	0	(87,359)	0	31
	<u>392,850</u>	<u>(743,088)</u>	<u>158,063</u>	<u>201,494</u>	<u>560,782</u>	<u>445,124</u>	32
							33
\$	<u>292,782</u>	<u>\$ 34,787</u>	<u>\$ (244,373)</u>	<u>\$ (854,422)</u>	<u>\$ 12,069</u>	<u>566,878</u>	34
							35
							36
	2.25%	2.53%	2.39%	2.27%	2.71%	2.70%	37



State of Kansas  
**Statistical Section**  
June 30, 2011

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**Revenue Capacity**

**Personal Income by Industry, Last Nine Calendar Years**

*(expressed in thousands)*

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	<u>2002</u>	<u>2003</u>	<u>2004</u>
1 Private earnings			
2     Agricultural, Forestry, Fishing and Hunting	\$ 206,149	\$ 214,456	\$ 210,382
3     Mining	690,752	882,024	1,116,737
4     Utilities	651,345	617,946	657,098
5     Construction	3,268,284	3,328,533	3,484,446
6     Manufacturing	10,374,912	10,273,532	11,051,694
7     Wholesale trade	3,310,915	3,342,670	3,545,216
8     Retail trade	4,141,184	4,205,076	4,288,788
9     Transportation and warehousing	2,255,983	2,322,320	2,410,973
10    Information	3,228,551	3,337,931	3,467,343
11    Finance and insurance	3,251,123	3,443,020	3,538,324
12    Real estate and rental and leasing	944,983	1,030,623	1,084,156
13    Professional and technical services	3,805,827	3,636,298	4,119,366
14    Management of companies and enterprises	657,341	642,242	646,177
15    Administrative and waste services	1,884,145	1,912,856	2,047,391
16    Educational services	437,349	454,982	484,165
17    Health care and social assistance	5,504,250	5,737,227	6,121,229
18    Arts, entertainment and recreation	295,488	262,264	275,033
19    Accommodation and food services	1,414,505	1,529,046	1,620,859
20    Other services except public administration	1,819,250	1,923,437	1,933,757
21			
22 Government			
23     Federal, civilian	1,829,087	1,871,954	2,052,479
24     Military	1,359,767	1,611,419	1,732,548
25     State and local	7,627,869	8,376,916	9,482,014

Source: U.S. Department of Commerce, Bureau of Economic Analysis at: <http://www.bea.gov/regional/spi>

State of Kansas  
**Statistical Section**  
June 30, 2011

**Revenue Capacity**

**Personal Income by Industry, Last Nine Calendar Years**

*(expressed in thousands)*

<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	
						1
\$ 228,199	\$ 234,407	\$ 280,613	\$ 285,723	\$ 304,439	\$ 317,562	2
1,328,010	1,589,409	1,569,892	1,288,477	1,549,581	785,894	3
690,152	722,574	792,169	795,278	865,694	880,301	4
3,776,521	4,094,066	4,071,929	4,413,807	3,988,070	4,192,919	5
1,661,073	12,504,265	13,461,380	12,736,605	11,899,007	11,217,913	6
3,772,210	3,991,402	4,241,222	4,657,163	4,436,794	4,549,753	7
4,362,037	4,582,546	4,678,343	4,920,439	4,540,800	4,893,380	8
2,489,576	2,611,443	2,767,873	2,970,686	2,850,770	2,824,582	9
3,344,081	3,521,742	3,716,215	3,479,790	3,102,540	2,362,177	10
3,684,245	3,883,858	4,188,156	4,361,995	4,232,883	4,512,022	11
1,167,144	1,171,789	1,042,920	911,215	874,085	976,563	12
4,494,448	4,875,571	5,190,583	5,215,212	5,252,448	5,294,398	13
684,829	879,612	1,116,081	1,325,278	1,182,450	1,503,770	14
2,469,462	2,847,681	2,855,338	3,098,871	2,925,202	3,163,367	15
507,546	541,281	527,279	617,913	658,248	684,460	16
6,444,008	6,819,398	7,198,640	8,139,847	8,503,526	8,893,444	17
274,399	295,266	312,531	326,814	318,636	338,025	18
1,655,420	1,759,646	1,793,797	2,102,920	2,018,859	2,114,290	19
1,984,554	2,059,524	2,230,187	3,084,342	2,905,835	2,986,984	20
						21
						22
2,054,583	2,145,533	2,140,546	2,197,668	2,321,229	2,560,832	23
1,889,902	2,096,824	2,544,087	2,844,514	3,143,234	3,490,732	24
9,889,548	10,239,615	9,703,924	10,333,042	10,770,093	10,799,866	25

State of Kansas  
**Statistical Section**  
June 30, 2011

**Debt Capacity**  
**Long Term Obligations**  
**Last Ten Fiscal Years**  
*(Expressed in thousands)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>
<b>1 Government Activities</b>			
2 Revenue bonds payable (includes demand bonds)	\$ 1,448,399	\$ 1,374,622	\$ 2,164,339
3 Sales tax limited obligation	0	136,292	160,830
4 Note payable	24,249	25,899	22,549
5 Capital leases payable	122,121	152,539	161,801
6 Arbitrage rebate payable	93	677	385
7 Claims and judgements	40,310	42,816	49,396
8 Compensated absences	96,303	95,456	94,726
9 Other post employment benefits	0	0	0
10 Pollution remediation	0	0	0
11 Total governmental activities	<u>1,731,475</u>	<u>1,828,301</u>	<u>2,654,026</u>
12			
<b>13 Business-Type Activities</b>			
14 Revenue bonds payable	713,110	878,605	584,824
15 Note payable	58,052	56,163	0
16 Arbitrage rebate payable	5,342	4,538	3,123
17 Unemployment benefits loan	0	0	0
18 Claims and judgements	337,200	297,372	185,909
19 Compensated absences	41,900	43,858	54
20 Other post employment benefits	0	0	0
21 Other	2,800	0	(930)
22 Total business-type activities	<u>1,158,404</u>	<u>1,280,536</u>	<u>772,980</u>
23			
<b>24 Component Units</b>			
25 Revenue bonds payable	253,975	306,540	619,409
26 Note payable	0	0	82,316
27 Capital leases payable	0	0	0
28 Arbitrage rebate payable	0	0	16
29 Compensated absences	0	0	44,887
30 Other post employment benefits	0	0	0
31 Pollution remediation	0	0	0
32 Other	0	0	17,129
33 Total component units	<u>253,975</u>	<u>306,540</u>	<u>763,757</u>
34 Total	<u>\$ 3,143,854</u>	<u>\$ 3,415,377</u>	<u>\$ 4,190,763</u>

State of Kansas  
**Statistical Section**  
June 30, 2011

**Debt Capacity**  
**Long Term Obligations**  
**Last Ten Fiscal Years**  
*(Expressed in thousands)*

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
								1
\$	1,748,407	\$ 2,764,949	\$ 2,740,099	\$ 2,726,970	\$ 2,744,828	\$ 2,861,825	\$ 3,077,604	2
	173,239	232,322	218,420	185,924	156,196	208,425	225,548	3
	22,391	20,448	18,278	17,597	26,655	25,843	20,031	4
	159,781	152,483	145,366	140,106	130,533	138,821	129,089	5
	388	93	97	481	385	400	827	6
	54,642	68,033	61,593	82,858	85,920	87,216	88,797	7
	100,030	109,214	118,795	121,255	134,386	129,921	126,241	8
	0	0	0	16,813	26,626	36,270	47,188	9
	0	0	0	0	81,092	70,936	73,660	10
	<u>2,258,878</u>	<u>3,347,542</u>	<u>3,302,648</u>	<u>3,292,004</u>	<u>3,386,621</u>	<u>3,559,657</u>	<u>3,788,985</u>	11
								12
								13
	650,193	720,978	714,857	677,472	765,976	749,001	767,878	14
	0	0	0	0	0	0	0	15
	2,003	963	1,340	1,755	2,885	1,254	173	16
	0	0	0	0	0	88,159	170,821	17
	187,474	186,871	180,802	205,766	218,332	215,402	221,160	18
	49	47	59	56	72	68	73	19
	0	0	0	89	155	224	300	20
	11,392	12,961	13,730	14,703	17,115	17,697	17,597	21
	<u>851,111</u>	<u>921,820</u>	<u>910,788</u>	<u>899,841</u>	<u>1,004,535</u>	<u>1,071,805</u>	<u>1,178,002</u>	22
								23
								24
	726,535	691,253	684,398	692,025	705,223	700,808	691,971	25
	68,351	109,783	20,443	119,073	146,517	174,530	217,034	26
	0	4,666	16,143	15,019	14,147	14,568	13,616	27
	62	80	69	163	123	98	51	28
	47,919	49,655	52,503	58,743	61,943	65,691	69,101	29
	0	0	0	11,775	20,068	30,404	41,794	30
	0	0	0	0	0	4,000	3,700	31
	106,726	103,761	127,836	110,071	111,701	110,928	61,395	32
	<u>949,593</u>	<u>959,198</u>	<u>1,001,392</u>	<u>1,006,869</u>	<u>1,059,722</u>	<u>1,101,027</u>	<u>1,098,662</u>	33
\$	<u><u>4,059,582</u></u>	<u><u>5,228,560</u></u>	<u><u>5,214,828</u></u>	<u><u>5,198,714</u></u>	<u><u>5,450,878</u></u>	<u><u>5,732,489</u></u>	<u><u>6,065,649</u></u>	34

State of Kansas  
**Statistical Section**  
 June 30, 2011

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**Demographic and Economic Information**  
**Kansas Demographic Statistics**  
**Last Ten Fiscal Years**

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<b>Year</b>	<b>Population</b> (1)	<b>Per Capita Personal Income</b> (2)	<b>Median Age</b> (3)	<b>Education Level in Years of Formal Schooling</b> (4)	<b>K to 12 Public School Enrollment</b> (4)	<b>Unemployment Rate</b> (5)
2002	2,715,884	29,141	35.4	-	468,173	5.1%
2003	2,723,507	29,545	35.5	-	467,326	5.4%
2004	2,735,502	31,003	36.1	-	484,262	4.8%
2005	2,744,687	32,948	36.1	-	466,037	5.3%
2006	2,764,075	34,743	36.0	-	465,374	4.7%
2007	2,775,997	36,483	36.7	-	465,135	4.8%
2008	2,802,134	37,978	36.2	-	471,263	4.4%
2009	2,818,747	38,886	35.9	-	503,229	7.1%
2010	2,853,118	37,916	36.0	-	478,897	6.7%
2011	(6)	37,418	(6)	13.28	511,258	7.3%

**Data Sources:**

- (1) U.S. Bureau of the Census Web Site: <http://www.census.gov>.
- (2) State Department of Commerce and U.S. Department of Commerce, BEA Web Site: <http://kansascommerce.com> or <http://www.bea.gov>
- (3) State Department of Health and Environment: <http://www.kdheks.gov>
- (4) State Department of Education Web Site: <http://www.ksde.org>. The source for education level in years of formal schooling came from 1990 and 2000 census reports issued by the U.S. Census Bureau. The K-12 public school enrollment represents the head count as of September 20 of each year.
- (5) State Department of Labor, Kansas Labor Market Information Services Web Site: <http://laborstats.dol.ks.gov>.
- (6) Information is not available at this time.

State of Kansas  
**Statistical Section**  
 June 30, 2011

**Demographic and Economic Information**

**Principal Employers in Kansas**

**Current Year and Ten Years Ago**

Employer	2011				2002				
	Local/Total Employees	Rank	Percentage of Total Employment	Total Employees	Rank	Percentage of Total Employment	Total Employees	Rank	Percentage of Total Employment
State Government F/P (excludes Regents)	53,383 /	53,383	1	4.04%	-	-	-	-	-
KU and KUMC	12,125 /	12,125	2	0.92%	-	-	-	-	-
Spirit Aerosystems Inc.	8,000 /	238,000	3	0.61%	-	-	-	-	-
Hawker Beechcraft Corp.	7,000 /	7,000	4	0.53%	-	-	-	-	-
Cessna Aircraft Corporation	6,200 /	32,000	5	0.47%	11,165	3	0.83%		
Embarq Corp.	5,600 /	26,840	6	0.43%	-	-	-	-	-
Sprint Communications Co. LP	5,000 /	40,000	7	0.38%	20,164	1	1.50%		
Royal Caribbean Cruises Ltd.	4,900 /	6,050	8	0.37%	-	-	-	-	-
B & V - Baker Guam JV	4,500 /	4,500	9	0.34%	-	-	-	-	-
Via Christi Regional Med. Ctr.	4,000 /	11,970	10	0.30%	4,780	9	0.36%		
The Boeing Company	- /	-	-	-	17,300	2	1.29%		
Raytheon Aircraft Company	- /	-	-	-	9,200	4	0.69%		
Kroger Co./Dillon's Stores/Quick Shops	- /	-	-	-	9,137	5	0.68%		
Tyson Foods/IBP Inc.	- /	-	-	-	6,280	6	0.47%		
Farmland Industries/Foods/National Beef	- /	-	-	-	5,500	7	0.41%		
University of Kansas Medical Center	- /	-	-	-	4,954	8	0.37%		
Burlington Northern Santa Fe	- /	-	-	-	4,600	10	0.34%		
<b>Total</b>	<b>110,708 /</b>	<b>431,868</b>		<b>8.39%</b>	<b>93,080</b>		<b>6.94%</b>		

Source: Dun & Bradstreet Corporation Million Dollar Database 2011 for the current fiscal year and Kansas City Business Journal, Book of Lists, 2000-June 2001. The base number used to calculate the percentage is the average number of the total employment in fiscal year 2011 from the Department of Labor website at <http://www.dol.ks.gov>.

State of Kansas  
**Statistical Section**  
June 30, 2011

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**Operating Information**

**Full-time Equivalent State Government Employees by Function/Program**

**Last Ten Fiscal Years**

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	<u>Function/Program</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
1	General Government	5,465	5,541	5,551	5,518	5,745
2	Public Safety	5,045	5,064	5,083	5,083	5,114
3	Education	16,406	16,305	16,452	15,901	15,562
4	Transportation	3,248	3,248	3,248	3,248	3,252
5	Agriculture and Natural					
6	Resources	1,195	1,278	1,286	1,281	1,287
7	Human Resources	8,472	8,730	8,729	8,426	8,189
8	Total	<u>39,831</u>	<u>40,166</u>	<u>40,349</u>	<u>39,457</u>	<u>39,149</u>

**Source:** Department of Administration Workforce Reports at <http://www.da.ks.gov/ps/subject/workforce.htm>

State of Kansas  
**Statistical Section**  
June 30, 2011

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**Operating Information**

**Full-time Equivalent State Government Employees by Function/Program**

**Last Ten Fiscal Years**

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<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	
5,843	5,722	5,799	5,786	5,646	1
5,102	5,111	5,131	5,129	4,992	2
16,770	17,076	17,714	18,375	18,340	3
3,238	3,238	3,202	3,151	3,161	4
					5
1,266	1,271	1,243	1,342	1,329	6
8,191	8,160	8,337	8,313	8,209	7
<u>40,410</u>	<u>40,578</u>	<u>41,426</u>	<u>42,096</u>	<u>41,677</u>	8



**Independent Auditors' 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**

Legislative Post Audit Committee  
Kansas State Legislature  
State of Kansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (the State), as of and for the year ended June 30, 2011, which collectively comprise the State's basic financial statements and have issued our report thereon dated June 28, 2012. These financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the various component units of the six state universities which represent 50 percent and 31 percent, respectively, of the assets and revenues of the discretely presented component units, the Kansas Technology Enterprise Corporation (KTEC) which represents less than 1 percent of assets and revenues of the discretely presented component units, the Kansas Developmental Finance Association (K DFA) which represents 2 percent and less than 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Housing Resource Corporation (KHRC) which represents less than 1 percent and 4 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Bioscience Authority (KBA) which represents 2 percent and 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Public Employees Retirement System (KPERS) which represents 84 percent and 36 percent, respectively, of assets and revenues of the aggregate remaining fund information, and the Kansas Lottery which represents less than 1 percent and 2 percent, respectively, of the assets and revenue of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the six state universities, KTEC, K DFA, KHRC, and KBA in the aggregate discretely presented component units, and KPERS and the Kansas Lottery in the aggregate remaining fund information, is based solely on the reports of the other auditors. We conducted our audit 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 audits of the various component units of the six state universities were not conducted in accordance with *Government Auditing Standards*.

## **Internal Control Over Financial Reporting**

Management of the State is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2011-1 through 2011-5 to be material weaknesses.

A significant deficiency is deficiency, or combination of deficiencies, in internal control that are less severe than a material weakness, yet important enough to merit the attention of those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2011-6 to be a significant deficiency.

## **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the State's financial statements are free of 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*.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the State's responses and, accordingly, we express no opinion on them.

As discussed in Note III M. to the basic financial statements, the State's previously issued June 30, 2011 financial statements have been restated to properly report non-monetary federal awards for the SNAP Cluster and Immunization Cluster. The auditors' report dated March 28, 2012 on internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters is not to be relied upon and is replaced by this auditors' report on internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

This report is intended solely for the information and use of the State of Kansas, the Legislative Post Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

*RubinBrown LLP*

June 28, 2012  
Overland Park, Kansas

# STATE OF KANSAS

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## SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2011

### **Finding 2011-1 – Material Weakness**

**Criteria/Condition:** Internal controls over the reconciliation of the pooled cash operating account at the State of Kansas (State) were not properly modified and implemented upon conversion to the new general ledger software package (SMART).

**Cause:** The State converted to SMART at the beginning of the fiscal year. The conversion changed the type and level of detail of the information that was previously provided to perform the reconciliation. The bank reconciliation procedures and related controls were not reviewed and modified timely to allow for bank reconciliations to be performed accurately throughout the year.

**Effect:** At fiscal year-end, the State tried to prepare a bank reconciliation for the entire fiscal year. The State was unable to reconcile cash timely and accurately and had to revisit reporting information produced from their general ledger to determine that the integrity of the information being produced and used for the bank reconciliation had remained intact. This exercise discovered conversion issues that needed to be corrected in order to reconcile properly. This process should have been performed and procedures and controls adjusted as close to the conversion date as possible.

**Recommendation:** We recommend that management formalize the new processes and procedures and perform bank reconciliations for the pooled operating account on a monthly basis going forward.

**Corrective Action Plan (Unaudited):** The Department of Administration and the Office of the State Treasurer agree with this finding. The formal procedures for the reconciliation of the State Treasurer's common cash and investment accounts to the SMART accounting records were not fully developed and implemented prior to July 1, 2010. One result was that it took an extended period of time to pull together the records for the auditor in order to reconcile the SMART cash balances with the State Treasurer's bank balances.

Over the past few months, joint efforts of the Department of Administration and the Office of the State Treasurer have resulted in significant progress in developing the formal reconciliation procedures and processes that will be used on a monthly basis prospectively. We anticipate the procedures will be completed by April 30 and fully implemented by end of fiscal year 2012.

**Completion Date:** June 30, 2012

**Contact Person And Title:** Martin Eckhardt, Director, Office of Management Analysis and Standards

## STATE OF KANSAS

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### Schedule Of Findings And Responses (*Continued*)

#### **Finding 2011-2 – Material Weakness**

**Criteria/Condition:** Internal control over the review of accounting data and financial information gathered to prepare the State's financial statements in accordance with generally accepted accounting principles (GAAP) is not sufficient to identify and correct potential misstatements.

**Cause:** The State does not currently have the resources to allow for sufficient review of accounting data and financial information gathered to prepare financial statements that are materially accurate and in accordance with GAAP. Accounting data and other financial information includes journal entries made by the Office of Management Analysis and Standards, surveys and related entries received from individual State agencies, surveys received from the universities, and financial statement disclosures drafted by the Office of Management Analysis and Standards.

**Effect:** Material misstatements and incomplete disclosures were identified by the auditor and provided to management for correction.

**Recommendation:** The State should evaluate the resources currently available in the Office of Management Analysis and Standards to determine whether or not those resources can provide the level of review needed to facilitate sufficient review of accounting data and financial information and prepare financial statements that are materially accurate and in accordance with GAAP.

**Corrective Action Plan (Unaudited):** The fiscal year 2011 CAFR preparation was unique from past years in that many established data gathering and reconciliation procedures under the previous central accounting system, were no longer valid under the new SMART financial management system. At many steps in the CAFR preparation, additional staff time was required to redevelop these processes and procedures utilizing the SMART data structures and data relationships. The effect was less remaining staff time available to devote to review work in meeting the various checkpoints and expectations within the CAFR preparation process. We anticipate this will significantly improve with the preparation of the fiscal year 2012 CAFR, because many of these steps are now either developed fully, or identified for further development.

Nevertheless, the Department of Administration agrees with the recommendation and will evaluate the level of review, the resources available, and the review process to minimize risks associated with misstatements and/or incomplete disclosures in drafts.

**Completion Date:** June 30, 2012

**Contact Person and Title:** Martin Eckhardt, Director, Office of Management Analysis and Standards

## STATE OF KANSAS

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### Schedule Of Findings And Responses (*Continued*)

#### **Finding 2011-3 – Material Weakness**

**Criteria/Condition:** The State did not properly report deferred revenue for income taxes in accordance with generally accepted accounting principles for governmental organizations. In addition, the year end receivable and related payable for Medicaid was not properly reported in accordance with generally accepted accounting principles for governmental organizations.

**Cause:** The Office of Management and Analysis and Standards did not have an adequate understanding of the requirements of Government Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement provides the guidelines used for revenue and receivable recognition and the related deferrals of those revenues when certain conditions exist. The Office of Management Analysis and Standards did not provide adequate guidance to the State agencies to prepare financial information to record certain receivables and deferrals in accordance with GAAP.

**Effect:** Correcting entries were needed to properly recognize revenue, receivables, and deferred revenue for income taxes, employment security insurance premiums, and Title XIX funds.

**Recommendation:** The Office of Management Analysis and Standards should become familiar with the requirements of GASB 33 and evaluate its processes and controls related to gathering appropriate financial information from the State agencies and properly recording and reporting the information in accordance with GAAP.

**Corrective Action Plan (Unaudited):** The Department of Administration reported the audited CAFR under GASB Statement 33 from fiscal year 2002 through fiscal year 2010. As a new finding for fiscal year 2011, the Department of Administration made the correction recommended by the current auditors and is incorporating the recommended changes into the data gathering and analysis processes for the fiscal year 2012 CAFR preparation in accordance with GASB 33.

**Completion Date:** June 30, 2012

**Contact Person And Title:** Martin Eckhardt, Director, Office of Management Analysis and Standards

## STATE OF KANSAS

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### Schedule Of Findings And Responses (*Continued*)

#### **Finding 2011-4 – Material Weakness**

**Criteria/Condition:** Internal controls related to the reconciliation and review of the proper capitalization of construction in progress, infrastructure and other capital assets were not designed properly to capture all capital assets and the related depreciation at fiscal year end.

**Cause:** The State, more specifically the Department of Transportation, has one individual responsible for capturing and reporting capital assets and the related depreciation for the Department of Transportation for fiscal year-end reporting in the State's financial statements. There was not a formal review in place whereby someone reviewed the information this individual compiled for accuracy and completeness.

**Effect:** At fiscal year-end, the Department of Transportation had to make material adjustments for construction in progress, infrastructure, and certain other capital asset categories that are rolled up into the State's financial statements. In addition, certain adjustments to depreciation expense were proposed but were not posted due to management's assessment of materiality to the financial statements as a whole. A review of the information compiled and reported would have provided the Department of Transportation with the ability to prevent, or detect and correct these errors before the information was presented to the auditor for testing.

**Recommendation:** We recommend that management review and consider changes to its current processes and controls for capturing capital asset information, reporting the assets in the proper categories and properly depreciating them going forward.

**Corrective Action Plan (Unaudited):** The Department of Transportation CAFR Accountant position will be moved on the organization chart into the General Accounting Section of Fiscal Services. This organizational change should provide more oversight for the financial statement preparation process. The General Accounting Section of Fiscal Services has also received approval to fill an additional Accountant IV position which can be made available for additional cross-training and verification of financial statement amounts and disclosures.

The current process to capture construction in progress and infrastructure balances has been in effect since the implementation of GASB 34. The Department of Transportation began reporting these balances on the State's audited financial statements in 2002. The process will be reviewed by the Department of Transportation Fiscal Services staff for potential changes and enhancements. Additional information will be added to the existing procedure documentation. The review process will begin once the Department of Transportation CAFR Accountant and the other General Accounting Accountant IV positions are filled.

**Completion Date:** September 30, 2012

**Contact Person and Title:** Rhonda J. Seitz, Bureau Chief, Fiscal Services

## STATE OF KANSAS

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### Schedule Of Findings And Responses (*Continued*)

#### **Finding 2011-5 – Material Weakness**

**Criteria/Condition:** The State is required to prepare a schedule of expenditures of federal awards that is derived from internal accounting data. The State was not able to provide an accurate listing of federal expenditures. The State's internal controls over the preparation of the schedule of expenditures of federal awards were not properly designed to prepare and present a schedule of federal expenditures that is complete and accurate.

**Cause:** During the conversion to SMART, certain processes and the related controls surrounding the usage of non-monetary federal awards were not properly updated to accurately capture and report these federal funds in the general ledger and ultimately report them in the schedule of expenditures of federal awards.

**Effect:** Non-monetary expenditures were excluded in the fiscal year 2011 schedule causing the schedule of expenditures of federal awards to be understated.

**Recommendation:** The State should review the current controls in place and consider modifications to provide for a timely and accurate reconciliation of federal expenditures to the appropriate supporting documentation (general ledger, surveys, etc.) to ensure that a complete and accurate schedule of expenditures of federal awards is prepared and presented.

**Corrective Action Plan (Unaudited):** We agree with the finding and recommendations. Our understanding is that the primary reason for this finding is the failure to capture and report expenditures and revenues that are non-monetary in nature and thus generated outside the SMART system. The food stamp program within the Kansas Department of Social and Rehabilitation Services comprises the vast majority of the dollar value of these non-monetary transactions. Prior to SMART implementation, the transactions were entered into the accounting system daily. Upon SMART implementation, the agency discontinued this process and the Department of Administration did not identify this error during the CAFR preparation.

The agency has since corrected this oversight for fiscal year 2012, and has reinstated the process of entering these adjustments in SMART on a daily basis. Past year-end instructions to all agencies have included information on non-monetary reporting. However, the Department of Administration will expand this focus by incorporating the request for non-monetary transactions into the upcoming formal annual agency confirmation process bringing special attention to this issue for all funding sources for expenditures including the Schedule of Expenditures of Federal Awards.

It is noted that the inclusion of these offsetting revenues and expenditures has a zero effect on the net fund balance in the State's CAFR.

**Completion Date:** June 30, 2012

**Contact Person And Title:** Martin Eckhardt, Director, Office of Management Analysis and Standards



## STATE OF KANSAS

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### Schedule Of Findings And Responses (*Continued*)

#### **Finding 2011-6 – Significant Deficiency**

**Criteria/Condition:** Throughout the year, journal entries and financial statements related to the Kansas Water Pollution Control Revolving Fund and Kansas Public Water Supply Loan Fund (the Funds) were not being reviewed by someone other than the preparer.

**Cause:** The internal control system over financial reporting did not function as designed. The design included a review of journal entries and financial statements. The management of the Funds is responsible for establishing and maintaining a system of internal controls. The objective of an internal control system is to provide management with reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements.

**Effect:** There is a potential that the financial statements may be materially misstated.

**Recommendation:** We recommend that the internal control system over financial reporting be followed, including review of the financial statements and journal entries that support the financial statements.

**Corrective Action Plan (Unaudited):** The Office of Management Analysis and Standards agrees with the observation and acknowledges this as a recurring issue from the fiscal year 2010 audit report.

Efforts to satisfy this observation were not sufficient over the past year and were not fully documented for auditor review. The Office of Management Analysis and Standards is working to develop and implement a formal review process to meet the financial reporting internal control standards.

**Completion Date:** April 30, 2012

**Contact Person And Title:** Martin Eckhardt, Director, Office of Management Analysis and Standards