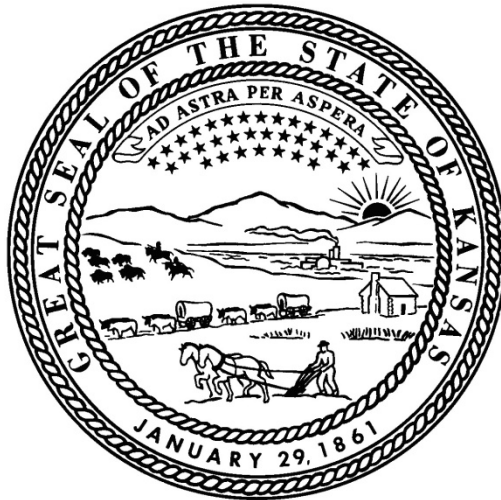


**STATE OF KANSAS**  
**Department of Administration**  
**Office of the State Comptroller**



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

July 1, 2011 to June 30, 2012

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**Steve Anderson**  
**Office of the State Comptroller**



**STATE OF KANSAS**

**Department of  
Administration**

*Steve Anderson*  
**Office of the State Comptroller**

State of Kansas  
**Fiscal Year 2012 Financial Report**  
June 30, 2012

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# **INTRODUCTION**

March 11, 2013

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 59<sup>th</sup> Annual Financial Report of the State of Kansas for the fiscal year ended June 30, 2012, 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 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 the State Comptroller. 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, 2012, 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

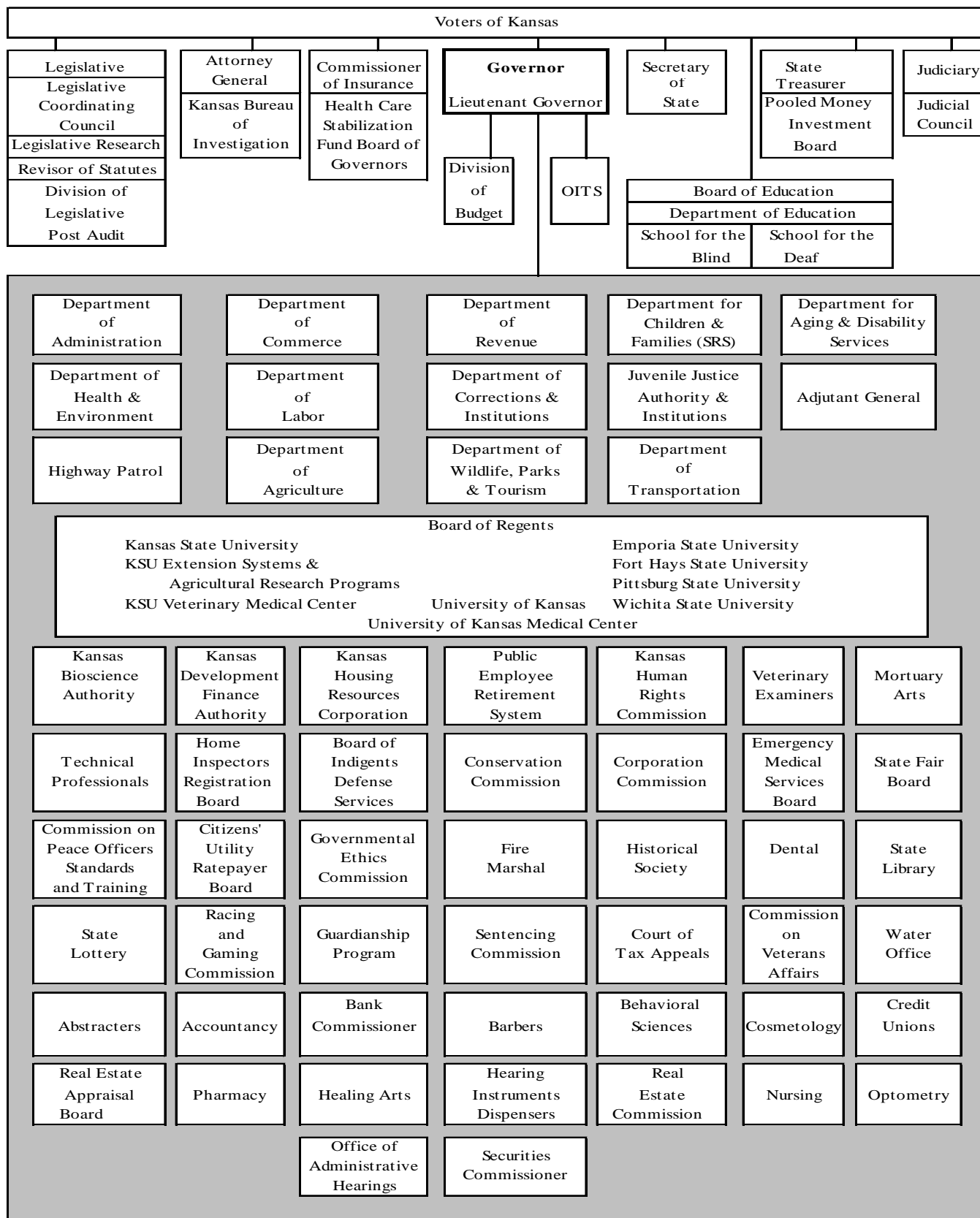
I wish to express my deepest appreciation and thanks to those on my staff responsible for the preparation of this report. It is through their dedicated effort that this report was made possible. I also wish to thank the many other individuals in the State agencies whose contributions made this report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

Sincerely,



Steve J. Anderson, CPA, MBA  
Office of the State Comptroller

State of Kansas  
**List of Selected Officials**  
 June 30, 2012



State of Kansas  
**List of Selected Officials**  
June 30, 2012

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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*  
Mike O'Neal

*Legislative Research  
Director*  
Raney Gilliland

**Judicial Branch**

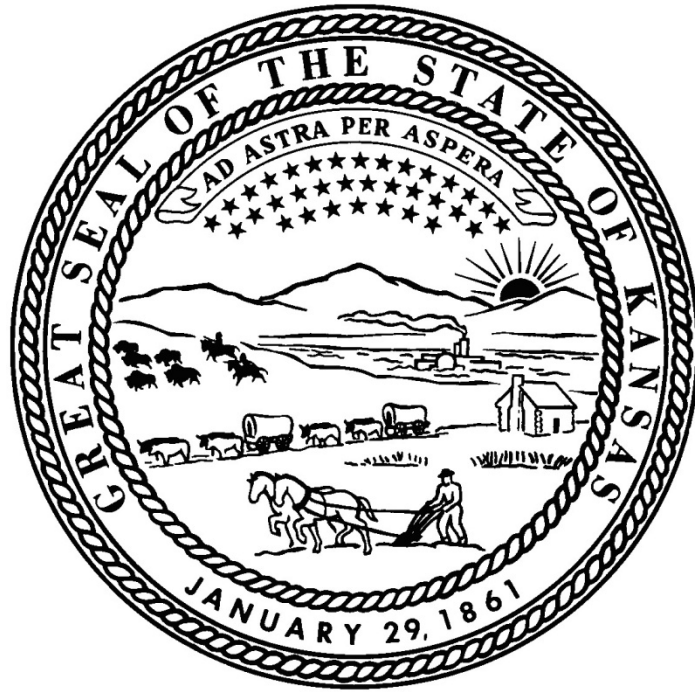
*Supreme Court of Kansas*  
*Chief Justice*  
Lawton Nuss

*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

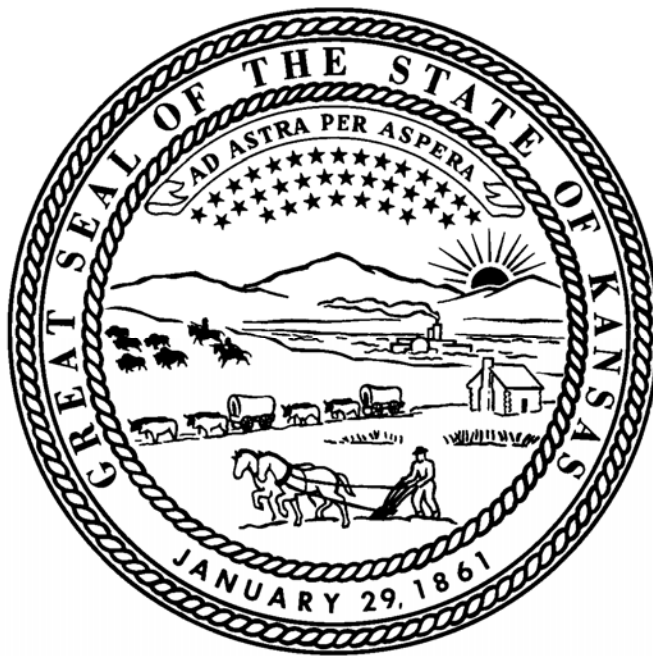
*Judicial Council*  
*Executive Director*  
Nancy J. Strouse

*Judicial Administrator*  
Nancy M. Dixon



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**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 aggregate 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, 2012, 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 opinions 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 26 percent, respectively, of the assets and revenues of the discretely presented component units, the Kansas Development Finance Authority (KDFA) which represents 2 percent and less than 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Housing Resources Corporation (KHRC) which represents less than 1 percent and 3 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Bioscience Authority (KBA) which represents 2 percent and less than 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Public Employees Retirement System (KPERs) which represents 81 percent and 17 percent, respectively, of assets and revenues of the aggregate remaining fund information, and the Kansas Lottery which represents less than 1 percent and 8 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, 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 11, 2013 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.

Accounting principles generally accepted in the United States of America require that 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, to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, as 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. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the reports of other auditors, this information is 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 do not express an opinion or provide any assurance on them.

*RubinBrown LLP*

March 11, 2013  
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, 2012. 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, 2012 by \$11.2 billion (presented as "net assets"). Of this amount, \$458.3 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 \$411.1 million (3.8 percent) in fiscal year 2012. Net assets of governmental activities increased by \$273.8 million (2.7 percent), and net assets of the business-type activities increased \$137.3 million (24.4 percent).

#### Fund highlights:

- For fiscal year 2012, the governmental funds reported a combined ending fund balance of \$775.9 million, an increase of \$348.1 million in comparison with the prior year. Of the total amount, \$778.9 million represents the fund balance of the Non-Major Governmental funds. The General Fund reported an unassigned fund balance for fiscal year 2012 of \$207.5 million, as compared to the prior year unassigned balance of a negative \$182.7 million.

#### Long-term debt:

The State's total long-term debt obligation (including bonds payable on demand) showed a net decrease of \$336.9 million (6.2 percent) during the current year. This decrease was primarily due to a \$138.4 million decrease in revenue bonds, a \$166.2 million decrease in unemployment benefits loan, and a \$33.5 million decrease in sales tax limited obligation bonds.

### 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, 2012

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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 Health and Environment the Transportation Fund, and the Transportation-Capital Projects 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 \$11.2 billion at the end of 2012, compared to \$10.8 billion at the end of the previous year, an increase of 3.8 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**  
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**State of Kansas Net Assets – Primary Government**  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 2,789,929	\$ 2,663,752	\$ 1,520,777	\$ 1,768,198	\$ 4,310,706	\$ 4,431,950
Capital assets	12,671,896	12,673,036	54,273	6,194	12,726,169	12,679,230
Total assets	<u>15,461,825</u>	<u>15,336,788</u>	<u>1,575,050</u>	<u>1,774,392</u>	<u>17,036,875</u>	<u>17,111,180</u>
Non-current liabilities	2,873,689	2,908,351	587,244	905,785	3,460,933	3,814,136
Other liabilities	2,101,728	2,215,877	287,195	305,270	2,388,923	2,521,147
Total liabilities	<u>4,975,417</u>	<u>5,124,228</u>	<u>874,439</u>	<u>1,211,055</u>	<u>5,849,856</u>	<u>6,335,283</u>
Invested in capital assets, net of related debt	9,279,477	9,219,935	54,273	6,172	9,333,750	9,226,107
Restricted	920,031	869,678	474,957	466,317	1,394,988	1,335,995
Unrestricted	286,900	122,947	171,381	90,848	458,281	213,795
Total net assets	<u>\$ 10,486,408</u>	<u>\$ 10,212,560</u>	<u>\$ 700,611</u>	<u>\$ 563,337</u>	<u>\$ 11,187,019</u>	<u>\$ 10,775,897</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	
	2012	2011
Current and other assets	\$ 3,795,594	\$ 3,858,150
Capital assets	2,139,402	2,000,951
Total assets	<u>5,934,996</u>	<u>5,859,101</u>
Non-current liabilities	998,806	965,376
Other liabilities	541,865	525,801
Total liabilities	<u>1,540,671</u>	<u>1,491,177</u>
Invested in capital assets, net of related debt	1,404,626	1,321,479
Restricted	851,706	1,086,506
Unrestricted	2,137,993	1,959,939
Total net assets	<u>\$ 4,394,325</u>	<u>\$ 4,367,924</u>

State of Kansas  
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**Changes in Net Assets – Primary Government**

Net assets increased by \$411.1 million. Approximately 53.3 percent of the total revenue came from taxes, while 29.0 percent resulted from grants and contributions (including federal aid). Charges for various goods and services provided 12.7 percent of the total revenues. Expenses cover a range of services. The largest expenses of total expenses were for education (37.4 percent), human resources (20.4 percent), and general government (9.0 percent).

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 832,737	\$ 761,038	\$ 938,386	\$ 718,366	\$ 1,771,123	\$ 1,479,404
Operating grants and contributions	3,760,803	4,333,559	935	750	3,761,738	4,334,309
Capital grants and contributions	200,452	362,412	67,886	43,716	268,338	406,128
General revenues:						
Taxes						
Property taxes	626,121	610,463	0	0	626,121	610,463
Income and inheritance taxes	3,203,760	3,033,559	0	0	3,203,760	3,033,559
Sales and excise taxes	3,424,419	3,289,025	0	0	3,424,419	3,289,025
Gross receipts taxes	163,862	161,280	0	0	163,862	161,280
Investment earnings	(19,548)	48,684	21,265	39,149	1,717	87,833
Other revenue	313,929	237,319	378,400	524,020	692,329	761,339
Total revenues	<u>12,506,535</u>	<u>12,837,339</u>	<u>1,406,872</u>	<u>1,326,001</u>	<u>13,913,407</u>	<u>14,163,340</u>
<b>Expenses:</b>						
General government	1,199,474	1,084,268	0	0	1,199,474	1,084,268
Human resources	2,736,768	4,053,711	0	0	2,736,768	4,053,711
Education	5,014,709	5,091,475	0	0	5,014,709	5,091,475
Public safety	589,676	711,734	0	0	589,676	711,734
Agriculture and natural resources	120,242	105,710	0	0	120,242	105,710
Highways and other transportation	1,006,995	885,153	0	0	1,006,995	885,153
Health and environment	1,425,544	258,964	0	0	1,425,544	258,964
Economic development	0	0	0	0	0	0
Interest expense	152,361	144,443	0	0	152,361	144,443
Water pollution and safety	0	0	59,646	44,780	59,646	44,780
Health care stabilization	0	0	6,442	30,286	6,442	30,286
Employment security	0	0	736,736	971,158	736,736	971,158
Workers' compensation	0	0	4,718	5,217	4,718	5,217
Lottery	0	0	335,018	199,015	335,018	199,015
Intergovernmental transfer program	0	0	695	170	695	170
Transportation revolving fund	0	0	3,488	3,429	3,488	3,429
Total expenses	<u>12,245,769</u>	<u>12,335,458</u>	<u>1,146,743</u>	<u>1,254,055</u>	<u>13,392,512</u>	<u>13,589,513</u>
Increase (decrease) in net assets before						
transfers	260,766	501,881	260,129	71,946	520,895	573,827
Transfers	<u>122,855</u>	<u>69,530</u>	<u>(122,855)</u>	<u>(69,530)</u>	<u>0</u>	<u>0</u>
Change in net assets	383,621	571,411	137,274	2,416	520,895	573,827
Net assets, beginning of year	10,212,560	9,966,548	563,337	560,932	10,775,897	10,527,480
Revisions to beginning net assets	<u>(109,773)</u>	<u>(325,399)</u>	<u>0</u>	<u>(11)</u>	<u>(109,773)</u>	<u>(325,410)</u>
Net assets, beginning of year (restated)	<u>10,102,787</u>	<u>9,641,149</u>	<u>563,337</u>	<u>560,921</u>	<u>10,666,124</u>	<u>10,202,070</u>
Net assets, end of year	<u>\$ 10,486,408</u>	<u>\$ 10,212,560</u>	<u>\$ 700,611</u>	<u>\$ 563,337</u>	<u>\$ 11,187,019</u>	<u>\$ 10,775,897</u>

State of Kansas  
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**Changes in Net Assets – Component Units**

Component unit net assets increased by \$26.4 million or 0.6 percent. Charges for various goods and services provided 46.1 percent of the total revenues. Approximately 41.6 percent of the total revenue came from other revenue, while 12.8 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	
	2012	2011
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 1,343,442	\$ 1,269,553
Operating grants and contributions	279,147	401,970
Capital grants and contributions	95,033	126,089
General revenues:		
Taxes		
Property Tax	7,041	0
Sales & excise Tax	0	(1)
Gross receipts taxes	1,120	1,038
Investment earnings	(23,161)	365,134
Other revenue	1,212,949	1,336,216
Total revenues	2,915,571	3,499,999
<b>Expenses:</b>		
Kansas Development Finance Authority	1,526	1,557
Kansas Technology Enterprise Corp.	10,178	13,498
Kansas Bioscience Authority	30,331	32,970
State University System	2,771,326	2,818,723
Kansas Housing Resources Corp.	100,921	132,059
Total expenses	2,914,282	2,998,807
Change in net assets	1,289	501,192
Net assets, beginning of year	4,367,924	3,847,189
Revisions to beginning net assets	25,112	19,543
Net assets, beginning of year (restated)	4,393,036	3,866,732
Net assets, end of year	\$ 4,394,325	\$ 4,367,924

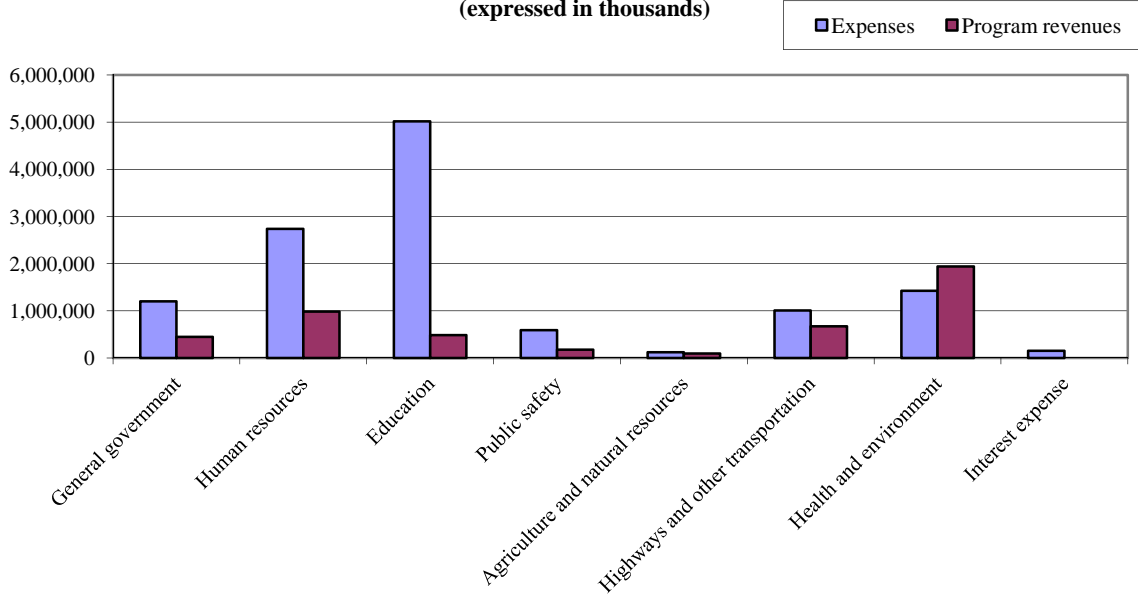
State of Kansas  
**Management's Discussion and Analysis**  
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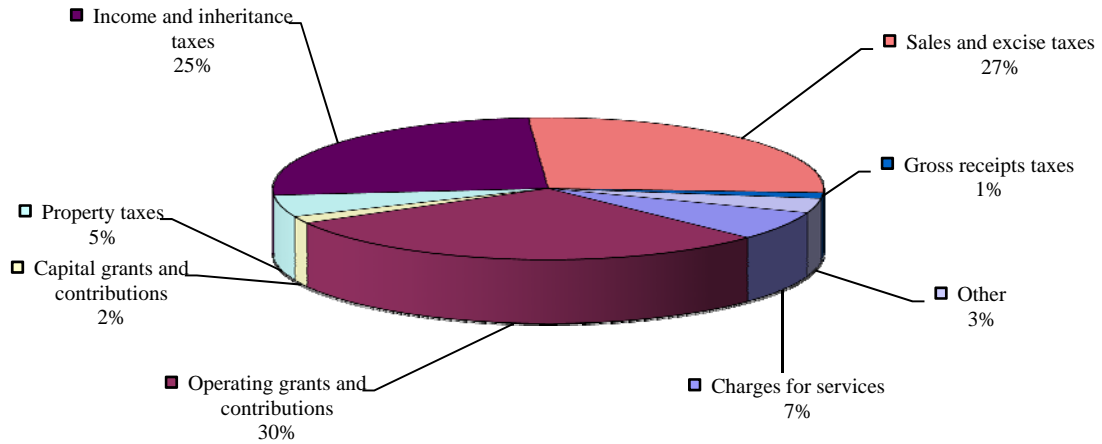
**Governmental Activities**

Governmental activities increased net assets by \$273.8 million in fiscal year 2012. 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, 2012**  
 (expressed in thousands)



**Revenues by Source - Governmental Activities**  
**Fiscal Year Ended June 30, 2012**

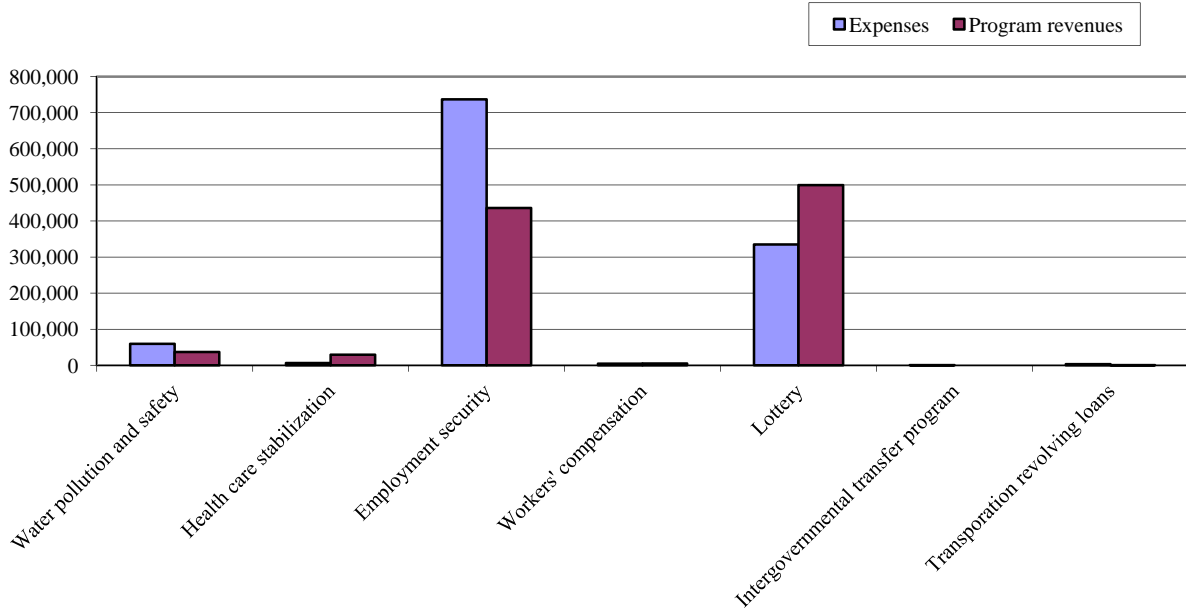




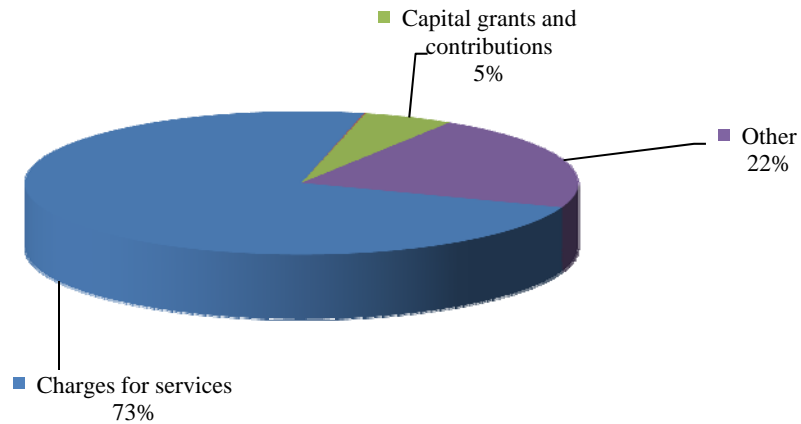
**Business-Type Activities**

The State's business-type activities increased the net assets of the State by \$137.3 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, 2012**  
 (expressed in thousands)



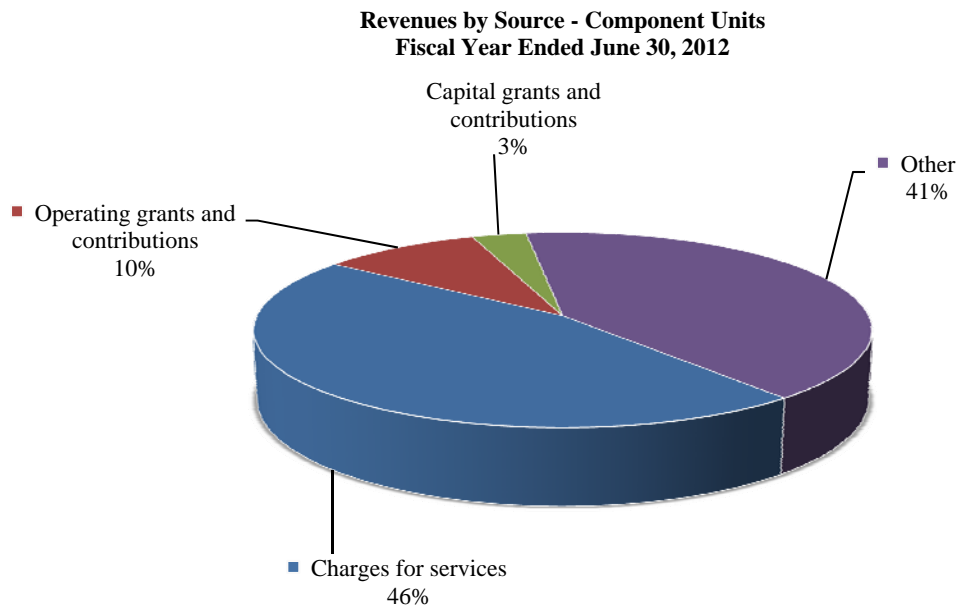
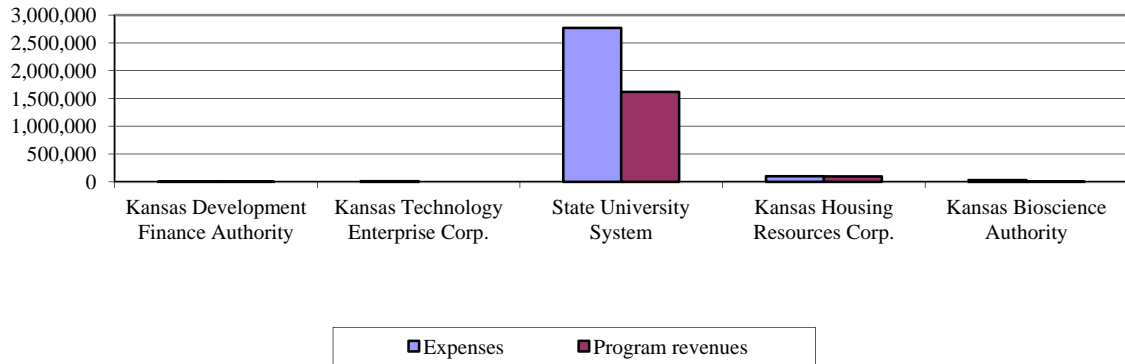
**Revenues by Source - Business-Type Activities**  
**Fiscal Year Ended June 30, 2012**



**Component Units**

The State's component units increased the net assets of the State by \$26.4 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, 2012**  
 (expressed in thousands)



## **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 2012, the governmental funds reported a combined ending fund balance of \$775.9 million, an increase of \$348.1 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 \$207.5 million, while the total fund balance was \$215.1 million. During fiscal year 2012, 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 \$312.9 million higher in fiscal year 2012 than it was in fiscal year 2011. 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 3.2 percent of total General Fund expenditures, while total fund balance represents 3.3 percent of that same amount. The fund balance in the General Fund increased by \$391.2 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 \$137.3 million as a result of operations in the proprietary funds. This increase resulted from \$62.5 million increase in the Unemployment Insurance, \$38.5 million increase in the Health Care Stabilization Fund, and \$50.4 million increase in net asset of Other Nonmajor Funds. There was a decrease of \$14.1 million in Water Funds.

### **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 \$26.4 million. Most of this increase resulted from the State University System with an increase of \$58.3 million, the Kansas Development Finance Authority with an increase of \$1.0 million in the net assets. The other three component units accounted for \$32.9 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 \$359.9 million and expenditure estimates were reduced by approximately \$2.6 million. The original estimates provided for revenues less than expenditures of \$79.6 million. The final budget provided for \$277.8 million of revenues over expenditures. Subsequently, fiscal year 2012 was closed with revenues over expenditures of \$317.7 million.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

State investment in capital assets for its governmental and business-type activities as of June 30, 2012, 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 less than 1 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 \$84.9 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 decreased by \$171.9 million during the current fiscal year. The key factor in this decrease was the payment of bond by KDOT of \$110.0 million and \$33.3 million reduction of Sales tax limited obligation bonds.

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 2012. According to the Kansas Department of Labor *Kansas Labor Market Information News Release* for July, 2012, employment for nonfarm jobs in the State of Kansas for June 2012 is increasing. Compared to June 2011, employment increased by 15,900 jobs for a total of 1.34 million nonfarm jobs. The unemployment rate was 6.2 percent for June 2012, compared to 6.7 percent in June 2011. 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:

Steve Anderson  
Office of the State Comptroller  
900 S.W. Jackson, Room 504-N  
Landon State Office Building  
Topeka, KS 66612-1248

# **Financial Statements**

State of Kansas  
**Financial Statements**  
June 30, 2012

**Government Wide - Statement of Net Assets**  
**June 30, 2012**  
*(expressed in thousands)*

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Totals	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,425,957	\$ 300,093	\$ 1,726,050	\$ 673,811
Investments	46,327	282,707	329,034	2,285,637
Receivables (net)	917,320	812,002	1,729,322	427,612
Due from primary government:				
Investment in direct financing leases, due within one year	0	0	0	10,470
Investment in direct financing leases, due in more than one year	0	0	0	65,775
Internal balances	5,122	(5,122)	0	0
Inventories	32,537	1,922	34,459	27,428
Other current assets	0	0	0	7,652
Restricted cash and cash equivalents	285,818	79,262	365,080	168,786
Restricted investments	19,455	37,244	56,699	56,411
Capital assets (net of accumulated depreciation)	2,518,246	54,273	2,572,519	2,139,402
Infrastructure	10,153,650	0	10,153,650	0
Other noncurrent assets	57,393	12,669	70,062	72,012
<b>Total assets</b>	<u>15,461,825</u>	<u>1,575,050</u>	<u>17,036,875</u>	<u>5,934,996</u>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	1,096,449	29,511	1,125,960	301,177
Due to component unit:				
Lease revenue bonds payable, due within one year	10,470	0	10,470	0
Lease revenue bonds payable, due in more than one year	65,775	0	65,775	0
Unearned revenue	8,165	3,259	11,424	119,453
Bonds payable on demand	596,900	0	596,900	0
Derivative instruments and borrowing payable	72,356	0	72,356	0
Noncurrent liabilities:				
Due within one year	274,169	68,529	342,698	121,235
Due in more than one year	2,807,914	587,244	3,395,158	998,806
Claims and judgements	43,219	185,896	229,115	0
<b>Total liabilities</b>	<u>4,975,417</u>	<u>874,439</u>	<u>5,849,856</u>	<u>1,540,671</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	9,279,477	54,273	9,333,750	1,404,626
Restricted for:				
Capital projects	67,654	0	67,654	45,742
Debt service	82,836	37,991	120,827	57,488
Highways and other transportation	121,935	436,966	558,901	748,476
Other purposes	647,606	0	647,606	0
Unrestricted	286,900	171,381	458,281	2,137,993
<b>Total net assets</b>	<u>\$ 10,486,408</u>	<u>\$ 700,611</u>	<u>\$ 11,187,019</u>	<u>\$ 4,394,325</u>

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

State of Kansas  
**Financial Statements**  
June 30, 2012

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**Government Wide - Statement of Activities**  
**For the Fiscal Year Ended June 30, 2012**  
*(expressed in thousands)*

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	Functions/Programs	Expenses	Program Revenues		
			Charges for Services	Operating Grants	Capital Grants
1	<b>Primary government:</b>				
2	Governmental activities:				
3	General government	\$ 1,199,474	\$ 334,889	\$ 111,441	\$ 11
4	Human resources	2,736,768	126,793	856,867	0
5	Education	5,014,709	7,408	477,226	0
6	Public safety	589,676	33,845	141,344	53
7	Agriculture and natural resources	120,242	67,818	24,799	289
8	Highways and other transportation	1,006,995	177,649	294,368	200,099
9	Health and environment	1,425,544	84,335	1,854,758	0
10	Interest expense	152,361	0	0	0
11	Total governmental activities	<u>12,245,769</u>	<u>832,737</u>	<u>3,760,803</u>	<u>200,452</u>
12	Business-type activities:				
13	Water pollution and safety	59,646	24,985	0	11,917
14	Health care stabilization	6,442	29,350	0	0
15	Employment security	736,736	434,794	935	0
16	Workers' compensation	4,718	4,932	0	0
17	Lottery	335,018	443,510	0	55,969
18	Intergovernmental transfer program	695	0	0	0
19	Transportation revolving loans	3,488	815	0	0
20	Total business-type activities	<u>1,146,743</u>	<u>938,386</u>	<u>935</u>	<u>67,886</u>
21	<b>Total primary government</b>	<u><u>\$ 13,392,512</u></u>	<u><u>\$ 1,771,123</u></u>	<u><u>\$ 3,761,738</u></u>	<u><u>\$ 268,338</u></u>
22					
23	<b>Component units:</b>				
24	Kansas Development Finance Authority	\$ 1,526	\$ 2,092	\$ 0	\$ 0
25	Kansas Technology Enterprise Corporation	10,178	0	0	0
26	Kansas Bioscience Authority	30,331	120	446	0
27	State University System	2,771,326	1,337,354	276,800	3,000
28	Kansas Housing Resources Corporation	100,921	3,876	1,901	92,033
29	<b>Total component units</b>	<u><u>\$ 2,914,282</u></u>	<u><u>\$ 1,343,442</u></u>	<u><u>\$ 279,147</u></u>	<u><u>\$ 95,033</u></u>

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



State of Kansas  
**Financial Statements**  
June 30, 2012

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-type Activities	Total	Component Units	
				1
				2
\$ (753,133)	\$ 0	\$ (753,133)	\$ 0	3
(1,753,108)	0	(1,753,108)	0	4
(4,530,075)	0	(4,530,075)	0	5
(414,434)	0	(414,434)	0	6
(27,336)	0	(27,336)	0	7
(334,879)	0	(334,879)	0	8
513,549	0	513,549	0	9
(152,361)	0	(152,361)	0	10
<u>(7,451,777)</u>	<u>0</u>	<u>(7,451,777)</u>	<u>0</u>	11
				12
0	(22,744)	(22,744)	0	13
0	22,908	22,908	0	14
0	(301,007)	(301,007)	0	15
0	214	214	0	16
0	164,461	164,461	0	17
0	(695)	(695)	0	18
0	(2,673)	(2,673)	0	19
<u>0</u>	<u>(139,536)</u>	<u>(139,536)</u>	<u>0</u>	20
<u>\$ (7,451,777)</u>	<u>\$ (139,536)</u>	<u>\$ (7,591,313)</u>	<u>\$ 0</u>	21
				22
				23
\$ 0	\$ 0	\$ 0	\$ 566	24
0	0	0	(10,178)	25
0	0	0	(29,765)	26
0	0	0	(1,154,172)	27
0	0	0	(3,111)	28
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$(1,196,660)</u>	29

**General revenues:**

Taxes:

Property tax	\$ 626,121	\$ 0	\$ 626,121	\$ 7,041
Income and inheritance tax	3,203,760	0	3,203,760	0
Sales and excise tax	3,424,419	0	3,424,419	0
Gross receipts tax	163,862	0	163,862	1,120
Investment earnings	(19,548)	21,265	1,717	(23,161)
Other revenue	313,929	378,400	692,329	1,212,949
Transfers	122,855	(122,855)	0	0
<b>Total general revenues</b>	<u>7,835,398</u>	<u>276,810</u>	<u>8,112,208</u>	<u>1,197,949</u>

Change in net assets	<u>383,621</u>	<u>137,274</u>	<u>520,895</u>	<u>1,289</u>
Net assets - beginning	10,212,560	563,337	10,775,897	4,367,924
Revisions to beginning net assets	(109,773)	0	(109,773)	25,112
Net assets - beginning (restated)	<u>10,102,787</u>	<u>563,337</u>	<u>10,666,124</u>	<u>4,393,036</u>
Net assets - ending	<u>\$10,486,408</u>	<u>\$ 700,611</u>	<u>\$ 11,187,019</u>	<u>\$ 4,394,325</u>

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

State of Kansas  
**Financial Statements**  
June 30, 2012

**Balance Sheet - Governmental Funds**  
**June 30, 2012**  
*(expressed in thousands)*

ASSETS	General	Social and Rehabilita- tion	Health and Environment	Transporta- tion	Transporta- tion-Capital Projects	Other Governmental Funds	Total Governmental
Cash and cash equivalents	\$ 558,139	\$ 66,146	\$ 121,967	\$ 94,865	\$ 0	\$ 546,042	\$ 1,387,159
Investments	0	0	0	3,044	0	37,993	41,037
Receivables, net	639,034	65,357	59,317	83,862	13	68,529	916,112
Due from other funds	5,000	0	0	122	0	20,727	25,849
Inventories	7,593	0	0	24,940	0	4	32,537
Advances to other funds	0	0	0	0	0	70,812	70,812
Restricted cash and cash equivalents	0	0	0	31,600	92,575	161,642	285,817
Restricted investments	0	0	0	0	0	19,455	19,455
<b>Total assets</b>	<b>\$1,209,766</b>	<b>\$ 131,503</b>	<b>\$ 181,284</b>	<b>\$ 238,433</b>	<b>\$ 92,588</b>	<b>\$ 925,204</b>	<b>\$ 2,778,778</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Accounts payable and other current liabilities	\$ 650,477	\$ 73,276	\$ 78,918	\$ 80,525	\$ 0	\$ 144,543	\$ 1,027,739
Due to other funds	18,963	188	113	0	0	19	19,283
Deferred revenue	257,417	45	208	30,339	0	1,519	289,528
Advances from other funds	67,786	1,221	201	0	0	192	69,400
Bonds payable on demand	0	0	0	0	596,900	0	596,900
<b>Total liabilities</b>	<b>994,643</b>	<b>74,730</b>	<b>79,440</b>	<b>110,864</b>	<b>596,900</b>	<b>146,273</b>	<b>2,002,850</b>
Fund balances:							
<b>Nonspendable:</b>							
Long-term receivables	0	0	0	0	0	6,275	6,275
Inventories	7,593	0	0	24,940	0	4	32,537
<b>Restricted for:</b>							
Capital Projects	0	0	0	0	0	67,654	67,654
Debt Service	0	0	0	0	0	82,836	82,836
General government	0	0	0	0	0	350,578	350,578
Human resources	0	56,773	0	0	0	24,698	81,471
Education	0	0	0	0	0	15,669	15,669
Public safety	0	0	0	0	0	44,056	44,056
Agriculture and natural resources	0	0	0	0	0	53,988	53,988
Highways and other transportation	0	0	0	102,629	0	19,306	121,935
Health and environment	0	0	101,844	0	0	0	101,844
<b>Assigned to:</b>							
Debt Service	0	0	0	0	0	113,867	113,867
<b>Unassigned</b>							
Unassigned	207,530	0	0	0	(504,312)	0	(296,782)
<b>Total fund balance</b>	<b>215,123</b>	<b>56,773</b>	<b>101,844</b>	<b>127,569</b>	<b>(504,312)</b>	<b>778,931</b>	<b>775,928</b>
<b>Total liabilities and fund balance</b>	<b>\$1,209,766</b>	<b>\$ 131,503</b>	<b>\$ 181,284</b>	<b>\$ 238,433</b>	<b>\$ 92,588</b>	<b>\$ 925,204</b>	<b>\$ 2,778,778</b>

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

*(Continued)*

State of Kansas  
**Financial Statements**  
June 30, 2012

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**Balance Sheet - Governmental Funds - Continued**  
**June 30, 2012**  
*(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	\$ 775,928
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds:	
Capital assets	2,518,246
Infrastructure	10,153,650
Internal service funds included in above	(109,672)
Other non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Derivatives	5,290
Noncurrent assets	57,393
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	(18,400)
Capital leases payable	(47,811)
Revenue bonds payable	(2,439,527)
Star bonds	(192,045)
Pollution remediation	(69,152)
Unamortized premium discount	(35,210)
Unamortized deferred refunding	4,719
Other post employment benefits	(51,998)
Compensated absences	(118,442)
Due to component unit (lease revenue bonds payable)	(76,245)
Arbitrage and derivative liabilities	(72,492)
Deferred revenue	281,363
Accrued accounts payable	(50,529)
Accrued interest	(12,067)
Internal Service Funds: the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(16,591)
Net assets of governmental activities as reported on the Statement of Net Assets.	\$ 10,486,408

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

State of Kansas  
**Financial Statements**  
June 30, 2012

**Statement of Revenues, Expenditures and Changes in Fund Balances -  
Governmental Funds**  
**For the Fiscal Year Ended June 30, 2012**  
*(expressed in thousands)*

	General	Social and Rehabilita- tion	Health and Environment	Transporta- tion	Health Care Finance	Transporta- tion-Capital Projects	Other Governmental Funds	Total Governmental
<b>Revenues:</b>								
Property tax	\$ 574,669	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 49,596	\$ 624,265
Income and inheritance tax	3,224,831	0	0	0	0	0	25,766	3,250,597
Sales and excise tax	2,765,174	2,921	716	599,085	0	0	68,277	3,436,173
Gross receipts tax	144,225	0	829	0	0	0	18,805	163,859
Charges for services	51,491	112,195	81,859	177,649	0	0	335,175	758,369
Operating grants	0	833,212	1,854,925	285,546	0	0	781,199	3,754,882
Capital grants	0	0	0	201,092	0	0	0	201,092
Investment earnings	5,403	24	33	219	0	247	3,468	9,394
Other revenues	(12,496)	2,796	181,289	8,835	0	0	139,502	319,926
<b>Total revenues</b>	<u>6,753,297</u>	<u>951,148</u>	<u>2,119,651</u>	<u>1,272,426</u>	<u>0</u>	<u>247</u>	<u>1,421,788</u>	<u>12,518,557</u>
<b>Expenditures:</b>								
Current:								
General government	683,295	0	0	0	0	0	436,755	1,120,050
Human resources	930,037	1,724,844	0	0	0	0	86,274	2,741,155
Education	4,330,971	0	0	0	0	0	684,206	5,015,177
Public safety	385,170	0	0	0	0	0	229,067	614,237
Agriculture and natural resources	17,302	0	0	0	0	0	106,739	124,041
Highways and other transportation	0	0	0	1,053,875	0	0	47,966	1,101,841
Health and environment	135,795	0	1,279,154	0	0	0	11,438	1,426,387
Debt service:								
Principal	0	0	0	0	0	0	204,455	204,455
Interest	0	0	0	0	0	0	146,679	146,679
<b>Total expenditures</b>	<u>6,482,570</u>	<u>1,724,844</u>	<u>1,279,154</u>	<u>1,053,875</u>	<u>0</u>	<u>0</u>	<u>1,953,579</u>	<u>12,494,022</u>
<b>Excess of revenues over (under) expenditures</b>	<u>270,727</u>	<u>(773,696)</u>	<u>840,497</u>	<u>218,551</u>	<u>0</u>	<u>247</u>	<u>(531,791)</u>	<u>24,535</u>
<b>Other financing sources (uses):</b>								
Proceeds from sale of debt	0	0	0	0	0	0	178,448	178,448
Transfers, net	120,459	774,269	(794,978)	(364,729)	16,319	(125,095)	502,859	129,104
<b>Total other financing sources (uses)</b>	<u>120,459</u>	<u>774,269</u>	<u>(794,978)</u>	<u>(364,729)</u>	<u>16,319</u>	<u>(125,095)</u>	<u>681,307</u>	<u>307,552</u>
<b>Net change in fund balances</b>	<u>391,186</u>	<u>573</u>	<u>45,519</u>	<u>(146,178)</u>	<u>16,319</u>	<u>(124,848)</u>	<u>149,516</u>	<u>332,087</u>
Fund balances, beginning of year	(176,063)	56,200	41,293	272,776	(16,319)	(379,464)	629,415	427,838
Revisions to beginning fund balances	0	0	15,032	0	0	0	0	15,032
Fund balances, beginning of year (restated)	<u>(176,063)</u>	<u>56,200</u>	<u>56,325</u>	<u>272,776</u>	<u>(16,319)</u>	<u>(379,464)</u>	<u>629,415</u>	<u>442,870</u>
Change in reserves for inventory	0	0	0	971	0	0	0	971
<b>Fund balances, end of year</b>	<u>\$ 215,123</u>	<u>\$ 56,773</u>	<u>\$ 101,844</u>	<u>\$ 127,569</u>	<u>\$ 0</u>	<u>\$ (504,312)</u>	<u>\$ 778,931</u>	<u>\$ 775,928</u>

(Continued)

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

State of Kansas  
**Financial Statements**  
June 30, 2012

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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, 2012**  
*(expressed in thousands)*

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	Total Governmental
<b>Reconciliation to the Statement of Activities:</b>	
Total net change in fund balance from previous page	\$ 332,087
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	
Deferred revenue	(56,237)
Arbitrage rebate payable	691
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	(162,915)
Bond premiums and discounts	(10,384)
Other borrowings	(5,149)
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	204,455
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	95,180
Cost of acquisition of infrastructure, net of value replaced	121,378
Depreciation expense	(74,021)
Loss on asset disposal and other items	(5,313)
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	6,110
Pollution remediation	4,508
Accrued interest	138
Change in inventory for materials and supplies	(971)
Other expenses	(60,456)
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.	(5,480)
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities	\$ 383,621

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

State of Kansas  
**Financial Statements**  
June 30, 2012

**Statement of Net Assets - Proprietary Funds**  
**June 30, 2012**  
*(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	\$ 247,528	\$ 8,809	\$ 2,554	\$ 41,202	\$ 300,093	\$ 38,796
Restricted cash and cash equivalents	0	46,041	0	15,054	61,095	0
Investments	0	418	25,391	0	25,809	0
Investments, restricted	0	0	0	0	0	0
Receivables, net	56,332	12,613	6,682	24,502	100,129	1,206
Inventories	0	0	0	1,922	1,922	0
Total current assets	<u>303,860</u>	<u>67,881</u>	<u>34,627</u>	<u>82,680</u>	<u>489,048</u>	<u>40,002</u>
Noncurrent assets:						
Restricted cash and cash equivalents	18,167	0	0	0	18,167	0
Investments	0	0	241,621	15,277	256,898	0
Investments, restricted	37,244	0	0	0	37,244	0
Receivables, net	637,314	0	0	74,559	711,873	0
Capital assets (net of accumulated depreciation)	0	0	19	54,254	54,273	109,672
Other noncurrent assets	12,081	0	0	588	12,669	0
Total noncurrent assets	<u>704,806</u>	<u>0</u>	<u>241,640</u>	<u>144,678</u>	<u>1,091,124</u>	<u>109,672</u>
<b>Total assets</b>	<u><b>\$1,008,666</b></u>	<u><b>\$ 67,881</b></u>	<u><b>\$ 276,267</b></u>	<u><b>\$ 227,358</b></u>	<u><b>\$ 1,580,172</b></u>	<u><b>\$ 149,674</b></u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other current liabilities	\$ 8,073	\$ 6,133	\$ 98	\$ 15,207	\$ 29,511	\$ 6,107
Deferred revenue	0	0	0	3,259	3,259	0
Due to other funds	0	0	0	5,122	5,122	1,444
Short-term notes payable	0	4,602	0	0	4,602	0
Short-term compensated absences	0	0	50	4	54	1,338
Short-term portion of long-term liabilities	42,930	0	8,322	12,621	63,873	53,932
Total current liabilities	<u>51,003</u>	<u>10,735</u>	<u>8,470</u>	<u>36,213</u>	<u>106,421</u>	<u>62,821</u>
Noncurrent liabilities:						
Compensated absences	0	0	13	1	14	349
Claims and judgements	0	0	159,338	26,558	185,896	43,219
Bonds, notes and loans payable	503,604	0	0	66,014	569,618	58,464
Arbitrage rebate payable	0	0	0	176	176	0
Other noncurrent liabilities	17,093	0	43	300	17,436	0
Advances from other funds	0	0	0	0	0	1,412
Total noncurrent liabilities	<u>520,697</u>	<u>0</u>	<u>159,394</u>	<u>93,049</u>	<u>773,140</u>	<u>103,444</u>
<b>Total liabilities</b>	<u><b>571,700</b></u>	<u><b>10,735</b></u>	<u><b>167,864</b></u>	<u><b>129,262</b></u>	<u><b>879,561</b></u>	<u><b>166,265</b></u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	0	0	19	54,254	54,273	109,672
Restricted for:						
Debt service	0	0	0	37,991	37,991	0
Other purposes	436,966	0	0	0	436,966	0
Unrestricted	0	57,146	108,384	5,851	171,381	(126,263)
<b>Total net assets</b>	<u><b>436,966</b></u>	<u><b>57,146</b></u>	<u><b>108,403</b></u>	<u><b>98,096</b></u>	<u><b>700,611</b></u>	<u><b>(16,591)</b></u>
<b>Total liabilities and net assets</b>	<u><b>\$1,008,666</b></u>	<u><b>\$ 67,881</b></u>	<u><b>\$ 276,267</b></u>	<u><b>\$ 227,358</b></u>	<u><b>\$ 1,580,172</b></u>	<u><b>\$ 149,674</b></u>

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

State of Kansas  
**Financial Statements**  
June 30, 2012

**Statement of Revenues, Expenses, and Changes in  
Fund Net Assets - Proprietary Funds  
For the Fiscal Year Ended June 30, 2012**  
*(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	\$ 2,294	\$ 434,794	\$ 29,350	\$449,257	\$ 915,695	\$ 84,512
Interest on loans	22,691	0	0	0	22,691	0
Other revenue	4,211	366,483	720	6,986	378,400	29,874
<b>Total operating revenues</b>	<u>29,196</u>	<u>801,277</u>	<u>30,070</u>	<u>456,243</u>	<u>1,316,786</u>	<u>114,386</u>
<b>OPERATING EXPENSES</b>						
Salaries and wages	0	0	1,330	5,669	6,999	27,886
Supplies and services	2,298	0	4,979	168,124	175,401	49,649
Lottery prize awards	0	0	0	138,904	138,904	0
Depreciation	0	0	3	8,027	8,030	10,928
Insurance claims and expenses	0	735,026	0	1,359	736,385	22,032
Program administration - Water Funds	1,286	0	0	0	1,286	0
Other expenses	19,317	43	(90)	17,348	36,618	79
<b>Total operating expenses</b>	<u>22,901</u>	<u>735,069</u>	<u>6,222</u>	<u>339,431</u>	<u>1,103,623</u>	<u>110,574</u>
<b>Operating income (loss)</b>	<u>6,295</u>	<u>66,208</u>	<u>23,848</u>	<u>116,812</u>	<u>213,163</u>	<u>3,812</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants	0	935	0	0	935	16
Capital grants	11,917	0	0	55,969	67,886	0
Investment earnings	4,459	899	15,039	868	21,265	24
Interest expense	(31,274)	(1,777)	0	(3,050)	(36,101)	(3,070)
Other revenues (expenses)	(5,471)	110	(220)	(1,438)	(7,019)	(13)
<b>Total nonoperating revenues (expenses)</b>	<u>(20,369)</u>	<u>167</u>	<u>14,819</u>	<u>52,349</u>	<u>46,966</u>	<u>(3,043)</u>
<b>Net income (loss)</b>	<u>(14,074)</u>	<u>66,375</u>	<u>38,667</u>	<u>169,161</u>	<u>260,129</u>	<u>769</u>
Transfers in	0	1,145,225	0	4	1,145,229	11,367
Transfers out	0	(1,149,070)	(200)	(118,814)	(1,268,084)	(17,616)
Net change in net assets	(14,074)	62,530	38,467	50,351	137,274	(5,480)
Total net assets - beginning	451,040	(5,384)	69,936	47,745	563,337	(11,111)
<b>Total net assets - ending</b>	<u>\$436,966</u>	<u>\$ 57,146</u>	<u>\$ 108,403</u>	<u>\$ 98,096</u>	<u>\$ 700,611</u>	<u>\$ (16,591)</u>

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

State of Kansas  
**Financial Statements**  
June 30, 2012

**Statement of Cash Flows - Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2012**  
*(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	\$ 24,634	\$ 799,506	\$ 29,880	\$ 449,569	\$ 1,303,589	\$ 113,732
Cash payments to suppliers for goods and services	(2,745)	(1,888)	(5,016)	(1,839)	(11,488)	(48,102)
Cash payments to employees for services	0	0	(1,305)	(5,674)	(6,979)	(28,008)
Cash payments for lottery prizes	0	0	0	(138,904)	(138,904)	0
Claims paid	0	(735,026)	(21,910)	(1,284)	(758,220)	(22,328)
Other operating revenues	187,752	0	0	13,972	201,724	0
Other operating expenses	(55,023)	0	0	(180,199)	(235,222)	0
<b>Net cash provided by operating activities</b>	<u>154,618</u>	<u>62,592</u>	<u>1,649</u>	<u>135,641</u>	<u>354,500</u>	<u>15,294</u>
<b>Cash flows from noncapital financing activities:</b>						
Operating grants receipts	0	935	0	0	935	16
Other non-operating expenses	0	110	(220)	0	(110)	(13)
Net transfers to other funds	0	(3,845)	(200)	(118,908)	(122,953)	(5,049)
Other cash inflows-loan receipts, bond proceeds, etc.	11,917	0	0	0	11,917	0
Other cash outflows-loan advances, debt repayment, etc.	(178,562)	0	0	(10,594)	(189,156)	0
<b>Net cash used by noncapital financing activities</b>	<u>(166,645)</u>	<u>(2,800)</u>	<u>(420)</u>	<u>(129,502)</u>	<u>(299,367)</u>	<u>(5,046)</u>
<b>Cash flows from capital and related financing activities:</b>						
Proceeds from issuance of long-term debt	0	4,602	0	0	4,602	0
Repayment of long-term debt	0	(170,821)	0	0	(170,821)	(8,302)
Interest payments	0	(1,777)	0	0	(1,777)	(3,070)
Payments for purchase of capital assets	0	0	0	(145)	(145)	(5,527)
<b>Net cash used by capital and related financing activities</b>	<u>0</u>	<u>(167,996)</u>	<u>0</u>	<u>(145)</u>	<u>(168,141)</u>	<u>(16,899)</u>
<b>Cash flows from investing activities:</b>						
Proceeds from sale and maturities of investment securities	17,551	0	23,299	0	40,850	1,703
Purchase of investments	(9)	(418)	(35,129)	0	(35,556)	41
Interest and dividends	4,798	899	9,867	870	16,434	0
<b>Net cash provided (used) by investing activities</b>	<u>22,340</u>	<u>481</u>	<u>(1,963)</u>	<u>870</u>	<u>21,728</u>	<u>1,744</u>
Net increase (decrease) in cash and cash equivalents	10,313	(107,723)	(734)	6,864	(91,280)	(4,907)
Cash and cash equivalents, beginning of year	255,382	162,573	3,288	49,392	470,635	43,703
<b>Cash and cash equivalents, end of year</b>	<u>\$ 265,695</u>	<u>\$ 54,850</u>	<u>\$ 2,554</u>	<u>\$ 56,256</u>	<u>\$ 379,355</u>	<u>\$ 38,796</u>
<b>Reconciliation of operating income to net cash provided by operations:</b>						
Operating income	\$ 6,295	\$ 66,208	\$ 23,848	\$ 116,812	\$ 213,163	\$ 3,812
<b>Adjustment to reconcile operating income to net cash provided by operating activities:</b>						
Depreciation and amortization	0	0	3	8,027	8,030	10,928
Changes in assets and liabilities:						
Receivables	148,102	(1,771)	(190)	7,872	154,013	(653)
Inventories	0	0	0	(191)	(191)	0
Accounts payable	221	(1,845)	(37)	4,644	2,983	1,687
Payroll liabilities	0	0	25	(2)	23	(184)
Claims and judgements	0	0	(22,000)	73	(21,927)	(296)
Deferred revenue	0	0	0	(490)	(490)	0
Lottery prize liability	0	0	0	(1,104)	(1,104)	0
Total adjustments	148,323	(3,616)	(22,199)	18,829	141,337	11,482
<b>Net cash provided by operating activities</b>	<u>\$ 154,618</u>	<u>\$ 62,592</u>	<u>\$ 1,649</u>	<u>\$ 135,641</u>	<u>\$ 354,500</u>	<u>\$ 15,294</u>

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



State of Kansas  
**Financial Statements**  
June 30, 2012

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**Statement of Fiduciary Net Assets**  
**June 30, 2012**  
*(expressed in thousands)*

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	Pension Trust	Investment Trust	Agency
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,900	\$ 832,657	\$ 438,666
Investments	14,328,573	0	425,968
Receivables, net	2,048,505	0	859,778
Capital assets	2,646	0	218
<b>Total assets</b>	<b>16,390,624</b>	<b>832,657</b>	<b>1,724,630</b>
<b>LIABILITIES</b>			
Accounts payable and other liabilities	3,284,812	0	\$ 1,724,630
<b>Total liabilities</b>	<b>3,284,812</b>	<b>0</b>	<b>\$ 1,724,630</b>
<b>NET ASSETS</b>			
Net assets held in trust	\$ 13,105,812	\$ 832,657	

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

State of Kansas  
**Financial Statements**  
June 30, 2012

**Statement of Changes in Fiduciary Net Assets**  
**For the Fiscal Year Ended June 30, 2012**  
*(expressed in thousands)*

	Pension Trust	Investment Trust
<b>ADDITIONS</b>		
Contributions:		
Employer contributions	\$ 617,636	\$ 0
Employee contributions	298,105	0
	915,741	0
Total contributions		
Deposits:		
Net investment income	89,057	172
MIP deposits	0	2,975,633
Other deposits	202	0
	1,005,000	2,975,805
<b>Total additions</b>		
<b>DEDUCTIONS</b>		
Benefits and refunds:		
Monthly benefits and refunds	1,237,560	0
Refunds of contributions	55,897	0
Death benefits	9,414	0
Insurance premiums and disability benefits	55,169	0
Distributions	0	3,073,365
Total benefits and refunds	1,358,040	3,073,365
Administrative expenses	10,001	0
	1,368,041	3,073,365
<b>Total deductions</b>		
Net decrease	(363,041)	(97,560)
Net assets - beginning of year	13,468,853	930,217
<b>Net assets - end of year</b>	<b>\$ 13,105,812</b>	<b>\$ 832,657</b>

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

State of Kansas  
**Financial Statements**  
June 30, 2012

**Combining Statement of Net Assets - Component Units**

**June 30, 2012**

*(expressed in thousands)*

	Kansas Development Finance Authority	Kansas Housing Resources Corporation	Kansas Bioscience Authority	State University System	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 213	\$ 3,116	\$ 13,965	\$ 656,517	\$ 673,811
Restricted cash and cash equivalents	0	151	0	89,045	89,196
Investments	12,717	5,826	22,122	2,194,773	2,235,438
Restricted investments	0	0	0	13,271	13,271
Receivables, net	385	1,204	7,592	291,723	300,904
Due from primary government	10,470	0	0	0	10,470
Inventories	92	42	0	27,294	27,428
Other assets	1	0	100	7,551	7,652
<b>Total current assets</b>	<b>23,878</b>	<b>10,339</b>	<b>43,779</b>	<b>3,280,174</b>	<b>3,358,170</b>
Noncurrent assets:					
Restricted cash and cash equivalents	0	13	0	79,577	79,590
Investments	0	0	48,029	2,170	50,199
Restricted investments	0	0	0	43,140	43,140
Receivables, net	65,796	2,215	4,141	120,331	192,483
Capital assets (net of accumulated depreciation)	79	168	14,319	2,124,836	2,139,402
Other noncurrent assets	0	0	8,434	63,578	72,012
<b>Total noncurrent assets</b>	<b>65,875</b>	<b>2,396</b>	<b>74,923</b>	<b>2,433,632</b>	<b>2,576,826</b>
<b>Total assets</b>	<b>\$ 89,753</b>	<b>\$ 12,735</b>	<b>\$ 118,702</b>	<b>\$ 5,713,806</b>	<b>\$ 5,934,996</b>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and other liabilities	\$ 218	\$ 512	\$ 2,319	\$ 298,128	\$ 301,177
Deferred revenue	454	0	0	118,999	119,453
Short-term compensated absences	0	183	0	58,285	58,468
Short-term portion of long-term liabilities	10,470	0	573	51,724	62,767
<b>Total current liabilities</b>	<b>11,142</b>	<b>695</b>	<b>2,892</b>	<b>527,136</b>	<b>541,865</b>
Noncurrent liabilities:					
Compensated absences	0	0	0	15,048	15,048
Bonds, notes and loans payable	65,775	0	12,404	805,180	883,359
Arbitrage rebate liability	0	0	0	46	46
Other noncurrent liabilities	2,682	130	0	97,541	100,353
<b>Total noncurrent liabilities</b>	<b>68,457</b>	<b>130</b>	<b>12,404</b>	<b>917,815</b>	<b>998,806</b>
<b>Total liabilities</b>	<b>79,599</b>	<b>825</b>	<b>15,296</b>	<b>1,444,951</b>	<b>1,540,671</b>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	79	168	4,313	1,400,066	1,404,626
Restricted for:					
Capital projects	0	0	0	45,742	45,742
Debt service	0	0	0	57,488	57,488
Other purposes	0	477	5,329	742,670	748,476
Unrestricted	10,075	11,265	93,764	2,022,889	2,137,993
<b>Total net assets</b>	<b>\$ 10,154</b>	<b>\$ 11,910</b>	<b>\$ 103,406</b>	<b>\$ 4,268,855</b>	<b>\$ 4,394,325</b>

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

State of Kansas  
**Financial Statements**  
June 30, 2012

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**Combining Statement of Activities - Component Units**  
**For the Fiscal Year Ended June 30, 2012**  
*(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	\$ 984	\$ 0	\$ 3,488	\$ 1,802	\$1,800,921	\$1,807,195
Supplies and services	448	0	1,416	2,618	425,540	430,022
Depreciation	24	0	115	498	128,151	128,788
Interest expense	70	0	0	0	29,354	29,424
Other expenses	0	10,178	95,902	25,413	387,360	518,853
<b>Total expenses</b>	<b>1,526</b>	<b>10,178</b>	<b>100,921</b>	<b>30,331</b>	<b>2,771,326</b>	<b>2,914,282</b>
<b>PROGRAM REVENUES</b>						
Charges for services	2,092	0	3,876	120	1,337,354	1,343,442
Operating grants	0	0	1,901	446	276,800	279,147
Capital grants	0	0	92,033	0	3,000	95,033
<b>Total program revenues</b>	<b>2,092</b>	<b>0</b>	<b>97,810</b>	<b>566</b>	<b>1,617,154</b>	<b>1,717,622</b>
<b>Net (Expense) Revenue</b>	<b>566</b>	<b>(10,178)</b>	<b>(3,111)</b>	<b>(29,765)</b>	<b>(1,154,172)</b>	<b>(1,196,660)</b>
<b>GENERAL REVENUES</b>						
Taxes:						
Property tax	0	0	0	0	7,041	7,041
Gross receipts tax	0	0	0	0	1,120	1,120
Investment earnings	475	0	270	1,099	(25,005)	(23,161)
Other revenues	6	0	2,407	6,287	1,204,249	1,212,949
<b>Total general revenues</b>	<b>481</b>	<b>0</b>	<b>2,677</b>	<b>7,386</b>	<b>1,187,405</b>	<b>1,197,949</b>
<b>Change in net assets</b>	<b>1,047</b>	<b>(10,178)</b>	<b>(434)</b>	<b>(22,379)</b>	<b>33,233</b>	<b>1,289</b>
Total net assets - beginning	9,107	10,178	12,344	125,785	4,210,510	4,367,924
Revisions to beginning net assets	0	0	0	0	25,112	25,112
Total net assets - beginning (restated)	<b>9,107</b>	<b>10,178</b>	<b>12,344</b>	<b>125,785</b>	<b>4,235,622</b>	<b>4,393,036</b>
<b>Total net assets - ending</b>	<b>\$ 10,154</b>	<b>\$ 0</b>	<b>\$ 11,910</b>	<b>\$ 103,406</b>	<b>\$4,268,855</b>	<b>\$4,394,325</b>

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, 2012, 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, 2012

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**I. Summary of Significant Accounting Policies**

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<u>Component Unit</u>	<u>Description: Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Kansas Development Finance Authority (K DFA)	The State appoints a voting majority of the board of K DFA and has the power to impose its will on K DFA.	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.	See Note I. G.	See Note I. G.
Kansas Housing Resources Corporation (KHRC)	KHRC is a subsidiary corporation of K DFA and a legal entity separate and distinct from K DFA 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

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## 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 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; 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 (K PERS)** is a body corporate and an instrumentality of the State. K PERS 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.

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

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### **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 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.



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## I. Summary of Significant Accounting Policies

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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:

#### **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.

**Health and Environment** – 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.

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## I. Summary of Significant Accounting Policies

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**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.

**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.

**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.

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## I. Summary of Significant Accounting Policies

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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

*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

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

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In addition to the above investments, short-term bond proceeds may be invested at the direction of KDFFA 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 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.

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

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### ***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:

	Capitalization Policy	Depreciation Method	Estimated Useful Life
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***

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.

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

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### ***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. Although K.S.A. 75-6702(c) suspended the minimum balance provisions for the fiscal year ended June 30, 2012, the State general fund ending balance exceeded the 7.5 % requirement.

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.

### **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.

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## I. Summary of Significant Accounting Policies

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### G. Executive Reorganizations

Governor Sam Brownback issued several Executive Reorganization Orders, effective July 1, 2011. The effects of these orders are as follows:

#### *Executive Reorganization Order No. 34*

The Kansas Parole Board established by K.S.A. 22-3707 was abolished and the Prisoner Review Board established. The Prisoner Review Board is within the Department of Corrections. This order does not change the reporting in the State CAFR, since both entities are reported together as one governmental fund.

#### *Executive Reorganization Order No. 35*

This order transfers the Commission on Disability Concerns from the Department of Commerce to the Office of the Governor. The balances of all funds related to the Commission of Disability Concerns were transferred to the Office of the Governor and shall be used only for the purpose for which they were originally appropriated. Both of these funds are reported as nonmajor governmental funds (“Commerce” and “Executive Funds”).

#### *Executive Reorganization Order No. 36*

This order renames the Kansas Department of Wildlife and Parks to the Kansas Department of Wildlife, Parks and Tourism. In addition, this order moves the division of travel and tourism development of the Department of Commerce to the Department of Wildlife, Parks and Tourism. The balances of all funds appropriated for the Department of Commerce Division of Travel and Tourism Development has been transferred to the Department of Wildlife, Parks and Tourism and shall be used for the purposes of the original appropriations.

#### *Executive Reorganization Order No. 37*

The agency Kansas, Inc. has been abolished. The Department of Administration has the authority to conclude the affairs of Kansas, Inc., including satisfying any outstanding liabilities, and has the rights, title or interest in property of Kansas, Inc. In addition, the Department of Administration has legal custody of all records and documents of Kansas, Inc. The Kansas, Inc. fund balances were transferred to the Department of Administration and shall be used on the purposes of the original appropriations. Kansas Inc. was previously part of State Boards and Commissions nonmajor governmental funds.

#### *Executive Reorganization Order No. 38*

This order establishes the Division of Health Care Finance within the Department of Health and Environment. The agency Kansas Health Policy Authority created by K.S.A. 2010 Supp. 75-7401 was abolished. The duties and fund balances of the Health Policy Authority were transferred to the Department of Health and Environment, Division of Health Care Finance and funds shall be used only for the purpose for which they were originally appropriated

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

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### ***Executive Reorganization Order No. 39***

The Arts Commission created by K.S.A. 74-5202 was abolished. In the State CAFR, this fund was reported with State Regulatory Boards and Commissions in nonmajor governmental funds. The Historical Society was given the power to be the successor of the Arts Commission. The fund balances of the Arts Commission was transferred to the Historical Society and shall be used for the only for the purpose for which the appropriation was originally made.

### ***Executive Reorganization Order No. 40***

The Agriculture Products Development Division within the Department of Commerce, created by K.S.A. 74-50,156, was abolished. The Agriculture Marketing and Promotions Program was established within the Department of Agriculture. All fund balances of the abolished division was transferred from the Department of Commerce to the Department of Agriculture and shall be used only for the purpose for which the appropriation was originally made. In the State CAFR, both Commerce and Agriculture are nonmajor governmental funds.

The Animal Health Department as established in K.S.A. 75-1901 was abolished. The powers, duties and functions of the Animal Health Department are now with the Division of Animal Health within the Department of Agriculture. All funds of the Animal Health Department were transferred to the Department of Agriculture and shall be used only for the purpose of the original appropriation was made. In the State CAFR, the Animal Health Department was previously reported as part of the State Regulatory Boards and Commissions in nonmajor governmental funds. Agriculture is also a nonmajor governmental fund.

The Conservation Commission as established by K.S.A. 2-1904 is now the Conservation Division of the Department of Agriculture. All funds of the Conservation Commission have been transferred to the Department of Agriculture and shall be used only for the purpose for which the appropriation was originally made. In the State CAFR, the State Conservation Commission was previously reported as part of the State Regulatory Boards and Commissions in governmental funds. The Agriculture fund is also a nonmajor governmental fund.

### ***Kansas Technology Enterprise Corporation***

K.S.A. 74-8125 transferred the powers, duties, and functions of the Kansas Technology Enterprise Corporation (KTEC) to the Department of Commerce. In the State CAFR, KTEC was a component unit and Department of Commerce is a nonmajor governmental fund.

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

The State has implemented the following new pronouncements for fiscal year 2012:

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.

In June 2011, the GASB issued Statement No. 64 an amendment of GASB Statement No. 53, addressing the application of hedge accounting termination provisions. GASB 64 requires for hedge accounting to cease upon the replacement of a swap counterparty or swap counterparty's credit support provider unless the counterparty or counterparty's credit support provider has committed or experienced an act of default or a termination event as both are described in the swap agreement. It was applicable for periods beginning after June 15, 2011. KDOT has adopted GASB 64 with this fiscal year 2012.



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

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At June 30, 2012, 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, 2012:

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. 65, "Items Previously Reported as Assets and Liabilities", establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012.

GASB Statement No. 66, "Technical Corrections - 2012", an amendment of GASB Statements No. 10 and No. 62, resolves conflicting guidance that resulted from the issuance of Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. GASB Statement 66 removes the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. It also modifies the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. This statement is effective for periods beginning after December 15, 2012.

GASB Statement No. 67, "Financial Report for Pension Plans", was issued in June 2012. This statement establishes accounting and financial reporting by state and local government for pensions. This statement replaces the requirements of ASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and GASB Statement No. 50, Pensions Disclosures, as the relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB 67 enhances note disclosures and required supplementary information for both defined benefit and defined contribution pension Plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules. The provisions of this statement are effective for KPERS for fiscal years beginning after June 15, 2013, and could materially impact the reported liabilities and net assets when implemented.

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

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GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”, was issued June 2012. This statement establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, “Accounting for Pensions by State and Local Government Employers”, as well as the requirements of Statement No. 50, “Pension Disclosures”, as they relate to pensions that are provided through pension plans administered as trusts or equipment arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The provisions of this statement are effective for the State for fiscal years beginning after June 15, 2014, and could materially impact the reported liabilities and net assets when implemented.

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## **II. Stewardship, Compliance, Accountability**

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### **A. Excess of Expenditures Over Appropriations**

For the year ended June 30, 2012, expenditures did not exceed appropriations or limitations.

### **B. Deficit Fund Equity**

The Transportation – Capital Projects Fund had a deficit fund balance in fiscal year 2012 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.

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2012

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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, 2012, is as follows (expressed in thousands):

	<b>Governmental &amp; Business-Type Activities</b>	<b>Weighted Average Duration</b>	<b>Fiduciary</b>	<b>Weighted Average Duration</b>	<b>Component Unit</b>	<b>Weighted Average Duration</b>
U.S. Treasury	\$ 28,826	9.05	\$ 1,261,680	2.63	\$ 18,675	2.20
U.S. Agencies securities	858,498	0.92	1,097,382	1.24	22,276	2.18
Government Sponsored Entity	2,267	3.91			347	2.5
Repurchase Agreements	673,484	0.24	208,297	0.01	393	7.26
Investment Contract	54,507	8.08			5,405	15.07
Mutual Fund-Fixed Income					7,627	< year
Mutual Fund-Equities					5,569	
Equity Securities	79,983		9,405,943		5,683	
Corporate Bonds and Commercial paper	1,476,175	0.92	2,118,176	4.87	24,229	1.57
Non-marketable securities issued by the U.S. Treasury			291,317	6.85		
Alternative Investment					17,195	6.4
Municipal securities					969	2.50
Derivative Instrument	5,290					
Securities Lending Collateral		0.95	1,051,426	0.58		
University assets reported under FASB*					2,221,311	
Other Investment	418				6,020	
Fiduciary and Component Unit's share of Treasurer's pool	(985,193)		426,451		558,742	
Cash and cash equivalents	282,608		176,091		290,205	
	<u>\$ 2,476,863</u>		<u>\$ 16,036,764</u>		<u>\$ 3,184,645</u>	

State of Kansas  
**Notes to the Financial Statements**  
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### III. Detailed Notes On All Funds

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A reconciliation of deposits and investments for the State to the financial statements at June 30, 2012, is as follows (expressed in thousands):

**Disclosures Regarding Deposits and Investments:**

Total investments and time deposits	\$ 17,990,259
Carrying amount of demand deposits	<u>3,708,013</u>
Total	<u><u>\$ 21,698,272</u></u>

**Statement of Net Assets**

*Governmental and Business-Type Activities*

Cash and cash equivalents	\$ 1,726,050
Investments at fair market value	329,034
Restricted cash and cash equivalents	365,080
Restricted investments	56,699

*Component Units*

Cash and cash equivalents	673,811
Investments at fair market value	2,285,637
Restricted cash and cash equivalents	168,786
Restricted investments	56,411

**Statement of Fiduciary Net Assets**

Cash and cash equivalents	1,282,223
Investments at fair market value	<u>14,754,541</u>
Total	<u><u>\$ 21,698,272</u></u>

*Deposits.* At June 30, 2012, the carrying amounts of the Governmental and Business-type Activities have a deficit of \$39.3 million. The bank balance was \$14.4 million. 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 collateralizing 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 must be pledged at 100 percent of the amount being collateralized (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) must be pledged at 105 percent of the amount being collateralized.
- Any security with a final maturity longer than five years must be pledged at 105 percent of the amount being collateralized.

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 of "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.

*Interest Rate Risk.* Interest rates risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The State minimizes the risk by structuring its investment so that securities mature to meet cash requirement for scheduled disbursement and 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. To limit risk, the

State of Kansas  
**Notes to the Financial Statements**  
June 30, 2012

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### III. Detailed Notes On All Funds

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State diversifies investments based on various benchmarks. In addition, some agencies utilize investment managers for input and advice as part of investment policy.

*Credit risk:* Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Certain agencies adopt a policy of limiting the investments to only those allowed by State Statute and minimize the credit risk through pre-qualifying institutions, diversifying its portfolios and maintaining a standard of quality of authorized eligible investments. The Primary Government, Component Units, and Fiduciary investments as of June 30, 2012 are presented below with applicable credit ratings (expressed in thousands):

#### Governmental and Business-Type Activities Investments at June 30, 2012

	Fair Value	Quality Ratings (Standard and Poors)										
		AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated
U.S. Agencies Securities	858,498		844,293	14,205								
Government Sponsored Entity	2,267		2,200									67
Repurchase Agreements	673,484		656,103									17,381
Investment Contracts	54,507		18,094				3,450					32,963
Corporate Bonds and Commercial paper	1,476,175	8,116	110,099	1,266,213	51,429	19,806	12,602	3,610	43	415	261	3,581
Derivative Instrument	5,290			5,290								
	<u>3,070,221</u>	<u>8,116</u>	<u>1,630,789</u>	<u>1,285,708</u>	<u>51,429</u>	<u>19,806</u>	<u>16,052</u>	<u>3,610</u>	<u>43</u>	<u>415</u>	<u>261</u>	<u>53,992</u>

#### Component Units Investments at June 30, 2012

	Fair Value	Quality Ratings (Standard and Poors)										
		AAA	AA	A	BBB	BB	B	CCC	CC	C	Unrated	
U.S. Treasury	\$ 18,675	18,176	499									
U.S. Agencies Securities	22,276	9,868	6,354									6,054
Government Sponsored Entity	347		347									
Repurchase Agreements	393	393	-									
Investment Contracts	5,405	463	954	115		3,873						
Mutual Fund -Fixed Income	7,627		5,622									2,005
Corporate Bonds and Commercial paper	24,229	15,261	550	1,312								7,107
Alternative Investment	17,195			8185								9,010
Municipal Securities	969				969							
University assets reported under FASB*	2,221,311											2,221,311
Other Investment	6,020											6,020
	<u>2,324,447</u>	<u>44,161</u>	<u>14,326</u>	<u>9,612</u>	<u>969</u>	<u>-</u>	<u>3,873</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,251,507</u>

\*University component unit 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, 2012, the Kansas University Endowment Association held \$1,258,796 of securities at fair value mainly in money markets, domestic equities, U.S. Treasuries, mutual funds, common trust equity and fixed income funds, marketable

State of Kansas  
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### III. Detailed Notes On All Funds

alternatives and other LLCs and LLPs. The marketable alternatives, LLCs, and LLPs are accounted for under the equity method of accounting.

At June 30, 2012, the Kansas State University Foundation held \$ 447,687 of securities at fair value held mainly in equity securities, mutual funds (equity and fixed income), pooled separated funds (equity and fixed income), hedge funds, common stock, real estate, U.S. government obligations and various forms of private capital.

At June 30, 2012, the Wichita State University Foundation held \$188,026 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.

#### Fiduciary Fund Investments at June 30, 2012

	Fair Value	Quality Ratings (Standard and Poors)											
		AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated	
U.S. Government	\$ 1,261,680		1,261,680										
U.S. Agency	1,097,382		1,097,382										
Repurchase Agreements	208,297		208,297										
Corporate Bonds and Commercial paper	2,118,176	79,924	252,256	668,892	465,549	249,189	155,522	34,954	2,397	7,831	2,174		199,488
Non-marketable securities issued by the US Treasury	291,317												291,317
Securities Lending Collateral	1,051,426	44,418	540,294	230,822									235,892
	6,028,279	124,342	3,359,909	899,714	465,549	249,189	155,522	34,954	2,397	7,831	2,174		726,697

*Concentration risk.* Concentration risk is the risk of loss resulting from an over concentration of assets in a specific maturity, specific user, or specific class of securities. Certain state agencies minimize this risk by requiring that no more than 5 percent of the investment portfolio be invested in the securities of a single issuer or business entity (excluding U.S Treasury Securities and US Government Agency Securities), and requiring that commercial paper and corporate bonds never exceed 50 percent of the investment portfolio. As of June 30, 2012, The Component Units and Fiduciary Funds held investments from no single issuer in excess of 5 percent of their total portfolio values. As of June 30, 2012, Federal Home Loan Mortgage Corporation Discount Notes comprised approximately 25% of Governmental and Business Type Activities investment portfolio.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of a failure of the financial institution or counterparty, the primary government, fiduciary, and/or component unit will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of the outside party. Any fixed income investment security purchased by the State of Kansas (PMIB) are safe kept until maturity at one of the two locations:

- U.S. Government Securities: Includes U.S. Treasury Bills & Notes and Federal Agency securities (includes Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Federal National Mortgage Association (Fannie Mae, FNMA), Federal Home Loan Mortgage Corporation (Freddie Mac, FHLMC) and others are “book-entry” securities and purchased on a “delivery versus payment” (DVP), the security settles (clears) through the State of Kansas correspondent bank (US Bank) and is then ultimately transferred to the State of Kansas “Fed Account” for safekeeping until maturity.
- Non-U.S. Government Securities: Includes highly-rated (A1/P1 or A1+/P1) Commercial Paper (matures within 270 days or less) and highly-rated (min. rating of AA-/Aa3) Corporate Bonds (maturing in 2-years or less by policy) are also purchased on a “delivery versus payment” (DVP) basis and settle via “DTC” (Depository Trust Company) by the State of Kansas correspondent bank (US Bank). The security is held in safekeeping at US Bank’s DTC account on behalf of the State until maturity.

Many years ago, some fixed-income securities used to come in “physical form” (actual piece of paper identifying type, dollar amount, etc.) and would have safe kept (held) by either the State (in the State Treasurer’s Vault) or at the State’s

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### III. Detailed Notes On All Funds

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correspondent Bank vault. (The PMIB does not have any of these types of securities in the fixed-income investment portfolio known as the Pooled Money Investment Portfolio; a.k.a. the PMIP.)

Other primary government Investment Funds such as the Treasurer's Unclaimed property, one hundred percent of its investment are held in the Fund's name and are not subject to creditors of the custodial bank. One hundred percent of KPERS investments are held in KPERS' name and are not subject to creditors of the custodial bank. The Kansas Development and Financial Authority (KDFA) bank balances are backed by pledge collateral to a Federal Reserve account for amounts in excess of the Federal Deposit Insurance Corporation (FDIC) limits. The Kansas Housing Resource Corporation (KHRC) 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, brokers/dealers, intermediaries and advisors with which KHRC will do business. Investments held at June 30, 2012, 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, 2012. At June 30, 2012, the Kansas Bioscience Authority (KBA) had \$0 exposed to custodial risk on deposits that were in excess of FDIC insurance coverage limits. Also, as of June 30, 2012, 3 percent of KBA investments were held by the investments' counterparties.

*Foreign Currency Risk.* Foreign Currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The primary government Fund's investments at June 30, 2012, were distributed among currencies in the following list.

**Governmental and Business-Type Activities**  
**Foreign Currency at June 30, 2012**

	Fair Value	Currency	Percent
\$	1,619	Australian Dollar	0.701 %
	2,313	Brazilian Real	1.001 %
	8,677	Canadian Dollar	3.754 %
	2,392	Euro Currency Unit	1.035 %
	2,401	Mexican New Peso	1.039 %
	1,464	New Zealand Dollar	0.633 %
	1,891	Philippines Peso	0.138 %
	318	Other Currencies	0.818 %

All foreign currencies are in the medium grade bond portfolio



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<b>Fiduciary Fund</b>		
<b>Foreign Currency at June 30, 2012</b>		
USD Equivalent	Currency	Percent
\$ 151,167	Australian Dollar	1.14%
56,112	Brazil Real	0.42%
641,080	British Pound Sterling	4.83%
224,920	Canadian Dollar	1.70%
4,620	Chilean Peso	0.03%
64,848	Chinese Yuan Renminbi	0.49%
3,048	Colombian Peso	0.02%
31,347	Danish Krone	0.24%
702,885	Euro Currency Unit	5.30%
130,381	Hong Kong Dollar	0.98%
20,300	Indian Rupee	0.15%
13,906	Indonesian Rupian	0.10%
8,360	Israeli Shekel	0.06%
420,981	Japanese Yen	3.18%
16,063	Malaysian Ringgit	0.12%
69,234	Mexican New Peso	0.52%
4,799	New Zealand Dollar	0.04%
36,730	Norwegian Krone	0.28%
6,433	Other	0.05%
1,573	Peru Nuevo Sol	0.01%
9,671	Philippines Peso	0.07%
5,098	Polish Zloty	0.04%
20,342	Russian Rubel	0.15%
53,742	S African Comm Rand	0.41%
52,570	Singapore Dollar	0.40%
94,498	South Korean Won	0.71%
94,802	Swedish Krona	0.71%
156,156	Swiss Franc	1.18%
60,689	Taiwan New Dollar	0.46%
12,176	Thailand Baht	0.09%
15,345	Turkish Nre Lira	0.12%

All Foreign currency exposure for Fiduciary funds is held in KPERS. KPERS' asset allocation and investment policies include active and passive investments in international securities. KPERS target allocation is to have 29.0 percent of assets (excluding securities lending collateral) in dedicated international equities. KPERS also have 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, 2012, KPERS total foreign currency exposure was 18.8 percent hedged.

#### 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

### III. Detailed Notes On All Funds

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, 2012, KPERS had total net margins payable the next day of \$3.9 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 \$56.9 million were associated with futures for the year ending June 30, 2012.

#### *Options*

KPERS also participate 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 30,2012</u>
Domestic Equity Futures	Domestic Equities	\$ 135,845
International Equity Futures	International Equities	103,934
Fixed Futures	Fixed	121,032
Options Written	Fixed	214,363
Pay Fixed Interest Swaps	Fixed	20,400
Receive Fixed Interest Swaps	Fixed	154,400
Credit Default Swaps	Fixed	100,976
TBA Agency Bonds**	Fixed	212,499

\*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.

#### *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 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.

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**III. Detailed Notes On All Funds**

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**Investment Derivative Fair Values**

*(expressed in thousands)*

<u>Derivative</u>	<u>June 30,2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,2012</u>
Options Written	\$ 105	\$ 4,078	\$ 4,088	\$ 95
Pay Fixed Interest Swaps	(307)	1,145	1,006	(168)
Received Fixed Interest Swaps	790	4,370	4,714	446
Credit Default Swaps	4,072	240,061	244,622	(489)
TBA Agency Bonds**	(112,262)	2,824,270	2,499,510	212,498
Foreign Currency Forwards	(10,652)	151,658	132,750	8,256
Total	<u>\$ (118,254)</u>	<u>\$ 3,225,582</u>	<u>\$ 2,886,690</u>	<u>\$ 220,638</u>

\*TBA Agency Bond notinal 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.

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

Currency	June 30, 2011				June 30, 2012	
	Notional \$USD	Fair Values	FV Increases	FV Decreases	Fair Values	Notional \$USD
<b>Investment Currency Forwards</b>						
Australian Dollar	\$ 183,401	\$ 418	\$ 11,563	\$ 12,110	\$ (129)	\$ 32,282
Brazil Real	40,766	180	151	299	32	7,544
British Pound Sterling	221,092	2,117	12,901	14,596	422	67,420
Canadian Dollar	114,399	(933)	4,919	4,331	(345)	37,667
Chinese Yuan Renminbi	18,823	77	0	108	(31)	7,681
Danish Krone	0	0	789	572	217	4,965
Euro Currency Unit	475,502	(419)	40,727	38,390	1,918	232,856
Hong Kong Dollar	99,691	36	370	410	(4)	29,431
Hungarian Forint	4,456	(177)	177	0	0	0
Indonesian Rupian	5,352	150	79	286	(57)	6,622
Japanese Yen	385,814	1,150	6,414	7,861	(297)	118,036
Malaysian Ringgit	4,270	34	8	49	(7)	600
Mexican New Peso	26,003	463	4,527	6,436	(1,446)	45,526
New Taiwan Dollar	598	8	5	13	0	0
New Zealand Dollar	35,058	(451)	1,010	548	11	1,314
Norwegian Krone	57,517	535	1,777	2,275	37	1,634
Other Currencies	13,661	124	235	391	(32)	3,729
Philippines Peso	6,785	(15)	34	0	19	505
S African Rand	7,348	57	299	445	(89)	4,387
Singapore Dollar	37,853	150	2,070	2,318	(98)	11,057
South Korean Won	8,078	200	29	293	(64)	5,859
Swedish Krona	62,655	321	1,518	1,939	(100)	3,274
Swiss Franc	93,314	841	10,892	12,272	(539)	14,981
Investment Forwards	<u>\$ 1,902,436</u>	<u>\$ 4,866</u>	<u>\$ 100,494</u>	<u>\$ 105,942</u>	<u>\$ (582)</u>	<u>\$ 637,370</u>
<b>Hedging Currency Forwards</b>						
Australian Dollar	\$ 11,346	\$ (137)	\$ 3,725	3,022	\$ 566	\$ 122,470
Canadian Dollar	61,077	(860)	1,556	112	584	81,961
Swiss Franc	51,278	(863)	11,702	7,798	3,041	109,026
Euro Currency Unit	425,929	(9,985)	18,143	1,885	6,273	256,121
British Pound	276,851	(1,319)	5,392	4,315	(242)	263,995
Hong Kong Dollar	35,978	0	71	71	0	0
Japanese Yen	162,086	(2,354)	10,573	9,602	(1,383)	264,399
Hedging Forwards	<u>\$ 1,024,545</u>	<u>\$ (15,518)</u>	<u>\$ 51,162</u>	<u>\$ 26,805</u>	<u>\$ 8,839</u>	<u>\$ 1,097,972</u>
Total	<u>\$ 2,926,981</u>	<u>\$ (10,652)</u>	<u>\$ 151,656</u>	<u>\$ 132,747</u>	<u>\$ 8,257</u>	<u>\$ 1,735,342</u>

#### Hedging Derivatives

##### *Foreign Currency Forwards*

KPERS utilize 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. KPERS 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." KPERS 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."

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

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KPERS has ongoing foreign currency exposure through its international equities portfolio. At June 30, 2012, the market values of international equities was \$3.18 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.

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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, 2012</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 New York Mellon	\$ 18,252	\$ 28	A+
Barclays	85,244	(1,147)	A
BNP Paribas	39,040	70	A+
Citigroup Inc Total	35,645	103	A-
Credit Suisse Group AG	62,294	1,455	A
Deutsche Bank AG	43,644	(88)	A+
Goldman Sachs Group Inc	6,920	(25)	A-
HSBC Holding PLC	26,188	224	A+
JPMorgan Chase & Co	12,522	(96)	A
Morgan Stanley	16,835	(908)	A-
Royal Bank of Canada	83,109	959	AA-
Royal Bank of Scotland	18,584	(172)	AAA
Societe Generale	1,744	(15)	A
State Street Corp	20,697	(222)	A+
UBS	115,079	195	A
Westpac Banking Corp	51,576	(943)	AA-
Investment Exposure	\$ 637,373	\$ (582)	
<u>Hedging Forwards Counterparty Exposure</u>			
Barclays	\$ 196,638	\$ 2,977	A
Citigroup Inc	116,237	(967)	A-
Deutsche Bank AG	72,364	415	A+
HSBC Holdings	196,173	5,963	A+
JPMorgan Chase & Co	170,461	(1,374)	A
Royal Bank of Canada	224,878	(1,276)	AA-
Royal Bank of Scotland	27,542	(549)	AAA
UBS	93,679	3,650	A
Hedging Exposure	\$ 1,097,972	\$ 8,839	

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**III. Detailed Notes On All Funds**

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**B. Receivables**

Accounts receivable as of June 30, 2012, 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	\$ 639,722	\$ 0	\$ 639,722	\$ 0
Loan receivable	12,788	760,195	772,983	74,932
Accrued interest	50	9,892	9,942	7,634
Other receivables	264,760	41,915	306,675	345,047
<b>Total</b>	<b>\$ 917,320</b>	<b>\$ 812,002</b>	<b>\$ 1,729,322</b>	<b>\$ 427,613</b>

Taxes receivable are shown net of allowances for uncollectible taxes of \$580.8 million.

**C. 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, 2012, is as follows (expressed in thousands):

Total minimum lease payments to be received	\$ 95,892
Less: unearned income	<u>(19,647)</u>
Net investment in direct financing leases	<u>\$ 76,245</u>

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.

**D. 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.

*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.

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

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#### **E. 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 \$406.9 million from the Kansas University Endowment.



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### III. Detailed Notes On All Funds

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#### F. 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	\$ 229,546	\$ 0	\$ 7,411	\$ 470	\$ 236,487
Construction in progress	1,049,999	0	326,140	220,017	1,156,122
Infrastructure (including construction in progress)	10,264,734	(130,080)	42,846	23,850	10,153,650
Total capital assets, not being depreciated	<u>11,544,279</u>	<u>(130,080)</u>	<u>376,397</u>	<u>244,337</u>	<u>11,546,259</u>
Capital assets, being depreciated:					
Buildings and improvements	1,306,305	(247)	40,834	1,723	1,345,169
Land improvement	109,477	0	1,015	0	110,492
Equipment and furnishings	487,487	0	40,131	18,594	509,024
Vehicles	75,083	0	7,574	7,028	75,629
Intangibles, software	75,940	0	0	116	75,824
Water rights	32,431	0	0	0	32,431
Total	<u>2,086,723</u>	<u>(247)</u>	<u>89,554</u>	<u>27,461</u>	<u>2,148,569</u>
Less accumulated depreciation for:					
Buildings and improvements	573,786	2636	29,189	1,441	604,170
Land improvement	50,057	0	2,966	0	53,023
Equipment and furnishings	247,522	0	34,710	14,793	267,439
Vehicles	55,918	0	7,478	5,978	57,418
Intangibles, software	14,272	0	9,770	407	23,635
Water rights	16,411	0	836	0	17,247
Total	<u>957,966</u>	<u>2,636</u>	<u>84,949</u>	<u>22,619</u>	<u>1,022,932</u>
Total capital assets, being depreciated, net	1,128,757	(2,883)	4,605	4,842	1,125,637
Governmental activity capital assets, net	<u>\$ 12,673,036</u>	<u>\$ (132,963)</u>	<u>\$ 381,002</u>	<u>\$ 249,179</u>	<u>\$ 12,671,896</u>
<i>Business-type activities</i>					
Capital assets, being depreciated:					
Equipment and furnishings	\$ 10,418	\$ 0	\$ 55,969	\$ 0	\$ 66,387
Vehicles	687	0	145	99	733
Total	<u>11,105</u>	<u>0</u>	<u>56,114</u>	<u>99</u>	<u>67,120</u>
Less accumulated depreciation for:					
Equipment and furnishings	4,377	0	7,982	61	12,298
Vehicles	534	0	48	33	549
Total	<u>4,911</u>	<u>0</u>	<u>8,030</u>	<u>94</u>	<u>12,847</u>
Business-type activities capital asset, net	<u>\$ 6,194</u>	<u>\$ 0</u>	<u>\$ 48,084</u>	<u>\$ 5</u>	<u>\$ 54,273</u>

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

*Governmental activities*

General government	\$ 21,451
Human resources	11,224
Education	1,383
Public safety	16,605
Agriculture and natural resources	6,154
Highways and other transportation	27,232
Health and environment	900
Total depreciation expense – Government activities	<u>\$ 84,949</u>

*Business-Type activities*

Health care stabilization	\$ 3
Nonmajor business-type	8,027
Total depreciation expense – Business-type activities	<u>\$ 8,030</u>

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**Component Units**

	(expressed in thousands)			Ending Balance
	Beginning Balance	Increases	Decreases	
<i>Kansas Development Finance Authority</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 188	\$ 64	\$ 0	\$ 252
Buildings and improvements	110	0	0	110
Less accumulated depreciation	259	24	0	283
Total capital assets, being depreciated, net	<u>\$ 39</u>	<u>\$ 40</u>	<u>\$ 0</u>	<u>\$ 79</u>
 <i>Kansas Housing Resources Corporation</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 756	\$ 29	\$ 0	\$ 785
Software implementation in progress	24	0	24	0
Vehicles	133	0	0	133
Buildings and improvements	62	0	0	62
Less accumulated depreciation	697	115	0	812
Total capital assets, being depreciated, net	<u>\$ 278</u>	<u>\$ (86)</u>	<u>\$ 24</u>	<u>\$ 168</u>
 <i>Kansas Bioscience Authority</i>				
Capital assets, not being depreciated				
Land	\$ 420	\$ 0	\$ 0	\$ 420
Total capital assets, not being depreciated	<u>420</u>	<u>0</u>	<u>0</u>	<u>420</u>
Capital assets, being depreciated				
Furniture and equipment	1,096	149	0	1,245
Buildings and improvements	13,252	147	0	13,399
Less accumulated depreciation	247	498	0	745
Total capital assets being depreciated, net	<u>14,101</u>	<u>(202)</u>	<u>0</u>	<u>13,899</u>
Total capital assets, net	<u>\$ 14,521</u>	<u>\$ (202)</u>	<u>\$ 0</u>	<u>\$ 14,319</u>

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**III. Detailed Notes On All Funds**

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	(expressed in thousands)			
	Beginning Balance	Increases	Decreases	Ending Balance
<i>University System</i>				
Capital assets, not being depreciated				
Land	\$ 59,731	\$ 2,591	\$ 106	\$ 62,216
Construction in progress	180,538	186,013	189,743	176,808
Total capital assets, not being depreciated	<u>240,269</u>	<u>188,604</u>	<u>189,849</u>	<u>239,024</u>
Capital assets, being depreciated				
Buildings and improvements	2,606,168	208,025	5,884	2,808,309
Depreciable land improvement	46,799	1,641	641	47,799
Equipment and furnishings	545,111	51,311	25,860	570,562
Intangible, software	9,304	6,953	12	16,245
Vehicles	48,267	4,541	4,190	48,618
Total capital assets, being depreciated	<u>3,255,649</u>	<u>272,471</u>	<u>36,587</u>	<u>3,491,533</u>
Less accumulated depreciation for:				
Buildings and improvements	1,073,790	79,718	5,729	1,147,779
Depreciable land improvement	19,839	1,516	234	21,121
Equipment and furnishings	369,611	42,358	23,548	388,421
Intangible, software	7,180	1,022	2	8,200
Vehicles	39,436	3,537	2,773	40,200
Totals	<u>1,509,856</u>	<u>128,151</u>	<u>32,286</u>	<u>1,605,721</u>
Total capital assets, being depreciated, net	<u>1,745,793</u>	<u>144,320</u>	<u>4,301</u>	<u>1,885,812</u>
University system capital assets, net	<u>\$ 1,986,062</u>	<u>\$ 332,924</u>	<u>\$ 194,150</u>	<u>\$ 2,124,836</u>
<i>All Component Units</i>				
Capital assets, not being depreciated				
Land	\$ 60,151	\$ 2,592	\$ 106	\$ 62,637
Construction in progress	180,539	186,037	189,768	176,808
Total capital assets, not being depreciated	<u>240,690</u>	<u>188,629</u>	<u>189,874</u>	<u>239,445</u>
Capital assets, being depreciated				
Buildings and improvements	2,619,591	208,171	5,882	2,821,880
Depreciable land improvement	46,799	1,641	641	47,799
Equipment and furnishings	548,084	51,610	26,849	572,845
Intangible, software	9,304	6,953	12	16,245
Vehicles	48,401	4,541	4,191	48,751
Total capital assets, being depreciated	<u>3,272,179</u>	<u>272,916</u>	<u>37,575</u>	<u>3,507,520</u>
Less accumulated depreciation for:				
Buildings and improvements	1,074,007	80,063	5,728	1,148,342
Depreciable land improvement	19,838	1,516	233	21,121
Equipment and furnishings	371,417	42,626	24,429	389,614
Intangible, software	7,180	1,022	2	8,200
Vehicles	39,498	3,561	2,773	40,286
Totals	<u>1,511,940</u>	<u>128,788</u>	<u>33,165</u>	<u>1,607,563</u>
Total capital assets, being depreciated, net	<u>1,760,239</u>	<u>144,128</u>	<u>4,410</u>	<u>1,899,957</u>
All component units capital assets, net	<u>\$ 2,000,929</u>	<u>\$ 332,757</u>	<u>\$ 194,284</u>	<u>\$ 2,139,402</u>

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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, 2012. The projects include road projects, dam repair, building remodeling and restorations. 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>			
Rebuild laundry building, Larned State Hospital	\$ 1,193	\$ 0	Debt service - State Institution Building Fund
Replace electrical substation, Osawatomie State Hospital	1,053	0	Debt service - State Institution Building Fund
<b>Department of Administration</b>			
Statehouse restoration and renovation	269,613	50,114	Debt service - Lease revenue bonds secured by lease rents
<b>Department of Transportation</b>			
Various roadway projects	1,114	530,700	Federal, State and local funds
<b>Adjutant General's Department</b>			
Great Plains Training Center	5,161	10	State bond funds
Armed Forces Reserve Center, Wichita -			
Architectural services	2,395	386	Federal funds
Construction	7,305	16,140	Federal funds
Field Maintenance Shop, Wichita -			
Architectural services	1,419	37	Federal funds
Construction	77	11	Federal funds
<b>Department of Agriculture</b>			
Water supply restoration project, Osage City	1,134	n/a	State funds
<b>Component Units:</b>			
<b>University of Kansas</b>			
Ekdahl Dining Commons renovation	0	3,400	Funded by KU Union
Engineering expansion - Phase 2	0	80,635	\$35 million from General fund, bond issuances and private gifts.
NIST building	21,995	375	State, endowment, departmental, private and federal funds.
<b>Kansas State University</b>			
Recreation Center Complex	17,300	6,700	Bonds and restricted fees funds
Jardine Apartment housing	7,500	28,500	Bonds and restricted fees funds
West Memorial Stadium	13	5,500	Restricted State fee funds
NBAF infrastructure	4,000	500	Restricted State fee and Federal funds
Johnson Controls energy conservation	16,700	2,600	Bonds
<b>University of Kansas Medical Center</b>			
Various projects	36,483	n/a	Bonds and State funds.

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**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>Pittsburg State University</b>			
Porter Hall Repair Project	\$ 2,214	\$ 0	Bonds and Education Building Fund.
New student housing	10,265	10	Bonds and housing & parking fee funds
Renovation of existing housing	4,829	1,593	Bonds and housing system operation funds
New parking expansion	3,879	277	Bonds and parking & student fee funds
Yates Hall HVAC upgrade	1,013	0	Bonds, education building fund, ARRA stimulus
University House	1,951	104	Private funding
Fine and Performing Arts Center	1,633	28,367	Private funding
Weede Physical Education Building renovation	414	1,586	Private funding
<b>Wichita State University</b>			
AGED Building construction	4,934	0	WSU Foundation
Duerksen Fine Arts Center HVAC	28	2,815	Federal stimulus deferred maintenance
Replacement Phase III			Kansas deferred maintenance, repair and rehabilitation
Hubbard Hall Biology Lab renovation	400	738	Kansas infrastructure maintenance
Rhatigan Student Center remodel	1,516	23,945	Bonds and State funds
<b>Total</b>	<u>\$ 427,531</u>	<u>\$ 785,043</u>	

*Significant encumbrances at June 30, 2012 (amounts in thousands)*

<b>Fund</b>	<b>Amount</b>
General	\$ 24,560
Social Rehabilitation	31,020
Health and Environment	62,212
Transportation	797,021
Other Governmental Funds	154,934
<b>Total</b>	<u>\$ 1,069,747</u>

State of Kansas  
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**III. Detailed Notes On All Funds**

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**G. 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, 2012, is as follows (expressed in thousands):

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 0	\$ 13,963
Social & Rehabilitation	0	188
Health & Environment	0	113
Transportation Fund	122	0
Non-major Governmental Funds	20,708	0
Internal Service Funds	0	1,444
Non-major Enterprise Funds	0	5,122
Total	\$ 20,830	\$ 20,830

*Advances to/from other funds*

Advances to/from other funds represent long-term loans from one fund to another fund. Advances at June 30, 2012, were as follows (expressed in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 0	\$ 67,786
Social & Rehabilitation	0	1,221
Health & Environment	0	201
Non-major Governmental Funds	70,812	192
Internal Service Funds	0	1,412
Total	\$ 70,812	\$ 70,812

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.

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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	\$ 120,459	\$ 0
Social and Rehabilitation Services	774,269	0
Health & Environment	0	794,978
Transportation	0	364,729
Transportation-Capital Projects	0	125,095
Health Care Finance	16,319	0
Non-major Governmental	502,859	0
Unemployment Insurance	0	3,845
Health Care Stabilization	0	200
Non-major Enterprise Funds	0	118,810
Internal Service Funds	0	6,249
Total	<u>\$ 1,413,906</u>	<u>\$ 1,413,906</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.

**H. Short-term Obligations**

Short-term obligations at June 30, 2012, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2011 Beginning Balance	Additions	Deletions	6/30/2012 Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 600,000	\$ 600,000	\$ 0
Accrued receivables:				
State Building Fund	0	41,840	41,840	0
Children's Initiatives Fund	0	35,498	35,498	0
Correctional Institution Building Fund	0	3,994	3,994	0
State Economic Development	0	21,366	21,366	0
Kansas Endowment for Youth Fund	0	210	210	0
Total short-term obligations	<u>\$ 0</u>	<u>\$ 702,908</u>	<u>\$ 702,908</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



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

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than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$600 million was issued on July 1, 2011, and redeemed on June 21, 2012.

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 2012, \$27.9 million was posted to the Kansas Educational Building Fund and \$13.9 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in June 2012.

Per House Bill 2014, Section 97(f) of the 2011 Session, on July 1, 2011, 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 65 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2012 a receivable was posted for \$35.5 million and was reduced to zero in April 2012.

Per House Bill 2014, Section 97(h) of the 2011 Session, on July 1, 2011, 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 2012, a receivable was posted for \$4.0 million and was reduced to zero in February 2012.

Per House Bill 2014, Section 97(g) of the 2011 Session, on July 1, 2011, 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 2012, a receivable was posted for \$21.4 million and was reduced to zero in November 2011.

Per House Bill 2014, Section 97(i) of the 2011 Session, on July 1, 2011, 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 2012, a receivable was posted for \$210,000 and was reduced to zero in April 2012.

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**III. Detailed Notes On All Funds**

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**I. Long-term Obligations**

A summary of long-term obligations at June 30, 2012, for the fiscal year then ended is as follows (expressed in thousands):

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	\$ 3,066,913	\$ 620,153	\$ 667,137	\$ 4,354,203
Less bonds payable on demand	(596,900)	0	0	(596,900)
Sales tax limited obligation bonds	63,958	0	0	63,958
Sales tax accretion bonds	128,087	0	0	128,087
Notes payable	18,399	0	263,592	281,991
Capital leases payable	114,926	0	11,761	126,687
Arbitrage rebate payable	136	176	46	358
Unemployment benefits loan	0	4,602	0	4,602
Claims and judgments	88,501	199,234	0	287,735
Compensated absences	120,131	68	73,516	193,715
Other post employment benefits	51,998	343	48,078	100,419
Pollution remediation	69,152	0	1,200	70,352
Other	0	17,093	54,711	71,804
Total long-term obligations	<u>\$ 3,125,301</u>	<u>\$ 841,669</u>	<u>\$ 1,120,041</u>	<u>\$ 5,087,011</u>

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Long-term obligations at June 30, 2012, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2011 Beginning Balance	Additions	Deletions	6/30/2012 Ending Balance	Amounts Due In One Year
<b>Governmental Activities</b>									
<u>Revenue bonds payable:</u>									
KDFA Series 2003 H	2004	1.41 - 5.21%	2014	\$ 40,250	\$ 13,945	\$ 0	\$ 4,415	\$ 9,530	\$ 4,640
KDFA Series 2004 A-1, 2 & 3	2004	2.00 - 5.00%	2024	44,920	33,185	0	1930	3,1255	2,030
KDFA Series 2004 C	2004	3.43 - 5.50%	2034	500,000	468,710	0	11,255	457,455	11,745
KDFA Series 2005 H-1, 2, 3, 4 & 5	2006	3.25 - 5.00%	2032	88,175	72,110	0	4,425	67,685	4,530
KDFA Series 2005 N	2006	3.50 - 4.00%	2012	28,165	12,280	0	12,280	0	0
KDFA Series 2006 A	2006	4.00 - 5.00%	2027	209,490	180,845	0	7,910	172,935	8,230
KDFA Series 2006 L-1, 2, 3	2007	4.00 - 4.25%	2026	13,210	10,600	0	720	9,880	745
KDFA Series 2007 F	2007	4.00 - 4.97%	2017	34,505	22,650	0	3,340	19,310	3,505
KDFA Series 2007 K-1, 2A, 2B, & 3	2008	4.00 - 5.25%	2028	59,455	53,575	0	2,140	51,435	2,225
KDFA Series 2008 L-1, 2, & 3	2009	2.00 - 5.25%	2029	43,265	40,190	0	1,620	38,570	1,670
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	5,435	43,990	5,600
KDFA Series 2009 M-1 & M-2	2010	3.00 - 6.31%	2035	89,765	82,400	4,500	2,675	84,225	2,765
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	4,785	47,970	5,025
KDFA Series 2010 E-1 & E-2	2010	2.00 - 6.12%	2035	84,160	84,160	0	530	83,630	1,040
KDFA Series 2010 F	2010	1.58 - 6.25%	2032	18,400	18,400	0	1,295	17,105	1,315
KDFA Series 2010 O-1 & O-2	2011	3.00 - 6.10%	2030	43,455	43,455	0	1,730	41,725	1,780
KDFA Series 2011 B	2012	2.00 - 4.13%	2031	53,780	0	53,780	2,680	51,100	1,930
KDFA Series 2011 K	2012	3.00 - 5.00%	2023	109,135	0	109,135	4,360	104,775	2,285
KDOT Series 1998	1998	3.65 - 5.50%	2014	189,195	11,465	0	0	11,465	0
KDOT Series 2002 A	2003	Variable	2012	199,600	11,690	0	11,690	0	0
KDOT Series 2002 B & C*	2003	3.39%	2020	320,005	320,005	0	20,975	299,030	40,295
KDOT Series 2002 D*	2003	Variable	2012	88,110	23,850	0	23,850	0	0
KDOT Series 2003 A & B	2004	3.13 - 5.00%	2014	248,190	166,795	0	53,455	113,340	67,090
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%	2028	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	325,000	0	0	325,000	0
				(705,985)	(64,1725)		(44,825)	(596,900)	(40,295)
<u>Less bonds payable on demand*</u>									
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	64,756	10,384	9,293	65,847	0
Unamortized deferred refunding difference				0	(23,582)	(103)	(4,401)	(19,284)	0
Total revenue bonds payable				\$ 3,165,365	2,435,879	177,696	143,562	2,470,013	128,150
<u>Sales tax limited obligation bonds:</u>									
1999 KISC	1999	4.20 - 5.25%	2028	18,182	16,721	0	457	16,264	498
2001 Project Area B	2001	4.00 - 5.10%	2021	2,1270	14,599	0	1,845	12,754	592
400 Acres Refunding	2005	3.25 - 5.54%	2021	4,077	3,457	0	232	3,225	274
2 <sup>nd</sup> Lien 2005 Turbo	2006	4.75 - 5.00%	2021	129,216	68,434	0	37,602	30,832	0
Salt Museum	2006	5.00%	2014	4,063	1,684	0	801	883	846
Total sales tax limited obligation bonds				\$ 176,808	104,895	0	40,937	63,958	2,210
<u>Notes payable:</u>									
Water supply storage in Federal reservoirs				32,575	19,939	0	3,148	16,791	707
KDFA Bond Anticipation Note Series 2012-1				1,608	0	1,608	0	1,608	1,608
Expanded Lottery Operations				5,000	92	0	92	0	0
Total notes payable				\$ 39,183	20,031	1,608	3,240	18,399	2,315
Capital leases payable					129,089	3,541	17,704	114,926	18,280
Sales Tax Limited Obligation-2010 B Accretion Bonds					120,653	7,434	0	128,087	0
Arbitrage rebate payable					827	76	767	136	0
Claims and judgments					88,797	402,655	402,951	88,501	45,282
Compensated absences					126,241	0	6,110	120,131	55,441
Other post employment benefits					47,188	14,313	9,503	51,998	0
Pollution remediation					73,660	0	4,508	69,152	22,491
Total Governmental Activities				\$ 3,147,260	\$ 607,323	\$ 629,282	\$ 3,125,301	\$ 274,169	

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	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2011 Beginning Balance	Additions	Deletions	6/30/2012 Ending Balance	Amounts Due In One Year
<b>Business-type Activities</b>									
<u>Revenue bonds payable:</u>									
KDFA Series 2001 I&II	2002	3.00 - 5.50%	2018	\$ 14,104.5	\$ 70,425	\$ 0	\$ 9,545	\$ 60,880	\$ 9,550
KDFA Series 2002 1 & 2	2002	4.00 - 5.50%	2012	51,805	2,125	0	2,125	0	0
KDFA Series 2002 II	2003	2.26 - 5.50%	2012	101,575	4,000	0	4,000	0	0
KDFA Series 2004 II	2004	4.92 - 5.25%	2023	45,140	28,670	0	2,190	26,480	2,625
KDFA Series 2004 1 & 2	2005	3.00 - 5.00%	2023	176,010	98,635	0	55,075	43,560	8,130
KDFA Series 2005 CW I&II	2006	3.00 - 5.00%	2027	118,860	90,875	0	8,530	82,345	12,670
KDFA Series 2008 CW I&II	2009	3.00 - 3.50%	2026	66,545	54,180	0	29,255	24,925	1,440
KDFA Series 2008 DW 1 & 2	2009	5.00%	2013	36,700	2,210	0	1,200	1,010	1,010
KDFA Series 2009 DW 1 & 2	2010	1.50 - 5.60%	2029	73,040	69,445	0	2,190	47,535	740
KDFA Series 2010 SRF 12 & 3 (CW & DW)	2011	1.68 - 5.95%	2030	213,950	213,950	0	3,390	210,560	6,680
KDFA Series 2011 SRF DW 1 & 2	2011	2.00-4.20%	2032	53,380	53,380	0	0	53,380	85
KDFA Series 2005 TR	2006	3.00 - 5.00%	2026	32,690	24,290	0	2,140	22,150	2,195
KDFA Series 2006 TR	2007	4.00 - 5.00%	2027	24,755	18,125	0	1,805	16,320	1,835
KDFA Series 2008 G	2009	4.60 - 5.05%	2023	14,200	10,415	0	1,252	9,163	1,310
KDFA Series 2009 TR	2009	2.50 - 4.78%	2028	30,950	27,495	0	2,280	25,215	2,265
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	29,313	0	6,371	22,942	0
Unamortized deferred refunding difference				0	(29,655)	0	(3,343)	(26,312)	0
Total revenue bonds payable				\$ 1,180,645	767,878	0	147,725	620,153	50,535
Arbitrage rebate payable					173	3	0	176	0
Unemployment benefits loan					170,821	4,602	170,821	4,602	4,602
Claims and judgments					221,160	74	22,000	199,234	13,338
Compensated absences					73	0	5	68	54
Other post employment benefits					300	91	48	343	0
Other					17,597	28	532	17,093	0
Total Business-type Activities				\$ 1,178,002	\$ 4,798	\$ 34,131	\$ 84,169	\$ 68,529	

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Component Units	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2011 Beginning Balance	Additions	Deletions	6/30/2012 Ending Balance	Amounts Due In One Year
<b>Revenue bonds payable:</b>									
KDFA Series 1997 G-1	1998	5.05%	2012	\$ 626	\$ 1,234	\$ 16	\$ 1,250	\$ 0	\$ 0
KDFA Series 1999 A-1	1999	3.20 - 5.00%	2012	17,510	3,300	0	3,300	0	0
KDFA Series 1999 C	1999	4.00 - 5.10%	2012	3,085	1,750	0	1,750	0	0
KDFA Series 1999 H	2000	3.75 - 5.20%	2012	17,830	835	0	835	0	0
KDFA Series 2001 B	2001	3.65 - 5.20%	2021	2,805	1,730	0	140	1,590	145
KDFA Series 2001 D	2001	4.25 - 5.25%	2021	48,895	30,505	0	2,400	28,105	2,520
KDFA Series 2001 F	2001	3.30 - 5.50%	2012	29,905	3,920	0	3,920	0	0
KDFA Series 2001 J	2002	3.50 - 4.30%	2013	5,300	695	0	460	235	235
KDFA Series 2001 N	2001	4.25 - 5.25%	2014	7,230	2,135	0	655	1,480	1,330
KDFA Series 2001 S	2002	4.13 - 5.50%	2016	15,095	2,065	0	755	1,310	300
KDFA Series 2001 W-1,3,4 & 5	2002	3.00 - 5.00%	2022	44,470	16,500	0	1,970	14,530	3,020
KDFA Series 2002 A-1 & A-2	2002	3.50 - 5.00%	2014	26,560	8,185	0	7,540	645	315
KDFA Series 2002 C	2002	3.00 - 5.00%	2022	15,830	10,660	0	760	9,900	795
KDFA Series 2002 H	2003	2.50 - 4.70%	2022	3,765	2,380	0	175	2,205	185
KDFA Series 2002 K	2003	4.30%	2012	5,120	1,775	0	1,775	0	0
KDFA Series 2002 N-1,3 & N-2	2003	3.00 - 5.25%	2018	52,075	8,955	0	2,415	6,540	2,540
KDFA Series 2002 P	2003	3.00 - 5.00%	2021	12,150	8,135	0	8,135	0	0
KDFA Series 2003 A-1 & A-2	2003	1.80 - 5.50%	2023	2,610	1,840	0	115	1,725	120
KDFA Series 2003 C	2003	4.67 - 5.00%	2033	72,670	60,890	0	58,585	2,305	0
KDFA Series 2003 D-2	2003	2.00 - 4.70%	2028	1,150	655	0	70	585	70
KDFA Series 2003 J-1	2004	2.00 - 5.25%	2064	34,100	25,895	0	19,665	6,230	1,450
KDFA Series 2004 D	2005	3.00 - 4.75%	2020	1,195	885	0	90	795	90
KDFA Series 2004 F	2005	2.00 - 5.25%	2012	44,860	9,500	0	9,500	0	0
KDFA Series 2004 G-1	2005	2.50 - 5.13%	2024	19,795	14,265	0	845	13,420	875
KDFA Series 2005 A	2005	3.00 - 5.00%	2035	44,535	40,065	0	975	39,090	1010
KDFA Series 2005 D	2005	3.79 - 5.18%	2022	66,530	37,595	0	5,200	32,395	5,440
KDFA Series 2005 E-1 & E-2	2005	3.00 - 5.00%	2030	19,360	16,815	0	585	16,230	610
KDFA Series 2005 F	2006	3.25 - 4.40%	2026	8,930	7,825	0	400	7,425	400
KDFA Series 2005 G	2006	3.30 - 4.60%	2026	7,205	6,575	0	330	6,245	340
KDFA Series 2006 B	2006	3.50 - 4.13%	2021	9,790	9,365	0	150	9,215	200
KDFA Series 2007 A	2007	3.75 - 4.39%	2037	27,750	25,770	0	575	25,195	600
KDFA Series 2007 E	2007	3.75 - 4.30%	2027	6,275	5,385	0	245	5,140	255
KDFA Series 2007 H	2008	3.60 - 4.50%	2037	17,855	16,810	0	375	16,435	390
KDFA Series 2007 M	2008	3.20 - 4.60%	2027	18,220	16,140	0	740	15,400	770
KDFA Series 2008 A	2008	3.00 - 4.00%	2016	20,000	12,500	0	2,500	10,000	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	19,615	0	755	18,860	780
KDFA Series 2009 C	2009	3.00 - 5.00%	2017	20,000	15,000	0	2,500	12,500	2,500
KDFA Series 2009 G	2009	2.50 - 4.75%	2024	825	730	0	45	685	45
KDFA Series 2009 H-1 & H-2	2009	2.50 - 7.30%	2035	14,630	14,630	0	380	14,250	390
KDFA Series 2009 J-1 & J-2	2009	2.50 - 7.00%	2030	4,545	4,385	0	165	4,220	165
KDFA Series 2009 K-1 & K-2	2010	2.63 - 5.63%	2040	6,140	6,140	0	0	6,140	110
KDFA Series 2009 M-1 & M-2	2010	3.00 - 6.31%	2030	27,150	31,650	0	5,615	26,035	1,155
KDFA Series 2010 A	2010	2.00 - 4.05%	2030	23,700	23,090	0	630	22,460	645
KDFA Series 2010 B	2010	2.50 - 3.75%	2027	21,650	21,375	0	1,075	20,300	1,125
KDFA Series 2010 D	2010	3.12%	2015	1,315	1,115	0	215	900	220
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	1,280	0	250	1,030	255
KDFA Series 2010 J	2010	0.75 - 4.45%	2030	14,765	14,170	0	565	13,605	575
KDFA Series 2010 K-1 & K-2	2010	2.00 - 6.20%	2035	15,050	13,910	0	1,140	12,770	1,125
KDFA Series 2010 M-1 & M-2	2010	2.00 - 5.10%	2026	20,990	20,990	0	1,175	19,815	1,200
KDFA Series 2010 P-1 & P-2	2011	2.00 - 5.00%	2031	15,930	15,930	0	620	15,310	630
KDFA Series 2010 U-1 & U-2	2011	1.80 - 6.20%	2029	25,180	24,625	0	660	23,965	1,805
KDFA Series 2011 C	2011	2.00 - 4.50%	2036	13,450	13,450	0	385	13,065	370
KDFA Series 2011 D-1, 2 & 3	2011	2.00 - 4.40%	2024	9,465	9,465	0	740	8,725	755
KDFA Series 2011 G	2012	0.50 - 4.13%	2041	16,300	0	16,300	710	15,590	360
KDFA Series 2012 A	2012	3.00 - 5.00%	2024	27,610	0	27,610	0	27,610	1,895
KDFA Series 2012 D	2012	2.00 - 4.50%	2029	49,200	0	49,200	155	49,045	1,580
KDFA Series 2012 H	2012	2.00 - 5.00%	2034	35,970	0	35,970	0	35,970	465
<b>Plus deferred amounts:</b>									
Net unamortized premium (discount)				0	4,880	10,910	2,324	13,466	0
Unamortized Deferred Refunding				0	(1,158)	(5,885)	(3,29)	(6,714)	0
Total Revenue Bonds Payable				\$ 1,140,711	691,971	134,121	158,955	667,137	44,655
<b>Notes payable:</b>									
Component units of university system					217,034	89,428	46,670	259,792	12,813
KDFA Bond Anticipation Note Series 2012-2					0	3,800	0	3,800	0
Total notes payable					217,034	93,228	46,670	263,592	12,813
Arbitrage rebate payable					51	0	5	46	0
Capital leases					13,616	0	1,855	11,761	1,663
Compensated absences					69,101	4,415	0	73,516	58,468
Other post employment benefits					41,794	8,812	2,528	48,078	0
Pollution remediation					3,700	0	2,500	1,200	1,200
Other					61,395	6,380	13,064	54,711	2,436
Total Component Units					\$ 1,098,662	\$ 246,956	\$ 225,577	\$ 1,120,041	\$ 121,235

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The following table presents annual debt service requirements for those long-term debts outstanding, including bonds payable on demand, at June 30, 2012, 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>						
2013	\$ 168,445	\$ 144,905	\$ 50,535	\$ 28,741	\$ 44,655	\$ 27,971
2014	168,915	137,471	54,576	26,509	42,205	26,669
2015	180,130	129,621	54,639	24,057	40,170	25,107
2016	164,745	121,656	56,420	21,437	40,870	23,492
2017	169,640	114,200	44,438	18,720	37,475	21,848
2018-2022	908,295	453,506	191,787	67,340	184,110	84,854
2023-2027	631,870	247,720	133,633	25,299	142,120	46,917
2028-2032	286,226	153,376	37,495	3,901	77,210	20,769
2033-2037	342,084	39,773	0	0	41,940	7,433
2038-2042	0	0	0	0	9,630	878
Less bonds payable on demand	(596,900)	(113,380)	0	0	0	0
Unamortized premium	65,847	0	22,942	0	13,466	0
Unamortized deferred refunding	(19,284)	0	(26,312)	0	(6,714)	0
Totals	<u>2,470,013</u>	<u>1,428,848</u>	<u>620,153</u>	<u>216,004</u>	<u>667,137</u>	<u>285,938</u>
<b>Sales tax limited obligation bonds:</b>						
2013	2,210	3,228	0	0	0	0
2014	2,155	3,155	0	0	0	0
2015	2,248	3,094	0	0	0	0
2016	2,379	3,041	0	0	0	0
2017	2,535	2,971	0	0	0	0
2018-2022	43,677	10,788	0	0	0	0
2023-2027	6,431	4,826	0	0	0	0
2028-2032	2,323	3,466	0	0	0	0
Totals	<u>63,958</u>	<u>34,569</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Notes payable:</b>						
2013	2,315	668	4,602	36	12,813	9,982
2014	734	634	0	0	16,073	10,104
2015	760	607	0	0	15,342	9,550
2016	788	579	0	0	12,473	9,884
2017	818	550	0	0	18,739	9,384
2018-2022	4,566	2,271	0	0	55,234	39,341
2023-2027	4,740	1,365	0	0	55,280	25,114
2028-2032	3,403	453	0	0	52,582	12,420
2033-2037	275	193	0	0	19,426	2,703
2038-2042	0	0	0	0	5,630	432
Totals	<u>18,399</u>	<u>7,320</u>	<u>4,602</u>	<u>36</u>	<u>263,592</u>	<u>128,914</u>
Capital leases payable	114,926	37,516	0	0	11,761	2,315
<b>Long-term debt without scheduled debt service:</b>						
Arbitrage rebate payable	136	0	176	0	46	0
Sales tax ltd oblig: accretion bonds	128,087	0	0	0	0	0
Unemployment benefits loan	0	0	0	0	0	0
Claims and judgments	88,501	0	199,234	0	0	0
Compensated absences	120,131	0	68	0	73,516	0
Other post employment benefits	51,998	0	343	0	48,078	0
Pollution remediation	69,152	0	0	0	1,200	0
Other	0	0	17,093	0	54,711	0
Totals long-term obligations	<u>\$ 3,125,301</u>	<u>\$ 1,508,253</u>	<u>\$ 841,669</u>	<u>\$ 216,040</u>	<u>\$ 1,120,041</u>	<u>\$ 417,167</u>

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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 as of June 30, 2012. 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 entire 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
2013	\$ 40,295	\$ 820	\$ 15,431	\$ 56,546
2014	45,520	758	14,148	60,426
2015	113,110	614	11,660	125,384
2016	75,100	502	8,708	84,310
2017	38,145	436	6,971	45,552
2018 - 2026	169,740	1,336	17,548	188,624
2023 - 2027	114,990	233	2,910	118,133
Total	<u>\$ 596,900</u>	<u>\$ 4,699</u>	<u>\$ 77,376</u>	<u>\$ 678,975</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 (KDFA)** 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 KDFA 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 III, Section I, Long-term Obligations, for KDFA 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 III, Section I, Long-term Obligations, 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 0.20 percent to 0.50 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, 2012, 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, 2012, 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 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 I. Long-term Obligations.

#### **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, 2012, balance sheet. K DFA's special obligation bonds at June 30, 2012, 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, 2012, balance sheet. K DFA's private activity bonds at June 30, 2012, total \$1.8 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, the Unemployment Insurance Fund 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 I, Long-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 38 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, 2012, 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, 2012 are as follows (expressed in thousands):

<u>Fiscal Year</u>	
2013	\$ 13,216
2014	12,333
2015	10,357
2016	8,896
2017	7,888
2018-2022	27,919
2023-2027	14,692
2028-2029	<u>2,128</u>
Total future minimum lease payments	<u>\$ 97,429</u>
Rent expenditures/expenses for operating leases for the year ended June 30, 2012	<u>\$ 12,707</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.

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The following schedule presents future minimum lease payments as of June 30, 2012 (expressed in thousands):

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 18,280	\$ 5,436
2014	17,708	6,149
2015	12,090	3,748
2016	4,644	2,930
2017	4,585	2,721
2018-2022	25,398	10,347
2023-2027	20,447	5,257
2028-2032	11,774	928
<b>Total</b>	<u>\$ 114,926</u>	<u>\$ 37,516</u>

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2012, include the following (expressed in thousands):

	<u>Governmental Activities</u>
Land (non-depreciable)	\$ 9,510
Buildings	87,726
Software	18,381
Equipment	29,795
Less: Accumulated depreciation	(44,427)
Total	<u>\$ 100,985</u>

**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, 2012, and changes for the fiscal year then ended are as follows (expressed in thousands):

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Bond Issue	6/30/2011 Beginning Balance	Current Year Defeased	Payments	6/30/2012 Ending Balance
<b>Governmental Activities</b>				
KDOT Series 1998	\$ 55,300	\$ 0	\$ 21,035	\$ 34,265
KDFA Series 2003 J	3,910	0	415	3,495
KDFA Series 2004 A	4,040	0	330	3,710
Total governmental activities	<u>\$ 63,250</u>	<u>\$ 0</u>	<u>\$ 21,780</u>	<u>\$ 41,470</u>

During fiscal year 2012, the governmental activity bond issue, KDFA Series 2005 N with a balance of \$12.3 million, was currently refunded by the issuance of the KDFA Series 2011 K for \$9.7 million. The current refunding resulted in an economic gain of \$884 thousand and aggregate debt service reduction of \$2.9 million.

Bond Issue	6/30/2011 Beginning Balance	Current Year Defeased	Payments	6/30/2012 Ending Balance
<b>Business-type Activities</b>				
KDFA Series 2001 I & II	\$ 36,495	\$ 0	\$ 36,495	\$ 0
KDFA Series 2002 II	71,765	0	0	71,765
KDFA Series 2002 1 & 2	37,010	0	37,010	0
KDFA Series 2004 II	13,220	0	0	13,220
KDFA Series 2004 2	46,910	44,460	0	91,370
KDFA Series 2008 CW II	11,000	27,895	0	38,895
KDFA Series 2008 DW 2	31,540	0	0	31,540
KDFA Series 2008 DW 1	0	21,345	0	21,345
Total business-type activities	<u>\$ 247,940</u>	<u>\$ 93,700</u>	<u>\$ 73,505</u>	<u>\$ 268,135</u>

The three business-type bond issues defeased in fiscal year 2012 were cash defeasances by the Water Funds. Loan principal prepayments provided the cash to refund the bonds and related costs, and escrow accounts were established with a trustee. The refunding will reduce debt service payments, including interest of \$32.9 million over the life of the debt. The refunding also resulted in a difference between the reacquisition price and net carrying amount of the refunded debt of \$8.5 million, which was expensed in full in the current year.

**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, 2012, and changes for the fiscal year then ended are as follows (expressed in thousands):

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Bond Issue	6/30/2011 Beginning Balance	Current Year Deceased	Payments	6/30/2012 Ending Balance
KDFA Series 1999 C	\$ 0	\$ 1,750	\$ 1,750	\$ 0
KDFA Series 1999 H	10,030	0	10,030	0
KDFA Series 2001 W	17,625	0	17,625	0
KDFA Series 2002 A-1&2	8,230	6,160	14,390	0
KDFA Series 2002 K	3,280	1,450	4,730	0
KDFA Series 2002 N	28,040	0	0	28,040
KDFA Series 2002 P	0	7,555	7,555	0
KDFA Series 2003 C	0	58,585	0	58,585
KDFA Series 2003 J-1	0	18,300	0	18,300
Total component units	<u>\$ 67,205</u>	<u>\$ 93,800</u>	<u>\$ 56,080</u>	<u>\$ 104,925</u>

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

Bond Issues	Amount Deceased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Service Reduction**
KDFA Series 1999 C	\$ 1,750	\$ 0	\$ 294	\$ 309
KDFA Series 2002 A-2	6,160	0	778	797
KDFA Series 2002 K	1,450	0	105	101
KDFA Series 2002 P	7,555	0	1,256	1,362
KDFA Series 2003 C	58,585	58,585	6,438	4,618
KDFA Series 2003 J-1	18,300	18,300	1,896	2,082
Total defeased	<u>\$ 93,800</u>	<u>\$ 76,885</u>	<u>\$ 10,767</u>	<u>\$ 9,269</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 \$136 thousand for Governmental Activities, \$176 thousand for Business-type Activities, and \$46 thousand for Component Units.

***Derivative Instruments***

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2012, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2012 financial statements are as follows debit (credit) (expressed in thousands):

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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 30,2012</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	\$ 8,826	Debt	\$ (38,050)	\$ 521,305
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	(9,067)	Debt	(12,842)	75,000
Basis swap	Investment revenue	(1,165)	Investment	5,290	75,000

In June 2011, the GASB issued Statement 64 an amendment of GASB Statement 53, addressing the application of hedge accounting termination provisions. GASB 64 requires for hedge accounting to cease upon the replacement of a swap counterparty or swap counterparty’s credit support provider unless the counterparty or counterparty’s credit support provider has committed or experienced an act of default or a termination event as both are described in the swap agreement. It was applicable for periods beginning after June 15, 2011. KDOT has adopted GASB 64 with this fiscal year 2012.

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 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.

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### III. Detailed Notes On All Funds

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(ii) Reduce interest expense by expected change between short and long term rates. This is the function of a swap where KDOT receives floating amounts based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which 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 the 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, 2012 (expressed in thousands):

Associated KDOT Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty
Series 2002 B & C*	\$ 200,000	\$186,891	10/23/2002	9/1/2019	3.164%	67% of USD-LIBOR	\$(20,703)	Goldman Sachs Bank USA
Series 2002 B & C*	120,005	112,139	3/1/2012	9/1/2019	3.164% Contractual; 0.8166% GASB 64 At-the-Market	67% of USD-LIBOR	(1,078)	The Bank of New York Mellon
Series 2008 A*	150,275	150,275	5/7/2012	9/1/2015	3.3590% Contractual; 0.3306% GASB 64 At-the-Market	71% USD-LIBOR	(129)	Merrill Lynch Derivative Products AG
Series 2004 C*	147,000	72,000	11/23/2004	9/1/2024	3.571%	63.5% USD-LIBOR + 0.29%	(16,140)	Goldman Sachs Bank USA
Series 2004 C**	75,000	75,000	7/1/2007	9/1/2024	3.571%	62.329% of 10 Year CMS	(12,842)	Goldman Sachs Bank USA
Series 2004 B**	75,000	75,000	7/10/2007	9/1/2024	67% of USD-LIBOR	61.56% of 10 Year CMS	5,290	JPMorgan Chase Bank N.A.
Total Termination Value							<u>\$(45,602)</u>	

\* - considered a fair value hedge

\*\* - considered an investment derivative

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### III. Detailed Notes On All Funds

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#### **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, 2012, 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 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 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.

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

*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.

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

*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

### III. Detailed Notes On All Funds

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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, 2012, 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.

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 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.



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### III. Detailed Notes On All Funds

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#### J. Revisions to Beginning Net Assets

Various adjustments were made to the beginning fund balances to correct errors in the prior year financial statements.

Various changes were made to beginning fund balance adjustment for corrections to the capital asset records. The majority of those changes were from the Department of Corrections (DOC) and KDOT as described below.

In 1990, the Department of Corrections (DOC) entered into a joint venture with Labette County. DOC agreed to seek annual appropriation of funds from the State Legislature necessary to pay the principal of and interest on the bonds financing the Labette County Facility. DOC is obligated to provide for all operation and maintenance of the Labette County Facility. In fiscal year 2012, DOC determined they needed to add the building to their capital asset records, which caused a fund balance adjustment of \$2.2 million for the building and its accumulated depreciation since 1990.

A prior period adjustment of \$15.3 million increased fund balance for Health and Environment. This change is the result of proper period analysis of revenues to Health Care Access Improvement Fund.

A prior period adjustment of \$122.6 million was recorded by KDOT to decrease the July 1, 2011 balance of infrastructure capital assets. This prior period adjustment resulted from a change in process and the availability of additional details.

The State University System, a component unit to the State, had various fund balance corrections totaling \$25.1 million. The majority of that amount, \$23.9 million, is from Kansas University Medical Center Research Institute. During fiscal year 2012, management of the Institute evaluated how it was recording amounts held as KUMC Institutional Reserves and Funds Held for Researchers under the terms of its operating agreement with KUMC. The Institute previously recorded these items as liabilities; however, while these will be primarily used for KUMC research projects or will be transferred to KUMC at some future date, there is no contractual obligation to make such payments. Such amounts are designated for purposes outlined in the operating agreement, and therefore considered to be more appropriately recorded as a component of unrestricted net assets. The net effect of this change created a \$23.9 million fund balance adjustment.

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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.

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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, 2012 (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>Current fiscal year</b>						
State Self-insurance Fund	\$ 60,760	\$ 22,341	\$ 22,041	\$ 61,060	\$ 43,194	\$ 17,866
Health and Dental Care Claims (Active Employees)						
Health and Hospitalization Fund	26,279	345,454	(346,753)	24,980	23	24,957
Post Employment Health and Dental Care Claims						
Health and Hospitalization Fund	1,758	34,860	(34,157)	2,461	2	2,459
Total	<u>\$ 88,797</u>	<u>\$ 402,655</u>	<u>\$ (358,869)</u>	<u>\$ 88,501</u>	<u>\$ 43,219</u>	<u>\$ 45,282</u>
<b>Prior fiscal year</b>						
State Self-insurance Fund	\$ 57,970	\$ 28,618	\$ (25,828)	\$ 60,760	\$ 43,514	\$ 14,246
Health and Dental Care Claims (Active Employees)						
Health and Hospitalization Fund	27,477	348,249	(349,447)	26,279	27	25,252
Post Employment Health and Dental Care Claims						
Health and Hospitalization Fund	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>\$ 41,254</u>

**Notes:**

1. Claims liability ending balance is based on Aon's BIN modeling estimates using claims lag data through June 30, 2012.
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-share loss in 2002 through 2011, and likely beyond, the total potential Non-Participating Manufacturer adjustment for all states is approximately \$6.5 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. The Office of Attorney General, in conjunction with outside counsel hired to handle the arbitration, has been an active member in multistate

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## **IV. Other Information**

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discussions, legal briefings, and arguments before the arbitration panel. The Kansas-specific arbitration proceeding began on July 30, 2012 and the formal hearing has been concluded although the record remains open. A ruling from the panel is not anticipated until the last half of 2013. There will be no potential negative impact on Kansas' MSA payments until at least 2014.

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 State is vigorously defending the case and is uncertain of the chance of loss. When a ruling arrives, an appeal will likely follow, no matter which side prevails.

The Department of Revenue (DOR) has six cases pending in regards to various taxes. Excluding the *Boles v. KDOR* case below, should all of the plaintiffs prevail, the State potential liability would be \$16.5 million.

*Boles v. KDOR*, this is a mineral severance tax case pending before Seward County District Court in which the plaintiff is seeking certification of a class action, the class being all taxpayers that have paid severance tax on helium. The plaintiff is seeking refunds of all taxes that have been paid on helium dating back to January, 1990. In addition, the plaintiff is seeking injunctive relief that would prevent KDOR from assessing severance tax on helium going forward. The amount of the claim is not stated and cannot easily be estimated but would be somewhere in excess of \$100 million if the plaintiffs were to prevail.

### ***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.

A Federal audit performed on Department of Social and Rehabilitation Services (SRS) program and reviewed fees SRS has paid in accord with state statutes to the Department of Administration for many years. The Federal auditors evaluated whether any portion of those fees have been improperly paid with federal funds. Although the audit report is not yet received, in the exit conference, SRS was informed that the claimed Federal funds were found to be ineligible for federal reimbursement because they did not comply with federal program regulations, cost principles, or they cannot be adequately supported were \$2,271,177.

### **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 2012, KCC plugged approximately 350 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 well inventory process. The fiscal year 2012 pollution remediation liability is estimated at \$40.38 million. No recoveries for these well pluggings are expected.

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## **IV. Other Information**

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### ***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 \$8.3 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 81 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 \$0.77 million which is the amount known to be budgeted in fiscal year 2012 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 imported into the State. The funds will be abolished on July 1, 2024, by the sunset provision unless reenacted by the Legislature.

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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). KDHE has approved 2,171 sites to receive reimbursement of approved costs under the AST fund identified in K.S.A. 65-34,114 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 \$16.8 million for UST Program and \$1.8 million for AST Program which represents the amounts budgeted for fiscal year 2012.

### ***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 \$0.97 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) began 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 \$1.2 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.

#### **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 Care Finance. 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 2012, non-Medicare retired plan members receiving benefits contributed \$14.4 million to the plan and the State contributed \$16.7 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):

	Primary Government	Component Units	Pension Trust	Total
Amortization of UAAL	\$ 10,452	5,164	40	\$ 15,656
Normal cost (with interest)	8,151	5,701	31	13,883
Annual required contribution	18,603	10,865	71	29,539
Interest on net OPEB obligation	1,472	1,965	9	3,446
Adjustment to ARC	(1,040)	(4,004)	(38)	(5,082)
Annual OPEB cost	19,035	8,826	42	27,903
Net employer contributions	(14,151)	(2,538)	(43)	(16,732)
Net OPEB obligation July 1, 2011	47,457	41,790	251	89,498
Net OPEB obligation June 30, 2012	\$ 52,341	\$ 48,078	\$ 250	\$ 100,669

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

Fiscal Year Ended	Annual OPEB Cost	Net Employer Contributions	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 29,481	\$ 9,374	31.80%	\$ 67,081
6/30/2011	\$ 31,833	\$ 9,416	29.58%	\$ 89,498
6/30/2012	\$ 27,903	\$ 16,732	59.96%	\$ 100,669

*Funded Status and Funding Progress.* As of June 30, 2012, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$282.6 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 \$282.6 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.03 billion, and the ratio of the UAAL to the covered payroll was 13.8 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, 2012, 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 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 \$351.97 to \$546.25 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.



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	Eligible State Retiree Participants	Eligible State Retiree and Family Participants	Enabling Legislation
Kansas Major Medical Post-Employment Benefits	7,666	8,115	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, 2012. 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 (KPERs), 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 \$6.4 billion. The State's total salaries and wages paid were approximately \$2.7 billion of which approximately \$995.7 million or approximately 36.9 percent relates to employees participating in the System. The remaining approximately 63.1 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, 2012, unless otherwise noted is as follows:

<u>Participating Employers</u>	<u>Membership</u>
KPERs	1,409
KP&F	94
Judges	1
Total	1,504

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MEMBERSHIP BY RETIREMENT SYSTEMS \*

	KPERs	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits**	76,464	4,346	215	81,025
Terminated employees entitled to benefits but not yet receiving them	14,605	199	7	14,811
Inactive members, deferred disabled	2,711	197	0	2,908
Inactive members not entitled to benefits	26,950	1,009	0	27,959
Current employees	147,647	7,143	264	155,054
Total	268,377	12,894	486	281,757

\*Represents KPERs membership at December 31, 2011.

\*\* Number of retirement payees as of December 31, 2011.

***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 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

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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. Legislation passed in 2012 again amended the statutory cap on annual increases in contribution rates. Beginning in 2014, the cap on employer contributions has been increased to 0.9 percent in fiscal year 2014, 1.0 percent in fiscal year 2015, 1.1 percent in fiscal year 2016 and 1.2 percent in fiscal year 2017 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 2010 to 2012 are as follows:

	Fiscal Year	Actuarially Required Funding Rate	Actual Contribution	Contribution as a Percentage of Required Contribution
KPERS	2012	14.09%	\$ 375,569,726	62.24%
	2011	11.30%	353,443,409	72.30%
	2010	10.98%	331,647,190	68.94%
KP&F	2012	14.44%	\$ 5,835,093	100.00% *
	2011	12.72%	3,025,190	100.00%
	2010	13.88%	3,079,214	100.00%
Judges	2012	21.28%	\$ 5,841,834	100.00%
	2011	19.49%	5,322,341	100.00%
	2010	20.50%	5,574,125	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 2012 CAFR***

The funding status of KPERS at December 31, 2011, the most recent actuarial valuation date (expressed in thousands):

Actuarial Valuation Date	Value of Assets (a)	Accrued Liability (AAL) (b)	AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
12/31/2011	\$13,379,020	\$ 22,607,170	\$9,228,150	59%	\$ 6,401,402	144%

Additional information as of the latest actuarial valuation follows:

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	KPERS	KP&F	Judges
Valuation Date	12/31/2011	12/31/2011	12/31/2011
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	21 years	21 years	21 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 2012, employees contributed approximately \$40 million. During fiscal year 2012, the 8.5 percent employer contribution totaled \$62.8 million, representing covered wages of approximately \$743 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, as well as student employees, 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 one percent death & disability).

**F. Subsequent Events**

***Bonds and Notes***

**Short-term Debt**

*Certificate of Indebtedness* – On July 2, 2012, the Pooled Money Investment Board (PMIB) issued a \$400 million Certificate of Indebtedness per K.S.A. 75-3725a. See Section III-H, Short-term Obligations, for additional information on issuance of a Certificate of Indebtedness.

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## **IV. Other Information**

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*Accrued Receivables for Ad Valorem Taxes* – In July 2012, receivables were posted to the State Treasurer’s receivables in the amount of \$28.6 million for the Kansas Educational Building Fund and \$14.3 million for the State Institutions Building Fund per K.S.A. 76-6b11. See Section III-H, Short-term Obligations, for additional information.

*Accrued Receivables for Children’s Initiatives Fund* – In July 2012, receivables were posted to the State Treasurer’s receivables for the Children’s Initiatives Fund in the amount of \$39.1 million per Senate Bill No. 294, Section 72(g), Session of 2012. See Section III-H, Short-term Obligations, for additional information.

*Accrued Receivables for Economic Development Initiatives Fund* – In July 2012, receivables were posted to the State Treasurer’s receivables for the Economic Development Initiatives Fund in the amount of \$21.3 million per Senate Bill No. 294, Section 72(h), Session of 2012.

*Accrued Receivables for Correctional Institutions’ Building Fund* – In July 2012, receivables were posted to the State Treasurer’s receivables for the Correctional Institutions’ Building Fund in the amount of \$4.0 million per Senate Bill No. 294, Section 72(i), Session of 2012.

*Accrued Receivables for Kansas Endowment for Youth Fund* – In July 2012, receivables were posted to the State Treasurer’s receivables for the Kansas Endowment for Youth Fund in the amount of \$211 thousand per Senate Bill No. 294, Section 72(j), Session of 2012.

*Accrued Receivables for Expanded Lottery Act Revenues Fund* – In July 2012, receivables were posted to the State Treasurer’s receivables for the Expanded Lottery Act Revenues Fund in the amount of \$87.7 million per Senate Bill No. 294, Section 72(s), Session of 2012.

*Bond Anticipation Note* – In January 2013, the Kansas Development Finance Authority (KDFA) issued Bond Anticipation Note Series 2013-1 for \$45.4 million to the Department of Administration for the National Bio and Agro-Defense Facility. The note is due May 1, 2013, with an interest rate of 0.5 percent.

*Revenue Bonds* – In January 2013, the Kansas Development Finance Authority (KDFA) issued Kansas Revolving Funds Revenue Bonds Series 2013SRF, for \$2.7 million to fund the State match for the State Revolving Fund. The interest rate on the bonds is variable, with the initial rate of 0.5 percent that resets each January 1<sup>st</sup> and July 1<sup>st</sup>. The bonds mature on January 29, 2014.

*Loan* – In October 2012, the Pool Money Investment Board loaned \$40 million to the Department of Labor for payment of unemployment benefits. The loan is due June 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>.

### Long-term Debt

*Revenue Bonds* – In August 2012, the Kansas Department of Transportation (KDOT) issued Highway Revenue Refunding Index Bonds Series 2012A to refund the KDOT Bond Series 2008A and pay associated issuance costs. The bonds totaled \$151.4 million with adjustable interest determined on a weekly basis at a spread to the Securities Industry and Financial Markets Association (SIFMA) index for tax-exempt variable rate issues with a 7-day maturity. Spreads to the SIFMA index range from 0.03 percent to 0.30 percent, not to exceed 10.0 percent. The bonds final maturity is on September 1, 2015. The Series 2012A bonds replaced the liquidity provider that would have expired in November 2012.

*Revenue Bonds* – In October 2012, KDOT issued Highway Revenue Refunding Bonds Series 2012B, in the amount of \$144.9 million. The purpose of these bonds was to refund \$173,765 of the callable Series 2004A bonds and to pay the costs associated with their issuance. The bonds were issued as premium bonds with interest rates of 5.0 percent with final maturity on September 1, 2022.

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*Revenue Bonds* – In December 2012, KDOT issued Highway Revenue Bonds Series 2012C, in the amount of \$200 million. The bonds were issued as premium bonds with interest rates ranging from 4.0 percent to 5.0 percent with final maturity on September 1, 2032. The proceeds generated from the sale will be used to fund the design and construction of highway infrastructure.

*Revenue Bonds* – In December 2012, the KDFA issued Revenue Bonds Series 2012F for Kansas State University to fund energy conservation measures on the Manhattan campus. The bonds totaled \$17.2 million with interest rates ranging from 2.0 to 5.0 percent. The bonds final maturity is on May 1, 2033.

*Loan* – In January 2013, the Department of Labor processed a loan draw of \$5.9 million from the federal government for funding unemployment benefits. There is no required repayment schedule and the interest rate, if any, is unknown at this time.

*Bond Anticipation Note* – In December 2012, the Kansas Development Finance Authority (KDFA) issued Bond Anticipation Note Series 2012-3 for \$9.0 million to Pittsburg State University to acquire, construct and equip improvements to the student housing system. The note is due July 1, 2014 with an initial interest rate of 0.5 percent that reset on July 1 and January 1.

### **G. Economic Condition (unaudited)**

Although the U.S. economy, fueled by a rebounding housing market and relatively strong consumer confidence, is continuing its recovery from the Great Recession, the forecast rate of growth remains slow. Uncertainty continues to exit involving the global and U.S. economies as a result of political upheavals in the Middle East, the ongoing European Union debt crisis, and the possibility of a new recession that could arise as a result of dramatic spending cuts and tax increases that will occur in 2013 (the ‘Fiscal Cliff’) in the absence of any additional action by federal policymakers. 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 2012 (the April estimate had been 3.9 percent) and 4.2 percent in 2013 (the April estimate was 4.3 percent); and nominal Kansas Gross State Product is now forecast to grow by 3.5 and 3.9 percent for the two years, respectively. Although the Congressional Budget office suggests the contractionary economic implication of the Fiscal Cliff could lead to another recession, many other forecasts are being made based on the assumption that some kind of action will be taken late in 2012 or early in 2013 to prevent this scenario. The estimates contained in this footnote for fiscal year 2013 and fiscal year 2014 are premised on this latter set of forecasts, which are believed to represent the most likely outcome.

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## IV. Other Information

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<b>Key Economic Indicators</b>			
	CY 2012	CY 2013	CY 2014
Consumer Price Index for All Urban Consumers	2.2 %	2.1 %	2.2 %
Real U.S. Gross Domestic Product	2.1	2.1	2.6
Nominal U.S. Gross Domestic Product	4.0	4.2	4.6
Nominal U.S. Personal Income	3.3	3.6	4.8
Corporate Profits before Taxes	3.0	3.0	4.0
Nominal Kansas Gross State Product	12.0	5.0	5.0
Nominal Kansas Personal Income:			
Dollars in Millions	\$120,908	\$124,777	\$129,768
<i>Percentage Change</i>	3.0 %	3.2 %	4.0 %
Nominal Kansas Disposable Income:			
Dollars in Millions	\$108,324	\$111,682	\$116,038
<i>Percentage Change</i>	2.5 %	3.1 %	3.9 %
Interest Rate for State General Fund (based on fiscal year)	0.13	0.16	.015
Kansas Unemployment Rate	5.9	5.6	5.1

### Personal Income

Kansas Personal Income (KPI) in calendar year 2012 is expected to increase by 3.0 percent above the 2011 level, down from the April estimate of 4.3 percent. The 2012 estimate would have been 0.8 percent lower if a Social Security payroll tax cut had not been extended at the federal level for 2012. The new forecast calls for additional KPI growth of 3.2 percent in 2013 (down from the 4.6 percent estimate in April) and 4.0 percent in 2014. The Social Security payroll tax cut is not expected to be extended for 2013.

### New Kansas Income Tax Law

Although additions to disposal Kansas personal income as a result of the new state income tax law for tax year 2013 will be expected in the long run to stimulate new economic activity and generate additional revenue streams that could help offset a portion of the revenue loss associated with the new law, there is no evidence that the estimates provided by the Department of Revenue at the time the legislation was enacted should be changed individual income tax, those estimates indicated receipts were to be reduced relative to the prior law by \$249.2 million in fiscal year 2013 and by \$847.8 million in fiscal year 2014.

### Employment

Data obtained from the Kansas Department of Labor (KDOL) verify that employment has continued to rebound. The most recent monthly data from the KDOL show that total Kansas non-farm private sector employment from September 2011 to September 2012 increased by about 12,400 jobs; with particularly strong growth in the professional and business sector. Two and a half years after Kansas employment bottomed out as a result of the Great Recession, 36.3 percent of the lost jobs have returned to the state (compared to 48.5 percent for the U.S. as a whole). The current average estimates used by KDOL indicate that the overall Kansas unemployment rate, which was 6.7 percent in calendar year 2011, is expected to be 5.9 percent in calendar year 2012 before further declining to

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## **IV. Other Information**

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5.6 percent in calendar year 2013. The national unemployment rate is expected to remain well above the Kansas rate, with the U.S. rate now expected to be 8.2 percent in calendar year 2012 and 7.8 percent in calendar year 2013.

### **Agriculture**

Although net farm income increased significantly in 2011, the outlook for 2012 has been significantly affected by this year's drought. Subsoil moisture supplies as of late October were rated as short or very short in 84.0 percent of the state; while topsoil moisture was short or very short in 66.0 percent of the state. Corn production has been especially hard hit, with the 2012 yield now expected to be the lowest since 1975. Of particular significance for livestock, range and pastureland conditions are now rated 79.0 percent poor or very poor, the worst since this metric was developed in 1995. The U.S. All Crops Price Index for October was 239.0 percent of the 1990-92 base, up 17 points from a year earlier. 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 \$459.1 million for fiscal year 2013. The amount that had been estimated during the 2012 Legislative Session for unemployment benefits was \$735.9 million for fiscal year 2012. From improved employment levels, KDOL has revised unemployment benefit payments down from approved levels for fiscal year 2013. Benefit payments have significantly dropped from the peak year in fiscal year 2010 of \$1,381.3 million. For fiscal year 2014, the agency estimates that benefit payments will drop to \$358.8 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 fiscal year 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 anticipated that a decision from the courts ordering action by the Legislature on the subject of school finance could be rendered within this fiscal year. It is possible that the 2013 Legislature may address the issue of school finance as the 2005 and 2006 Legislatures did. Changes to the state's tax rates for income and sales and compensating use would make it difficult for the Legislature to devote a sizable increase in state funding to schools.

### **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.



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## **IV. Other Information**

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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.

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.

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## **IV. Other Information**

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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. These ratings reflect that the State has had: historically strong governance; a low unemployment rate; a low liability for other post-employment benefits; and, its constitutional requirement that budgeted expenditures be limited to available funds from current revenues and available reserves.

### **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* in budgeting. 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, K.S.A. 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.

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## IV. Other Information

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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 fiscal year 2014 is \$5.46 billion, which is subject to revision in April 2013.

### 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 fiscal year 2003, the allotment system had not been used for 30 years; however, the Governor imposed two rounds of allotments that year. In fiscal year 2009, the Governor imposed one allotment and two rounds were imposed for fiscal year 2010 to bring General Fund expenditures in balance with anticipated revenues. In fiscal year 2011, the current Governor imposed one targeted allotment, totaling \$72 million. It is not anticipated that any allotment will be required in fiscal year 2013. Adequate 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 \$964 million increase in the unfunded actuarial liability (UAL), decreasing the funded ratio to 5.9 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 \$1,123 million. If the State were to record the unfunded liability amount, the net assets in governmental funds would decrease by \$1,052.5 million and the business-type funds would decrease by \$70.5 million as shown below (expressed in thousands):

	Governmental Activities	Business-Type Activities
Net assets as reported in the		
Government-wide statements	\$ 10,486,408	\$ 700,611
KPERS unfunded liability	(1,052,475)	(70,525)
Total	\$ 9,433,933	\$ 630,086

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## **IV. Other Information**

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### **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, 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, 2012

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual**  
*General Fund*  
**For the Fiscal Year Ended June 30, 2012**  
*(expressed in thousands)*

	Budgeted Amounts		Amounts Budgetary Basis	Final Budget - Over (Under)
	Original	Final		
<b>Revenues and other financing sources:</b>				
Property tax	\$ 27,000	\$ 23,000	\$ 24,817	\$ 1,817
Income and inheritance tax	2,974,368	3,229,000	3,219,039	(9,961)
State sales tax	2,085,264	2,120,000	2,136,353	16,353
Consumer's and retailer's compensating use tax	300,550	330,000	325,339	(4,661)
Tobacco and liquor taxes	186,850	188,400	192,654	4,254
Severance taxes	107,700	108,700	107,253	(1,447)
Insurance premiums taxes	133,000	142,000	143,180	1,180
Other taxes	10,000	12,500	6,039	(6,461)
Investment earnings	12,996	10,400	8,495	(1,905)
Transfers	158,900	182,196	183,399	1,203
Charges for services, other revenues and financing sources	49,401	59,800	67,878	8,078
Total revenues and other financing sources	<u>6,046,029</u>	<u>6,405,996</u>	<u>6,414,446</u>	<u>8,450</u>
<b>Expenditures and other financing uses:</b>				
Current:				
General government	287,975	805,609	803,957	1,652
Human resources	951,157	940,862	932,053	8,809
Education	3,841,062	3,844,537	3,839,567	4,970
Public safety	405,064	409,491	394,455	15,036
Agriculture and natural resources	19,316	19,313	19,313	0
Health and environment	621,030	108,367	107,389	978
Total expenditures and other financing uses	<u>6,125,604</u>	<u>6,128,179</u>	<u>6,096,734</u>	<u>31,445</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(79,575)</u>	<u>277,817</u>	<u>317,712</u>	<u>\$ 39,895</u>
Fund balances, beginning of year	194,383	194,383	194,383	
Adjustment for released encumbrances	0	0	1,202	
Fund balances, end of year	<u>\$ 114,808</u>	<u>\$ 472,200</u>	<u>\$ 513,297</u>	

State of Kansas  
**Required Supplementary Information**  
June 30, 2012

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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, 2012**  
*(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	\$ 317,712
Current year encumbrances are reported as expenditures for budgetary reporting purposes	22,128
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(19,038)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(388,926)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>459,310</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 391,186</u></u>



State of Kansas  
**Required Supplementary Information**  
June 30, 2012

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual**  
*Social and Rehabilitation Fund*  
**For the Fiscal Year Ended June 30, 2012**  
*(expressed in thousands)*

	Budgeted Amounts		Amounts Budgetary Basis	Final Budget - Over (Under)
	Original	Final		
<b>Revenues and other financing sources:</b>				
Tobacco and liquor taxes	\$ 2,650	\$ 2,650	\$ 2,910	\$ 260
Operating grants	395,950	401,419	833,076	431,657
Investment earnings	4	13	24	11
Transfers	813,335	923,189	782,670	(140,519)
Charges for services, other revenues and financing sources	97,225	113,556	129,749	16,193
Total revenues and other financing sources	<u>1,309,164</u>	<u>1,440,827</u>	<u>1,748,429</u>	<u>307,602</u>
<b>Expenditures and other financing uses:</b>				
Current:				
Human resources	1,747,910	1,747,910	1,747,910	0
Total expenditures and other financing uses	<u>1,747,910</u>	<u>1,747,910</u>	<u>1,747,910</u>	<u>0</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (438,746)</u>	<u>\$ (307,083)</u>	<u>\$ 519</u>	<u>\$ 307,602</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2012

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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, 2012**  
*(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	\$ 519
Current year encumbrances are reported as expenditures for budgetary reporting purposes	22,409
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(20,426)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	21,083
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>(23,012)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u>\$ 573</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2012

**Schedule of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual**  
*Transportation Fund*  
**For the Year Ended June 30, 2012**  
*(expressed in thousands)*

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues:</b>				
Motor fuel taxes	\$ 285,665	\$ 283,334	\$ 286,202	\$ 2,868
Vehicle registrations and permits	180,908	181,367	178,174	(3,193)
Intergovernmental	457,570	465,807	479,476	13,669
Sales and use taxes	298,916	311,015	312,514	1,499
Investment earnings	8,448	276	166	(110)
Other	8,115	12,372	20,744	8,372
Transfers from other state funds	176,441	265,879	174,514	(91,365)
Total revenues	<u>1,416,063</u>	<u>1,520,050</u>	<u>1,451,790</u>	<u>(68,260)</u>
<b>Expenditures, with legal limits:</b>				
Current operating:				
Maintenance	152,588	155,038	134,469	20,569
Construction	73,733	74,483	68,381	6,102
Local support	8,570	8,557	7,151	1,406
Management	64,846	63,662	55,674	7,988
Transfers to other state funds	307,587	307,587	307,587	0
Expenditures with legal limits	<u>607,324</u>	<u>609,327</u>	<u>573,262</u>	<u>36,065</u>
<b>Expenditures, without legal limits:</b>				
Current operating:				
Maintenance	589	499	527	(28)
Local support	767,693	925,883	754,256	171,627
Management	18,598	28,458	23,552	4,906
Capital improvements	846	884	32,026	(31,142)
Transfers to other state funds	1,877	1,877	2,252	(375)
Expenditures without legal limits	<u>789,603</u>	<u>957,601</u>	<u>812,613</u>	<u>144,988</u>
Total expenditures	<u>1,396,927</u>	<u>1,566,928</u>	<u>1,385,875</u>	<u>181,053</u>
Excess (deficiency) of revenues over expenditures	<u>19,136</u>	<u>(46,878)</u>	<u>65,915</u>	<u>112,793</u>
<b>Other financing sources (uses):</b>				
Transfers-out	(192,166)	(39,199)	(39,155)	44
Total other financing sources (uses)	<u>(192,166)</u>	<u>(39,199)</u>	<u>(39,155)</u>	<u>44</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (173,030)</u>	<u>\$ (86,077)</u>	<u>\$ 26,760</u>	<u>\$ 112,837</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2012

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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, 2012**  
*(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	\$ 26,760
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	(175,172)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	523,205
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	<u>(520,971)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u>\$ (146,178)</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2012

**Schedule of Revenue, Expenditures, and  
Changes in Fund Balances - Budget and Actual  
Health and Environment Fund  
For the Fiscal Year Ended June 30, 2012  
(expressed in thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues and Other Financing Sources:</b>				
Other taxes	\$ 0	\$ 0	\$ 1,553	\$ 1,553
Operating grants	1,090,578	1,090,578	1,859,511	768,933
Investment earnings	0	0	33	33
Transfers	15,681	20,337	23,034	2,697
Charges for services, other revenues & financing sources	123,993	123,111	276,447	153,336
Total revenues and other financing sources	<u>1,230,252</u>	<u>1,234,026</u>	<u>2,160,578</u>	<u>926,552</u>
<b>Expenditures and Other Financing Uses:</b>				
Current:				
Health and environment	2,078,002	2,078,002	2,078,002	0
Total expenditures and other financing uses	<u>2,078,002</u>	<u>2,078,002</u>	<u>2,078,002</u>	<u>0</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (847,750)</u>	<u>\$ (843,976)</u>	<u>\$ 82,576</u>	<u>\$ 926,552</u>

State of Kansas  
**Required Supplementary Information**  
June 30, 2012

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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 and Environment Fund* For the Fiscal Year Ended June 30, 2012**  
*(expressed in thousands)*

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	<u>Health and Environment Fund</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ 82,576
Current year encumbrances are reported as expenditures for budgetary reporting purposes	45,298
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(42,552)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	796,101
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>(835,904)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 45,519</u></u>

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

**Roadway Pavement**

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

KDOT has goals to maintain these systems at levels higher than the minimum acceptable condition. The cost to repair or replace deteriorated pavement far exceeds the cost to maintain pavement that is already in good condition, so maintaining pavement at levels above minimum acceptable condition requires a pavement management strategy that accounts for life-cycle costs. In fiscal year 2012, KDOT decided to raise the minimum acceptable condition level to be more in line with its goals. KDOT has redefined the minimum acceptable condition level as having at least 85 percent of the interstate miles in PL-1 and at least 80 percent of the non-interstate miles in PL-1. The following table compares the minimum acceptable condition level with the actual condition for the current and prior years.

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum Acceptable Condition	Actual Condition	Minimum Acceptable Condition	Actual Condition
	Level*	Level*	Level*	Level*
2010	80	97	75	86
2011	80	96	75	84
2012	85	98	80	83

\*Percent of miles in PL-1

KDOT's goal is to continually maintain and improve the condition of the State Highway System. To achieve this goal it is necessary to perform maintenance activities and replace those assets that can no longer be economically maintained. KDOT concentrates resources on items that are measured. To maintain the Interstate Highways at or above the stated minimum condition level it is estimated that annual preservation and replacement expenditures must exceed \$84 million in fiscal year 2012. 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 \$208 million in fiscal year 2012. The estimated expenditure amounts are based on the projected T-WORKS program funding levels for preservation that are anticipated to be needed to maintain the system. The actual expenses are based on these project expenditures during the fiscal year. The following table compares the estimated expenditures needed to maintain the system at a minimum acceptable condition level with actual amounts spent for the current and prior years (expressed in thousands).

State of Kansas  
**Required Supplementary Information**  
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Fiscal Year	Interstate Highways		Non-interstate Highways	
	Minimum Acceptable Condition Level	Actual Expenses	Minimum Acceptable Condition Level	Actual Expenses
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
2012	84,000	81,893	208,000	244,733

**Bridges**

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

Prior to 2012, the metric was the average health index of the entire system. In 2012, the bridge Performance Measure for KDOT was changed. The current metric is the percent of state-owned bridges in Good Condition, with the condition state of a bridge being defined as follows:

- Good Condition: BHI ≥ 85
- Fair Condition: 70 ≤ BHI < 85
- Deteriorated Condition: BHI < 70

KDOT’s goal is to maintain the bridge system at a higher level. In fiscal year 2012, KDOT realigned the minimum health index level to be closer to its goals. The minimum acceptable health index has been redefined to an overall state-wide health index of 85 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.

Fiscal Year	Minimum Acceptable Health Index	Actual Health Index
2010	80	94
2011	80	94
2012	85	95

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 \$73 million for fiscal year 2012. 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).



State of Kansas  
**Required Supplementary Information**  
June 30, 2012

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Fiscal Year	Minimum Acceptable Health Index	Actual Expenses
2008	\$ 75,000	\$ 72,941
2009	75,000	50,992
2010	75,000	29,219
2011	75,000	69,620
2012	73,000	44,156

**OPEB Schedule of Funding Progress**  
(expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Accrued Liability (AAL) ( b )	Unfunded AAL ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	Percent of Covered Payroll ((b-a)/c)
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%
6/30/2012	0	282,586	282,586	0%	2,032,592	13.90%

**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  
Highway Patrol  
Historical Society  
Labor  
Commerce  
Insurance  
Judicial  
State Library  
Revenue  
Education  
Secretary of State  
State Treasurer  
Wildlife, Parks and Tourism  
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, 2012

**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2012**

*(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	\$ 54,858	\$ 7,147	\$ 15,518
Investments	0	0	0
Receivables, net	9,903	1,667	0
Due from other funds	0	0	0
Inventories	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>\$ 64,761</b>	<b>\$ 8,814</b>	<b>\$ 15,518</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 8,259	\$ 1,255	\$ 3,115
Due to other funds	0	0	0
Deferred revenue	0	0	0
Advances from other funds	0	192	0
<b>Total liabilities</b>	<b>8,259</b>	<b>1,447</b>	<b>3,115</b>
Fund balances:			
<b>Nonspendable:</b>			
Long-term receivables	0	0	0
Inventory	0	0	0
<b>Restricted for:</b>			
Capital projects	0	0	0
Debt service	0	0	0
General government	43,935	0	0
Human resources	2,202	0	12,403
Education	22	0	0
Public safety	7,049	7,367	0
Agriculture and natural resources	3,294	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>Unassigned</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fund balances</b>	<b>56,502</b>	<b>7,367</b>	<b>12,403</b>
<b>Total liabilities and fund balances</b>	<b>\$ 64,761</b>	<b>\$ 8,814</b>	<b>\$ 15,518</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2012**

*(expressed in thousands)*

	Special Revenue Funds		
	Adjutant General	Agriculture	Attorney General
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,981	\$ 12,689	\$ 24,267
Investments	0	0	0
Receivables, net	8,836	1,912	122
Due from other funds	0	0	0
Inventories	0	3	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>\$ 15,817</b>	<b>\$ 14,604</b>	<b>\$ 24,389</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 5,970	\$ 1,806	\$ 3,088
Due to other funds	0	0	0
Deferred revenue	0	0	0
Advances from other funds	0	0	0
<b>Total liabilities</b>	<b>5,970</b>	<b>1,806</b>	<b>3,088</b>
Fund balances:			
<b>Nonspendable:</b>			
Long-term receivables	0	0	0
Inventory	0	3	0
<b>Restricted for:</b>			
Capital projects	0	0	0
Debt service	0	0	0
General government	0	0	16,638
Human resources	0	0	0
Education	0	0	0
Public safety	9,847	0	4,663
Agriculture and natural resources	0	12,795	0
Highways and other transportation	0	0	0
Health and environment	0	0	0
<b>Assigned to:</b>			
Debt service	0	0	0
<b>Unassigned</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fund balances</b>	<b>9,847</b>	<b>12,798</b>	<b>21,301</b>
<b>Total liabilities and fund balances</b>	<b>\$ 15,817</b>	<b>\$ 14,604</b>	<b>\$ 24,389</b>

State of Kansas  
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**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2012**

*(expressed in thousands)*

	Special Revenue Funds		
	Administration	Highway Patrol	Historical Society
<b>ASSETS</b>			
Cash and cash equivalents	\$ 14,879	\$ 19,385	\$ 5,600
Investments	0	0	0
Receivables, net	40	910	421
Due from other funds	0	0	0
Inventories	0	0	0
Advances to other funds	0	0	0
Restricted cash and cash equivalents	0	0	0
Restricted investments	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total assets</b>	<u>\$ 14,919</u>	<u>\$ 20,295</u>	<u>\$ 6,021</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 3,299	\$ 5,757	\$ 213
Due to other funds	0	0	0
Deferred revenue	0	0	0
Advances from other funds	0	0	0
	<u>3,299</u>	<u>5,757</u>	<u>213</u>
Fund balances:			
<b>Nonspendable:</b>			
Long-term receivables	0	0	0
Inventory	0	0	0
<b>Restricted for:</b>			
Capital projects	0	0	0
Debt service	0	0	0
General government	11,620	0	0
Human resources	0	0	0
Education	0	0	5,808
Public safety	0	14,538	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>Unassigned</b>	0	0	0
	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total fund balances</b>	<u>11,620</u>	<u>14,538</u>	<u>5,808</u>
<b>Total liabilities and fund balances</b>	<u>\$ 14,919</u>	<u>\$ 20,295</u>	<u>\$ 6,021</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2012**

*(expressed in thousands)*

	Special Revenue Funds			
	Labor	Commerce	Insurance	Judicial
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,910	\$ 187,355	\$ 22,166	\$ 14,853
Investments	0	0	0	0
Receivables, net	82	3,225	2	189
Due from other funds	0	0	0	0
Inventories	0	1	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	71	0	0
Restricted investments	0	19,455	0	0
<b>Total assets</b>	<b>\$ 11,992</b>	<b>\$ 210,107</b>	<b>\$ 22,168</b>	<b>\$ 15,042</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 1,880	\$ 3,636	\$ 1,330	\$ 2,536
Due to other funds	19	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
<b>Total liabilities</b>	<b>1,899</b>	<b>3,636</b>	<b>1,330</b>	<b>2,536</b>
Fund balances:				
<b>Nonspendable:</b>				
Long-term receivables	0	0	0	0
Inventory	0	1	0	0
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	0	0	0	0
General government	0	206,470	20,838	12,506
Human resources	10,093	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>Unassigned</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fund balances</b>	<b>10,093</b>	<b>206,471</b>	<b>20,838</b>	<b>12,506</b>
<b>Total liabilities and fund balances</b>	<b>\$ 11,992</b>	<b>\$ 210,107</b>	<b>\$ 22,168</b>	<b>\$ 15,042</b>



State of Kansas  
**Other Supplementary Information**  
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**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2012**

*(expressed in thousands)*

	Special Revenue Funds			
	State Library	Revenue	Education	Secretary of State
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,274	\$ 27,326	\$ 6,683	\$ 9,561
Investments	0	0	0	0
Receivables, net	0	10	3,493	1
Due from other funds	0	0	0	0
Inventories	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>\$ 1,274</b>	<b>\$ 27,336</b>	<b>\$ 10,176</b>	<b>\$ 9,562</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 17	\$ 3,941	\$ 1,594	\$ 509
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>17</b>	<b>3,941</b>	<b>1,594</b>	<b>509</b>
Fund balances:				
<b>Nonspendable:</b>				
Long-term receivables	0	0	0	0
Inventory	0	0	0	0
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	0	0	0	0
General government	0	23,395	0	9,053
Human resources	0	0	0	0
Education	1,257	0	8,582	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>Unassigned</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fund balances</b>	<b>1,257</b>	<b>23,395</b>	<b>8,582</b>	<b>9,053</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,274</b>	<b>\$ 27,336</b>	<b>\$ 10,176</b>	<b>\$ 9,562</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2012**

*(expressed in thousands)*

	Special Revenue Funds			
	State Treasurer	Wildlife, Parks and Tourism	Executive	Legislative
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,805	\$ 31,931	\$ 3,023	\$ 58
Investments	0	0	0	0
Receivables, net	0	361	340	0
Due from other funds	17,051	0	0	0
Inventories	0	0	0	0
Advances to other funds	63,802	0	0	0
Restricted cash and cash equivalents	0	1,923	0	0
Restricted investments	0	0	0	0
<b>Total assets</b>	<b>\$ 84,658</b>	<b>\$ 34,215</b>	<b>\$ 3,363</b>	<b>\$ 58</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 81,117	\$ 6,245	\$ 839	\$ 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>81,117</b>	<b>6,245</b>	<b>839</b>	<b>0</b>
Fund balances:				
<b>Nonspendable:</b>				
Long-term receivables	0	0	0	0
Inventory	0	0	0	0
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	0	0	0	0
General government	3,541	0	2,524	58
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	27,970	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>Unassigned</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fund balances</b>	<b>3,541</b>	<b>27,970</b>	<b>2,524</b>	<b>58</b>
<b>Total liabilities and fund balances</b>	<b>\$ 84,658</b>	<b>\$ 34,215</b>	<b>\$ 3,363</b>	<b>\$ 58</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2012**

*(expressed in thousands)*

	Special Revenue Funds		
	Transportation Special Revenue	State Water Plan	Peace Officer Training
<b>ASSETS</b>			
Cash and cash equivalents	\$ 20,795	\$ 9,059	\$ 619
Investments	0	0	0
Receivables, net	7,823	3,264	0
Due from other funds	0	0	0
Inventories	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>\$ 28,618</b>	<b>\$ 12,323</b>	<b>\$ 619</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 3,037	\$ 875	\$ 27
Due to other funds	0	0	0
Deferred revenue	0	1,519	0
Advances from other funds	0	0	0
<b>Total liabilities</b>	<b>3,037</b>	<b>2,394</b>	<b>27</b>
Fund balances:			
<b>Nonspendable</b>			
Long-term receivables	6,275	0	0
Inventory	0	0	0
<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	592
Agriculture and natural resources	0	9,929	0
Highways and other transportation	19,306	0	0
Health and environment	0	0	0
<b>Assigned to:</b>			
Debt service	0	0	0
<b>Unassigned</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fund balances</b>	<b>25,581</b>	<b>9,929</b>	<b>592</b>
<b>Total liabilities and fund balances</b>	<b>\$ 28,618</b>	<b>\$ 12,323</b>	<b>\$ 619</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2012**

*(expressed in thousands)*

	Capital Projects Funds		
	State Buildings (Appropriated)	Capitol Complex Buildings	State Library
<b>ASSETS</b>			
Cash and cash equivalents	\$ 29,622	\$ 4	\$ 176
Investments	0	0	0
Receivables, net	0	0	0
Due from other funds	0	0	0
Inventories	0	0	0
Advances to other funds	0	0	0
Restricted cash and cash equivalents	0	40,502	0
Restricted investments	0	0	0
<b>Total assets</b>	<b>\$ 29,622</b>	<b>\$ 40,506</b>	<b>\$ 176</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 709	\$ 1,930	\$ 11
Due to other funds	0	0	0
Deferred revenue	0	0	0
Advances from other funds	0	0	0
<b>Total liabilities</b>	<b>709</b>	<b>1,930</b>	<b>11</b>
Fund balances:			
<b>Nonspendable:</b>			
Long-term receivable	0	0	0
Inventory	0	0	0
<b>Restricted for:</b>			
Capital projects	28,913	38,576	165
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>Unassigned</b>	0	0	0
<b>Total fund balances</b>	<b>28,913</b>	<b>38,576</b>	<b>165</b>
<b>Total liabilities and fund balances</b>	<b>\$ 29,622</b>	<b>\$ 40,506</b>	<b>\$ 176</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2012**

*(expressed in thousands)*

Debt Service Funds				
	Master Lease Program	Corrections	Pooled Funds	Armories
<b>ASSETS</b>				
Cash and cash equivalents	\$ 4,498	\$ 0	\$ 0	\$ 0
Investments	0	0	0	0
Receivables, net	25,943	0	0	(22)
Due from other funds	3,676	0	0	0
Inventories	0	0	0	0
Advances to other funds	7,010	0	0	0
Restricted cash and cash equivalents	0	49	62	1,794
Restricted investments	0	0	0	0
<b>Total assets</b>	<b>\$ 41,127</b>	<b>\$ 49</b>	<b>\$ 62</b>	<b>\$ 1,772</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 2	\$ 14	\$ 0	\$ 855
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>2</b>	<b>14</b>	<b>0</b>	<b>855</b>
Fund balances:				
<b>Nonspendable:</b>				
Long-term receivables	0	0	0	0
Inventory	0	0	0	0
<b>Restricted for:</b>				
Capital projects	0	0	0	0
Debt service	41,125	35	62	917
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
<b>Unassigned</b>	0	0	0	0
<b>Total fund balances</b>	<b>41,125</b>	<b>35</b>	<b>62</b>	<b>917</b>
<b>Total liabilities and fund balances</b>	<b>\$ 41,127</b>	<b>\$ 49</b>	<b>\$ 62</b>	<b>\$ 1,772</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Balance Sheet - Nonmajor Governmental Funds - Continued**  
**June 30, 2012**

*(expressed in thousands)*

	Debt Service Funds		
	Public Broadcasting Digital	Vital Statistics Project	Labor
<b>ASSETS</b>			
Cash and cash equivalents	\$ 0	\$ 0	\$ 0
Investments	0	0	0
Receivables, net	0	0	0
Due from other funds	0	0	0
Inventories	0	0	0
Advances to other funds	0	0	7
Restricted cash and cash equivalents	12	1	0
Restricted investments	0	0	0
<b>Total assets</b>	<b>\$ 12</b>	<b>\$ 1</b>	<b>\$ 7</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and other liabilities	\$ 0	\$ 0	\$ 0
Due to other funds	0	0	0
Deferred revenue	0	0	0
Advances from other funds	0	0	0
Total liabilities	0	0	0
Fund balances:			
<b>Nonspendable:</b>			
Long-term receivables	0	0	0
Inventory	0	0	0
<b>Restricted for:</b>			
Capital projects	0	0	0
Debt service	12	1	7
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>Unassigned</b>	0	0	0
Total fund balances	12	1	7
<b>Total liabilities and fund balances</b>	<b>\$ 12</b>	<b>\$ 1</b>	<b>\$ 7</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Balance Sheet - Nonmajor Governmental Funds - Concluded**  
**June 30, 2012**

*(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	\$ (6,431)	\$ 546,042
Investments	0	37,993	0	37,993
Receivables, net	0	7	0	68,529
Due from other funds	0	0	0	20,727
Inventories	0	0	0	4
Advances to other funds	0	0	47,002	70,812
Restricted cash and cash equivalents	106	76,544	0	161,642
Restricted investments	0	0	0	19,455
<b>Total assets</b>	<b>\$ 106</b>	<b>\$ 114,544</b>	<b>\$ 40,571</b>	<b>\$ 925,204</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and other liabilities	\$ 0	\$ 677	\$ 0	\$ 144,543
Due to other funds	0	0	0	19
Deferred revenue	0	0	0	1,519
Advances from other funds	0	0	0	192
<b>Total liabilities</b>	<b>0</b>	<b>677</b>	<b>0</b>	<b>146,273</b>
Fund balances:				
<b>Nonspendable:</b>				
Long-term receivables	0	0	0	6,275
Inventory	0	0	0	4
<b>Restricted for:</b>				
Capital projects	0	0	0	67,654
Debt service	106	0	40,571	82,836
General government	0	0	0	350,578
Human resources	0	0	0	24,698
Education	0	0	0	15,669
Public safety	0	0	0	44,056
Agriculture and natural resources	0	0	0	53,988
Highways and other transportation	0	0	0	19,306
Health and environment	0	0	0	0
<b>Assigned to:</b>				
Debt service	0	113,867	0	113,867
<b>Unassigned</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total fund balances</b>	<b>106</b>	<b>113,867</b>	<b>40,571</b>	<b>778,931</b>
<b>Total liabilities and fund balances</b>	<b>\$ 106</b>	<b>\$ 114,544</b>	<b>\$ 40,571</b>	<b>\$ 925,204</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds  
For the Fiscal Year Ended June 30, 2012**  
*(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	0	0	0
Gross receipts tax	5,881	0	0
Charges for services	91,914	16,703	57,966
Operating grants	34,176	1,945	0
Investment earnings	7	1	19
Other revenues	9,225	2,587	39
<b>Total revenues</b>	<u>141,203</u>	<u>21,236</u>	<u>58,024</u>
<b>EXPENDITURES</b>			
Current:			
General government	71,298	0	0
Human resources	12,477	0	35,817
Education	16	0	12,037
Public safety	6,000	27,014	0
Agriculture and natural resources	7,058	0	0
Highways and other transportation	0	0	0
Health and environment	0	0	9,188
Debt service:			
Principal	4,550	460	0
Interest	1,720	31	0
<b>Total expenditures</b>	<u>103,119</u>	<u>27,505</u>	<u>57,042</u>
<b>Excess of revenues over (under) expenditures</b>	<u>38,084</u>	<u>(6,269)</u>	<u>982</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of debt	0	0	0
Transfers, net	(29,807)	7,347	6,214
<b>Total other financing sources (uses)</b>	<u>(29,807)</u>	<u>7,347</u>	<u>6,214</u>
<b>Net change in fund balances</b>	8,277	1,078	7,196
<b>Fund balances, beginning of year</b>	<u>48,225</u>	<u>6,289</u>	<u>5,207</u>
<b>Fund balances, end of year</b>	<u>\$ 56,502</u>	<u>\$ 7,367</u>	<u>\$ 12,403</u>



State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2012**

*(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	8	16,918	21,566
Operating grants	112,264	7,687	7,464
Investment earnings	0	1	1
Other revenues	34	2,586	3,650
<b>Total revenues</b>	<u>112,306</u>	<u>27,192</u>	<u>32,681</u>
<b>EXPENDITURES</b>			
Current:			
General government	0	0	19,498
Human resources	0	0	0
Education	0	0	0
Public safety	123,044	0	14,049
Agriculture and natural resources	0	25,575	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>123,044</u>	<u>25,575</u>	<u>33,547</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(10,738)</u>	<u>1,617</u>	<u>(866)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of debt	0	0	0
Transfers, net	13,019	6,540	4,633
<b>Total other financing sources (uses)</b>	<u>13,019</u>	<u>6,540</u>	<u>4,633</u>
<b>Net change in fund balances</b>	2,281	8,157	3,767
<b>Fund balances, beginning of year</b>	<u>7,566</u>	<u>4,641</u>	<u>17,534</u>
<b>Fund balances, end of year</b>	<u>\$ 9,847</u>	<u>\$ 12,798</u>	<u>\$ 21,301</u>

State of Kansas  
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June 30, 2012

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2012**

*(expressed in thousands)*

	Special Revenue Funds		
	Administration	Highway Patrol	Historical Society
<b>REVENUES</b>			
Property tax	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0
Sales and excise tax	0	2,330	991
Gross receipts tax	0	0	0
Charges for services	8,081	11,287	1,536
Operating grants	396	22,925	1,029
Investment earnings	8	5	2
Other revenues	12,371	281	84
<b>Total revenues</b>	20,856	36,828	3,642
<b>EXPENDITURES</b>			
Current:			
General government	32,900	0	0
Human resources	0	0	0
Education	0	0	2,993
Public safety	0	52,103	0
Agriculture and natural resources	0	0	0
Highways and other transportation	0	0	0
Health and environment	0	0	0
Debt service:			
Principal	11,255	0	0
Interest	24,887	0	0
<b>Total expenditures</b>	69,042	52,103	2,993
<b>Excess of revenues over (under) expenditures</b>	(48,186)	(15,275)	649
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of debt	0	0	0
Transfers, net	38,746	13,492	35
<b>Total other financing sources (uses)</b>	38,746	13,492	35
<b>Net change in fund balances</b>	(9,440)	(1,783)	684
<b>Fund balances, beginning of year</b>	21,060	16,321	5,124
<b>Fund balances, end of year</b>	\$ 11,620	\$ 14,538	\$ 5,808

State of Kansas  
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**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2012**  
*(expressed in thousands)*

	Special Revenue Funds			
	Labor	Commerce	Insurance	Judicial
<b>REVENUES</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	25,766	0	0
Sales and excise tax	0	0	0	0
Gross receipts tax	0	42	12,739	0
Charges for services	1,597	290	11,852	24,458
Operating grants	23,352	51,966	52	720
Investment earnings	0	764	0	3
Other revenues	13,271	6,795	61	2,027
<b>Total revenues</b>	<u>38,220</u>	<u>85,623</u>	<u>24,704</u>	<u>27,208</u>
<b>EXPENDITURES</b>				
Current:				
General government	0	120,816	20,504	26,984
Human resources	34,097	0	0	0
Education	0	3,791	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	30,280	0	0
Interest	0	8,716	0	0
<b>Total expenditures</b>	<u>34,097</u>	<u>163,603</u>	<u>20,504</u>	<u>26,984</u>
<b>Excess of revenues over (under) expenditures</b>	<u>4,123</u>	<u>(77,980)</u>	<u>4,200</u>	<u>224</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of debt	0	118,277	0	0
Transfers, net	937	47,969	460	49
<b>Total other financing sources (uses)</b>	<u>937</u>	<u>166,246</u>	<u>460</u>	<u>49</u>
<b>Net change in fund balances</b>	5,060	88,266	4,660	273
<b>Fund balances, beginning of year</b>	<u>5,033</u>	<u>118,205</u>	<u>16,178</u>	<u>12,233</u>
<b>Fund balances, end of year</b>	<u>\$ 10,093</u>	<u>\$ 206,471</u>	<u>\$ 20,838</u>	<u>\$ 12,506</u>

State of Kansas  
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**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2012**  
*(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	0	0	0
Sales and excise tax	0	18,293	0	0
Gross receipts tax	0	143	0	0
Charges for services	675	18,109	4,766	4,131
Operating grants	1,739	1,000	474,289	145
Investment earnings	0	0	0	7
Other revenues	15	(6)	51,982	30
<b>Total revenues</b>	<u>2,429</u>	<u>37,539</u>	<u>531,037</u>	<u>4,313</u>
<b>EXPENDITURES</b>				
Current:				
General government	0	76,676	0	6,374
Human resources	0	0	0	0
Education	1,475	0	627,542	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>1,475</u>	<u>76,676</u>	<u>627,542</u>	<u>6,374</u>
<b>Excess of revenues over (under) expenditures</b>	<u>954</u>	<u>(39,137)</u>	<u>(96,505)</u>	<u>(2,061)</u>
<b>Other financing sources (uses):</b>				
Proceeds from sale of debt	0	0	0	0
Transfers, net	0	43,347	101,593	(200)
<b>Total other financing sources (uses)</b>	<u>0</u>	<u>43,347</u>	<u>101,593</u>	<u>(200)</u>
<b>Net change in fund balances</b>	954	4,210	5,088	(2,261)
<b>Fund balances, beginning of year</b>	<u>303</u>	<u>19,185</u>	<u>3,494</u>	<u>11,314</u>
<b>Fund balances, end of year</b>	<u>\$ 1,257</u>	<u>\$ 23,395</u>	<u>\$ 8,582</u>	<u>\$ 9,053</u>

State of Kansas  
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**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2012**

*(expressed in thousands)*

	Special Revenue Funds			
	State Treasurer	Wildlife, Parks and Tourism	Executive	Legislative
<b>REVENUES</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	983	0	0
Gross receipts tax	0	0	0	0
Charges for services	813	36,683	400	63
Operating grants	0	16,961	16,963	0
Investment earnings	2,261	25	3	0
Other revenues	17,905	91	78	0
<b>Total revenues</b>	<u>20,979</u>	<u>54,743</u>	<u>17,444</u>	<u>63</u>
<b>EXPENDITURES</b>				
Current:				
General government	18,390	0	14,848	97
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	61,011	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	55	0	0
Interest	0	86	0	0
<b>Total expenditures</b>	<u>18,390</u>	<u>61,152</u>	<u>14,848</u>	<u>97</u>
<b>Excess of revenues over (under) expenditures</b>	<u>2,589</u>	<u>(6,409)</u>	<u>2,596</u>	<u>(34)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of debt	0	1,608	0	0
Transfers, net	(1,660)	4,730	(3,667)	0
<b>Total other financing sources (uses)</b>	<u>(1,660)</u>	<u>6,338</u>	<u>(3,667)</u>	<u>0</u>
<b>Net change in fund balances</b>	929	(71)	(1,071)	(34)
<b>Fund balances, beginning of year</b>	<u>2,612</u>	<u>28,041</u>	<u>3,595</u>	<u>92</u>
<b>Fund balances, end of year</b>	<u>\$ 3,541</u>	<u>\$ 27,970</u>	<u>\$ 2,524</u>	<u>\$ 58</u>

State of Kansas  
**Other Supplementary Information**  
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**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2012**

*(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	3,138	0
Gross receipts tax	0	0	0
Charges for services	0	4,745	620
Operating grants	5,979	(42)	0
Investment earnings	206	0	0
Other revenues	4,305	5,087	507
<b>Total revenues</b>	<u>10,490</u>	<u>12,928</u>	<u>1,127</u>
<b>EXPENDITURES</b>			
Current:			
General government	0	0	0
Human resources	0	0	0
Education	0	27	0
Public safety	0	0	772
Agriculture and natural resources	0	13,095	0
Highways and other transportation	47,966	0	0
Health and environment	0	2,250	0
Debt service:			
Principal	0	0	0
Interest	0	0	0
<b>Total expenditures</b>	<u>47,966</u>	<u>15,372</u>	<u>772</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(37,476)</u>	<u>(2,444)</u>	<u>355</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of debt	0	0	0
Transfers, net	37,155	1,726	0
<b>Total other financing sources (uses)</b>	<u>37,155</u>	<u>1,726</u>	<u>0</u>
<b>Net change in fund balances</b>	(321)	(718)	355
<b>Fund balances, beginning of year</b>	<u>25,902</u>	<u>10,647</u>	<u>237</u>
<b>Fund balances, end of year</b>	<u>\$ 25,581</u>	<u>\$ 9,929</u>	<u>\$ 592</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2012**

*(expressed in thousands)*

	Capital Projects Funds		
	State Buildings (Appropriated)	Capital Complex Buildings	State Library
<b>REVENUES</b>			
Property tax	\$ 49,596	\$ 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	0	1	0
Operating grants	0	0	189
Investment earnings	0	24	0
Other revenues	0	0	0
<b>Total revenues</b>	<u>49,596</u>	<u>25</u>	<u>189</u>
<b>EXPENDITURES</b>			
Current:			
General government	210	20,257	0
Human resources	3,883	0	0
Education	36,263	0	62
Public safety	1,929	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	11,195	0
Interest	(12)	8,807	0
<b>Total expenditures</b>	<u>42,273</u>	<u>40,259</u>	<u>62</u>
<b>Excess of revenues over (under) expenditures</b>	<u>7,323</u>	<u>(40,234)</u>	<u>127</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of debt	0	55,022	0
Transfers, net	(7,700)	19,981	0
<b>Total other financing sources (uses)</b>	<u>(7,700)</u>	<u>75,003</u>	<u>0</u>
<b>Net change in fund balances</b>	(377)	34,769	127
<b>Fund balances, beginning of year</b>	<u>29,290</u>	<u>3,807</u>	<u>38</u>
<b>Fund balances, end of year</b>	<u>\$ 28,913</u>	<u>\$ 38,576</u>	<u>\$ 165</u>

State of Kansas  
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**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued  
For the Fiscal Year Ended June 30, 2012**

*(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	(8)	1	0	0	0
Operating grants	0	0	0	0	0
Investment earnings	3	37	1	2	0
Other revenues	191	0	4,500	0	0
<b>Total revenues</b>	<u>186</u>	<u>38</u>	<u>4,501</u>	<u>2</u>	<u>0</u>
<b>EXPENDITURES</b>					
Current:					
General government	(74)	0	4,496	0	0
Human resources	0	0	0	0	0
Education	0	0	0	0	0
Public safety	0	327	0	3,829	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	7,694	6,865	4,275	1,690	370
Interest	1,607	2,237	7,669	1,180	151
<b>Total expenditures</b>	<u>9,227</u>	<u>9,429</u>	<u>16,440</u>	<u>6,699</u>	<u>521</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(9,041)</u>	<u>(9,391)</u>	<u>(11,939)</u>	<u>(6,697)</u>	<u>(521)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from sale of debt	3,541	0	0	0	0
Transfers, net	0	6,891	11,930	2,868	521
<b>Total other financing sources (uses)</b>	<u>3,541</u>	<u>6,891</u>	<u>11,930</u>	<u>2,868</u>	<u>521</u>
<b>Net change in fund balances</b>	(5,500)	(2,500)	(9)	(3,829)	0
<b>Fund balances, beginning of year</b>	<u>46,625</u>	<u>2,535</u>	<u>71</u>	<u>4,746</u>	<u>12</u>
<b>Fund balances, end of year</b>	<u><u>\$ 41,125</u></u>	<u><u>\$ 35</u></u>	<u><u>\$ 62</u></u>	<u><u>\$ 917</u></u>	<u><u>\$ 12</u></u>



State of Kansas  
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**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Continued**  
**For the Fiscal Year Ended June 30, 2012**  
*(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
Investment earnings	0	0	0	0
Other revenues	0	0	0	0
<b>Total revenues</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXPENDITURES</b>				
Current:				
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
Debt service:				
Principal	0	265	2,285	3,735
Interest	0	105	634	2,699
<b>Total expenditures</b>	<u>0</u>	<u>370</u>	<u>2,919</u>	<u>6,434</u>
<b>Excess of revenues over (under) expenditures</b>	<u>0</u>	<u>(370)</u>	<u>(2,919)</u>	<u>(6,434)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of debt	0	0	0	0
Transfers, net	0	369	2,918	6,434
<b>Total other financing sources (uses)</b>	<u>0</u>	<u>369</u>	<u>2,918</u>	<u>6,434</u>
<b>Net change in fund balances</b>	0	(1)	(1)	0
<b>Fund balances, beginning of year</b>	<u>1</u>	<u>1</u>	<u>8</u>	<u>0</u>
<b>Fund balances, end of year</b>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 7</u>	<u>\$ 0</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Statement of Revenues, Expenditures, and Changes  
in Fund Balances - Nonmajor Governmental Funds - Concluded  
For the Fiscal Year Ended June 30, 2012**

*(expressed in thousands)*

	Debt Service Funds			Total Nonmajor Governmental
	Bond and Interest	Highway Debt Service	STAR Bonds Debt Service	
<b>REVENUES</b>				
Property tax	\$ 0	\$ 0	\$ 0	\$ 49,596
Income and inheritance tax	0	0	0	25,766
Sales and excise tax	0	0	42,542	68,277
Gross receipts tax	0	0	0	18,805
Charges for services	0	0	0	335,175
Operating grants	0	0	0	781,199
Investment earnings	4	84	0	3,468
Other revenues	1,806	0	0	139,502
<b>Total revenues</b>	<u>1,810</u>	<u>84</u>	<u>42,542</u>	<u>1,421,788</u>
<b>EXPENDITURES</b>				
Current:				
General government	119	0	3,362	436,755
Human resources	0	0	0	86,274
Education	0	0	0	684,206
Public safety	0	0	0	229,067
Agriculture and natural resources	0	0	0	106,739
Highways and other transportation	0	0	0	47,966
Health and environment	0	0	0	11,438
Debt service:				
Principal	5,490	73,055	40,936	204,455
Interest	2,328	79,159	4,675	146,679
<b>Total expenditures</b>	<u>7,937</u>	<u>152,214</u>	<u>48,973</u>	<u>1,953,579</u>
<b>Excess of revenues over (under) expenditures</b>	<u>(6,127)</u>	<u>(152,130)</u>	<u>(6,431)</u>	<u>(531,791)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of debt	0	0	0	178,448
Transfers, net	6,030	159,959	0	502,859
<b>Total other financing sources (uses)</b>	<u>6,030</u>	<u>159,959</u>	<u>0</u>	<u>681,307</u>
<b>Net change in fund balances</b>	(97)	7,829	(6,431)	149,516
<b>Fund balances, beginning of year</b>	<u>203</u>	<u>106,038</u>	<u>47,002</u>	<u>629,415</u>
<b>Fund balances, end of year</b>	<u>\$ 106</u>	<u>\$ 113,867</u>	<u>\$ 40,571</u>	<u>\$ 778,931</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, 2012

**Combining Statement of Net Assets - Nonmajor Proprietary Funds**  
**June 30, 2012**  
*(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	\$ 8,952	\$ 9,837	\$ 486	\$ 19,770	\$ 2,157	\$ 41,202
Restricted cash and cash equivalents	0	0	0	15,046	8	15,054
Receivables, net	497	13,941	0	8,149	1,915	24,502
Inventories	0	1,922	0	0	0	1,922
<b>Total current assets</b>	<b>9,449</b>	<b>25,700</b>	<b>486</b>	<b>42,965</b>	<b>4,080</b>	<b>82,680</b>
Noncurrent assets:						
Investments	0	0	0	15,277	0	15,277
Receivables, net	0	0	0	64,275	10,284	74,559
Capital assets (net of accumulated depreciation)	0	54,254	0	0	0	54,254
Other noncurrent assets	0	0	0	541	47	588
<b>Total noncurrent assets</b>	<b>0</b>	<b>54,254</b>	<b>0</b>	<b>80,093</b>	<b>10,331</b>	<b>144,678</b>
<b>Total assets</b>	<b>\$ 9,449</b>	<b>\$ 79,954</b>	<b>\$ 486</b>	<b>\$ 123,058</b>	<b>\$ 14,411</b>	<b>\$ 227,358</b>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other liabilities	\$ 0	\$ 14,428	\$ 0	\$ 672	\$ 107	\$ 15,207
Deferred revenue	0	0	0	0	3,259	3,259
Due to other funds	0	5,000	0	0	122	5,122
Short-term compensated absences	4	0	0	0	0	4
Short-term portion of long-term liabilities	5,016	0	0	6,295	1,310	12,621
<b>Total current liabilities</b>	<b>5,020</b>	<b>19,428</b>	<b>0</b>	<b>6,967</b>	<b>4,798</b>	<b>36,213</b>
Noncurrent liabilities:						
Compensated absences	1	0	0	0	0	1
Claims and judgements	26,558	0	0	0	0	26,558
Bonds, notes and loans payable	0	0	0	58,162	7,852	66,014
Arbitrage rebate payable	0	0	0	176	0	176
Other noncurrent liabilities	0	300	0	0	0	300
<b>Total noncurrent liabilities</b>	<b>26,559</b>	<b>300</b>	<b>0</b>	<b>58,338</b>	<b>7,852</b>	<b>93,049</b>
<b>Total liabilities</b>	<b>31,579</b>	<b>19,728</b>	<b>0</b>	<b>65,305</b>	<b>12,650</b>	<b>129,262</b>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	0	54,254	0	0	0	54,254
Restricted for:						
Debt service	0	0	0	37,983	8	37,991
Unrestricted	(22,130)	5,972	486	19,770	1,753	5,851
<b>Total net assets</b>	<b>(22,130)</b>	<b>60,226</b>	<b>486</b>	<b>57,753</b>	<b>1,761</b>	<b>98,096</b>
<b>Total liabilities and net assets</b>	<b>\$ 9,449</b>	<b>\$ 79,954</b>	<b>\$ 486</b>	<b>\$ 123,058</b>	<b>\$ 14,411</b>	<b>\$ 227,358</b>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Statement of Revenues, Expenses, and Changes in  
Net Assets - Nonmajor Proprietary Funds  
For the Fiscal Year Ended June 30, 2012**  
*(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	\$ 4,932	\$ 443,510	\$ 1	\$ 180	\$ 634	\$ 449,257
Other revenue	99	4,088	159	2,640	0	6,986
<b>Total operating revenues</b>	<u>5,031</u>	<u>447,598</u>	<u>160</u>	<u>2,820</u>	<u>634</u>	<u>456,243</u>
<b>OPERATING EXPENSES</b>						
Personal services	163	5,506	0	0	0	5,669
Supplies and services	1,828	165,894	5	28	369	168,124
Lottery prize awards	0	138,904	0	0	0	138,904
Depreciation	0	8,027	0	0	0	8,027
Insurance claims and expenses	1,359	0	0	0	0	1,359
Other expenses	1,368	15,249	690	41	0	17,348
<b>Total operating expenses</b>	<u>4,718</u>	<u>333,580</u>	<u>695</u>	<u>69</u>	<u>369</u>	<u>339,431</u>
<b>Operating income (loss)</b>	<u>313</u>	<u>114,018</u>	<u>(535)</u>	<u>2,751</u>	<u>265</u>	<u>116,812</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Capital grants	0	55,969	0	0	0	55,969
Investment earnings	0	0	148	719	1	868
Interest expense	0	0	0	(2,569)	(481)	(3,050)
Other expenses	0	(1,438)	0	0	0	(1,438)
<b>Total nonoperating revenues (expenses)</b>	<u>0</u>	<u>54,531</u>	<u>148</u>	<u>(1,850)</u>	<u>(480)</u>	<u>52,349</u>
<b>Net income (loss)</b>	313	168,549	(387)	901	(215)	169,161
Transfers in	0	0	0	0	4	4
Transfers out	(1,000)	(116,934)	0	0	(880)	(118,814)
Net change in net assets	(687)	51,615	(387)	901	(1,091)	50,351
Total net assets - beginning	(21,443)	8,611	873	56,852	2,852	47,745
<b>Total net assets - ending</b>	<u>\$ (22,130)</u>	<u>\$ 60,226</u>	<u>\$ 486</u>	<u>\$ 57,753</u>	<u>\$ 1,761</u>	<u>\$ 98,096</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, 2012

**Combining Statement of Net Assets - Internal Service Funds**  
**June 30, 2012**  
*(expressed in thousands)*

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 654	\$ 9,983	\$ 518	\$ 3,058	\$ 35	\$ 14,470
Receivables, net	158	19	0	1,029	0	0
<b>Total current assets</b>	<u>812</u>	<u>10,002</u>	<u>518</u>	<u>4,087</u>	<u>35</u>	<u>14,470</u>
Noncurrent assets:						
Capital assets (net of accumulated depreciation)	1,866	30,783	299	13,899	0	62,797
<b>Total noncurrent assets</b>	<u>1,866</u>	<u>30,783</u>	<u>299</u>	<u>13,899</u>	<u>0</u>	<u>62,797</u>
<b>Total assets</b>	<u>\$ 2,678</u>	<u>\$ 40,785</u>	<u>\$ 817</u>	<u>\$ 17,986</u>	<u>\$ 35</u>	<u>\$ 77,267</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and other liabilities	\$ 248	\$ 284	\$ (5)	\$ 3,867	\$ 8	\$ 1,360
Due to other funds	0	0	76	1,368	0	0
Short-term compensated absences	104	200	0	557	0	342
Short-term portion of long-term liabilities	0	33,763	0	0	0	2,303
<b>Total current liabilities</b>	<u>352</u>	<u>34,247</u>	<u>71</u>	<u>5,792</u>	<u>8</u>	<u>4,005</u>
Noncurrent liabilities:						
Compensated absences	27	52	0	145	0	89
Claims and judgements	0	25	0	0	0	0
Bonds, notes and loans payable	0	6,570	0	0	0	51,894
Advances from other funds	0	0	24	1,388	0	0
<b>Total noncurrent liabilities</b>	<u>27</u>	<u>6,647</u>	<u>24</u>	<u>1,533</u>	<u>0</u>	<u>51,983</u>
<b>Total liabilities</b>	<u>379</u>	<u>40,894</u>	<u>95</u>	<u>7,325</u>	<u>8</u>	<u>55,988</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	1,866	35,857	295	13,899	0	62,797
Unrestricted	433	(35,966)	427	(3,238)	27	(41,518)
<b>Total net assets</b>	<u>2,299</u>	<u>(109)</u>	<u>722</u>	<u>10,661</u>	<u>27</u>	<u>21,279</u>
<b>Total liabilities and net assets</b>	<u>\$ 2,678</u>	<u>\$ 40,785</u>	<u>\$ 817</u>	<u>\$ 17,986</u>	<u>\$ 35</u>	<u>\$ 77,267</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Statement of Net Assets - Internal Service Funds - Concluded**  
**June 30, 2012**  
*(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	\$ 2,291	\$ 7,188	\$ 174	\$ 3	\$ 184	\$ 238	\$ 38,796
Receivables, net	0	0	0	0	0	0	1,206
<b>Total current assets</b>	<u>2,291</u>	<u>7,188</u>	<u>174</u>	<u>3</u>	<u>184</u>	<u>238</u>	<u>40,002</u>
Noncurrent assets:							
Receivables, net	0	0	0	0	0	0	0
Capital assets (net of accumulated depreciation)	28	0	0	0	0	0	109,672
<b>Total noncurrent assets</b>	<u>28</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>109,672</u>
<b>Total assets</b>	<u>\$ 2,319</u>	<u>\$ 7,188</u>	<u>\$ 174</u>	<u>\$ 3</u>	<u>\$ 184</u>	<u>\$ 238</u>	<u>\$ 149,674</u>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable and other liabilities	\$ 86	\$ 232	\$ 9	\$ 1	\$ 0	\$ 17	\$ 6,107
Due to other funds	0	0	0	0	0	0	1,444
Short-term compensated absences	68	45	1	0	0	21	1,338
Short-term portion of long-term liabilities	0	17,866	0	0	0	0	53,932
<b>Total current liabilities</b>	<u>154</u>	<u>18,143</u>	<u>10</u>	<u>1</u>	<u>0</u>	<u>38</u>	<u>62,821</u>
Noncurrent liabilities:							
Compensated absences	18	12	0	0	0	6	349
Claims and judgements	0	43,194	0	0	0	0	43,219
Bonds, notes and loans payable	0	0	0	0	0	0	58,464
Advances from other funds	0	0	0	0	0	0	1,412
<b>Total noncurrent liabilities</b>	<u>18</u>	<u>43,206</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>103,444</u>
<b>Total liabilities</b>	<u>172</u>	<u>61,349</u>	<u>10</u>	<u>1</u>	<u>0</u>	<u>44</u>	<u>166,265</u>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	28	0	0	0	0	0	109,672
Unrestricted	2,119	(54,161)	164	2	184	194	(126,263)
<b>Total net assets</b>	<u>2,147</u>	<u>(54,161)</u>	<u>164</u>	<u>2</u>	<u>184</u>	<u>194</u>	<u>(16,591)</u>
<b>Total liabilities and net assets</b>	<u>\$ 2,319</u>	<u>\$ 7,188</u>	<u>\$ 174</u>	<u>\$ 3</u>	<u>\$ 184</u>	<u>\$ 238</u>	<u>\$ 149,674</u>



State of Kansas  
**Other Supplementary Information**  
June 30, 2012

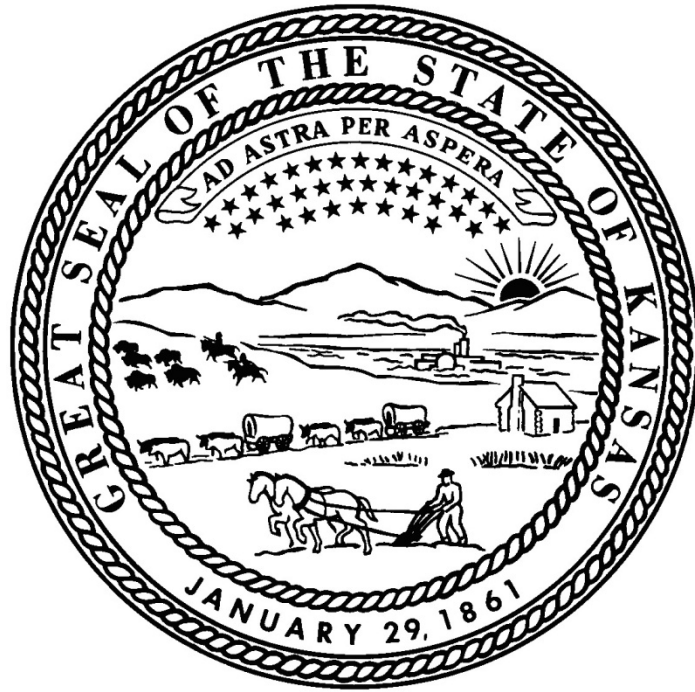
**Combining Statement of Revenues, Expenses, and Changes in  
Net Assets - Internal Service Funds  
For the Fiscal Year Ended June 30, 2012  
(expressed in thousands)**

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance
<b>OPERATING REVENUES</b>						
Charges for services	\$ 3,539	\$ 10,283	\$ 759	\$ 38,797	\$ 107	\$ 28,266
Other revenue	1	3,036	1,609	4	0	(474)
<b>Total operating revenues</b>	<u>3,540</u>	<u>13,319</u>	<u>2,368</u>	<u>38,801</u>	<u>107</u>	<u>27,792</u>
<b>OPERATING EXPENSES</b>						
Salaries and wages	1,843	3,394	40	11,319	0	8,418
Supplies and services	1,702	4,855	917	29,144	131	10,478
Depreciation	239	5,150	70	2,706	0	2,759
Insurance claims and expenses	0	0	0	0	0	0
Other expenses	0	12	0	81	0	24
<b>Total operating expenses</b>	<u>3,784</u>	<u>13,411</u>	<u>1,027</u>	<u>43,250</u>	<u>131</u>	<u>21,679</u>
<b>Operating income (loss)</b>	<u>(244)</u>	<u>(92)</u>	<u>1,341</u>	<u>(4,449)</u>	<u>(24)</u>	<u>6,113</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Operating grants	0	0	0	0	0	16
Investment earnings	0	0	0	0	0	24
Interest expense	0	(599)	0	0	0	(2,471)
Other expenses	0	0	0	0	0	(13)
<b>Total nonoperating revenues (expenses)</b>	<u>0</u>	<u>(599)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,444)</u>
<b>Net income (loss)</b>	(244)	(691)	1,341	(4,449)	(24)	3,669
Transfers in	0	1,795	0	2,516	0	651
Transfers out	(94)	(1,077)	(1,394)	(3,019)	0	(5,575)
<b>Net change in net assets</b>	(338)	27	(53)	(4,952)	(24)	(1,255)
Total net assets - beginning	<u>2,637</u>	<u>(136)</u>	<u>775</u>	<u>15,613</u>	<u>51</u>	<u>22,534</u>
<b>Total net assets - ending</b>	<u>\$ 2,299</u>	<u>\$ (109)</u>	<u>\$ 722</u>	<u>\$ 10,661</u>	<u>\$ 27</u>	<u>\$ 21,279</u>

State of Kansas  
**Other Supplementary Information**  
June 30, 2012

**Combining Statement of Revenues, Expenses, and Changes in  
Net Assets - Internal Service Funds - Concluded  
For the Fiscal Year Ended June 30, 2012**  
*(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	\$ 2,411	\$ 0	\$ 182	\$ 4	\$ 14	\$ 150	\$ 84,512
Other revenue	67	25,596	0	35	0	0	29,874
<b>Total operating revenues</b>	<u>2,478</u>	<u>25,596</u>	<u>182</u>	<u>39</u>	<u>14</u>	<u>150</u>	<u>114,386</u>
<b>OPERATING EXPENSES</b>							
Salaries and wages	1,361	1,089	168	0	0	254	27,886
Supplies and services	187	2,115	0	66	54	0	49,649
Depreciation	4	0	0	0	0	0	10,928
Insurance claims and expenses	0	22,032	0	0	0	0	22,032
Other expenses	0	(38)	0	0	0	0	79
<b>Total operating expenses</b>	<u>1,552</u>	<u>25,198</u>	<u>168</u>	<u>66</u>	<u>54</u>	<u>254</u>	<u>110,574</u>
<b>Operating income (loss)</b>	<u>926</u>	<u>398</u>	<u>14</u>	<u>(27)</u>	<u>(40)</u>	<u>(104)</u>	<u>3,812</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>							
Operating grants	0	0	0	0	0	0	16
Investment earnings	0	0	0	0	0	0	24
Interest expense	0	0	0	0	0	0	(3,070)
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>(3,043)</u>
<b>Net income (loss)</b>	926	398	14	(27)	(40)	(104)	769
Transfers in	0	6,405	0	0	0	0	11,367
Transfers out	(52)	(6,405)	0	0	0	0	(17,616)
<b>Net change in net assets</b>	874	398	14	(27)	(40)	(104)	(5,480)
Total net assets - beginning	1,273	(54,559)	150	29	224	298	(11,111)
<b>Total net assets - ending</b>	<u>\$ 2,147</u>	<u>\$ (54,161)</u>	<u>\$ 164</u>	<u>\$ 2</u>	<u>\$ 184</u>	<u>\$ 194</u>	<u>\$ (16,591)</u>



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**STATISTICAL  
SECTION**

State of Kansas  
**Statistical Section**  
June 30, 2012

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<b>Financial Trends</b>	154
These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	
<b>Revenue Capacity</b>	165
These schedules contain information to help the reader assess the state's most significant revenue source, the income and sales taxes.	
<b>Debt Capacity</b>	167
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.	
<b>Demographic and Economic Information</b>	169
These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	
<b>Operating Information</b>	171
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.	

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, 2012

**Financial Trends**

**Net Assets by Fund Type**

**Last Ten Fiscal Years**

*(expressed in thousands)*

	<b>2003</b>	<b>2004</b>	<b>2005</b>
1 Governmental activities			
2       Invested in capital assets, net of related debt	\$ 7,758,504	\$ 7,855,107	\$ 435,125
3       Restricted	118,013	142,188	89,640
4       Unrestricted	1,194,510	831,722	762,257
5 Total governmental activities net assets	<u>\$ 9,071,027</u>	<u>\$ 8,829,017</u>	<u>\$ 9,287,022</u>
6			
7 Business-type activities <sup>1</sup>			
8       Invested in capital assets, net of related debt	\$ 844,948	\$ 479	\$ 247
9       Restricted	844,360	589,332	766,234
10       Unrestricted	(10,780)	57,317	5,642
11 Total business-type activities net assets	<u>\$ 1,678,528</u>	<u>\$ 647,128</u>	<u>\$ 772,123</u>
12			
13 Primary government			
14       Invested in capital assets net of related debt	\$ 8,603,452	\$ 7,855,586	\$ 8,435,372
15       Restricted	962,373	731,520	855,874
16       Unrestricted	1,183,730	889,039	767,899
17 Total primary government net assets	<u>\$ 10,749,555</u>	<u>\$ 9,476,145</u>	<u>\$ 10,059,145</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

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**Net Assets by Fund Type**

**Last Ten Fiscal Years**

*(expressed in thousands)*

<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	
							1
\$ 8,144,626	\$ 9,538,694	\$ 9,800,244	\$ 9,509,615	\$ 9,601,110	\$ 9,219,935	\$ 9,279,477	2
97,386	93,923	87,640	143,946	209,443	869,678	920,031	3
1,309,066	331,906	86,523	105,512	155,995	122,947	286,900	4
<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>	<u>\$ 10,486,408</u>	5
							6
							7
\$ 388	\$ 256	\$ 364	\$ 478	\$ 8,351	\$ 6,194	\$ 54,273	8
950,950	1,087,458	1,066,936	779,479	433,809	466,317	474,957	9
20,004	6,768	18,330	(6,394)	118,772	90,826	171,381	10
<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>	<u>\$ 700,611</u>	11
							12
							13
\$ 8,145,014	\$ 9,538,950	\$ 9,800,608	\$ 9,510,093	\$ 9,609,461	\$ 9,226,129	\$ 9,333,750	14
1,048,336	1,181,381	1,154,576	923,425	643,252	1,335,995	1,394,988	15
1,329,110	338,674	104,853	99,118	274,767	213,773	458,281	16
<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>	<u>\$ 11,187,019</u>	17

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**Financial Trends**

**Changes in Net Assets, Last Ten Fiscal Years**

*(expressed in thousands)*

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>1 Expenses</b>				
2 Governmental activities:				
3     General government	\$ 419,040	\$ 1,615,560	\$ 1,215,280	\$ 975,416
4     Human resources	2,804,932	3,106,382	3,124,978	2,979,056
5     Education	3,125,520	3,201,981	3,393,376	4,378,010
6     Public safety	446,867	438,540	514,904	583,340
7     Agriculture and natural resources	92,466	88,870	93,528	98,116
8     Highways and other transportation	798,083	777,697	679,952	893,582
9     Health and environment	174,249	176,436	189,908	197,884
10    Economic development	0	0	3,293	3,780
11    Interest expense	0	0	0	0
12    Total governmental activities expenses	<u>7,861,157</u>	<u>9,405,466</u>	<u>9,215,219</u>	<u>10,109,184</u>
13 Business-type activities:				
14     Water pollution and safety	22,489	28,975	30,499	33,995
15     Health care stabilization	34,955	33,874	39,897	32,500
16     Employment security	487,610	468,413	280,644	253,055
17     Workers' compensation	(38,177)	2,842	2,273	4,888
18     Lottery	140,103	154,774	145,496	167,623
19     Universities	1,749,824	0	0	0
20     Intergovernmental transfer program	35,953	1,210	9,287	1,084
21     Transportation revolving loans	0	0	0	1,145
22     Total business-type activities expenses	<u>2,432,757</u>	<u>690,088</u>	<u>508,096</u>	<u>494,290</u>
23     Total primary government expenses	<u>\$ 10,293,914</u>	<u>\$ 10,095,554</u>	<u>\$ 9,723,315</u>	<u>\$ 10,603,474</u>
24				
25 <b>Program Revenues</b>				
26 Governmental activities:				
27     General government	\$ 283,224	\$ 298,640	\$ 320,129	\$ 274,969
28     Human resources	1,782,338	1,982,802	1,861,855	2,090,961
29     Education	322,565	359,415	386,369	390,180
30     Public safety	85,705	79,468	126,632	149,638
31     Agriculture and natural resources	55,648	58,116	65,012	63,533
32     Highways and other transportation	588,536	493,479	563,126	586,235
33     Health and environment	119,147	130,810	131,568	129,227
34     Total governmental activities revenues	<u>3,237,163</u>	<u>3,402,730</u>	<u>3,454,691</u>	<u>3,684,743</u>
35 Business-type activities <sup>1</sup> :				
36     Water pollution and safety	23,769	50,634	44,542	42,992
37     Health care stabilization	26,201	22,236	21,244	27,402
38     Employment security	352,282	370,895	348,021	349,919
39     Workers' compensation	871	3,859	3,464	1,182
40     Lottery	203,939	225,457	207,772	237,270
41     Universities	1,026,479	0	0	0
42     Intergovernmental transfer program	67	191	167	133
43     Transportation revolving fund	0	0	0	70
44     Total business-type activities revenues	<u>1,633,608</u>	<u>673,272</u>	<u>625,210</u>	<u>658,968</u>
45     Total primary government revenues	<u>\$ 4,870,771</u>	<u>\$ 4,076,002</u>	<u>\$ 4,079,901</u>	<u>\$ 4,343,711</u>
46				
47 <b>Net (Expense) Revenue</b>				
48 Government activities	\$ (4,623,994)	\$ (6,002,736)	\$ (5,760,528)	\$ (6,424,441)
49 Business-type activities	(799,149)	(16,816)	117,114	164,678
50 Total primary net (expense) revenue	<u>\$ (5,423,143)</u>	<u>\$ (6,019,552)</u>	<u>\$ (5,643,414)</u>	<u>\$ (6,259,763)</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.



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**Changes in Net Assets, Last Ten Fiscal Years**

(expressed in thousands)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
							1
							2
\$	1,074,391	\$ 1,002,719	\$ 955,701	\$ 851,373	\$ 1,084,268	\$ 1,199,474	3
	3,080,465	3,279,850	3,691,535	3,785,792	4,053,711	2,736,768	4
	4,696,343	5,011,242	5,183,287	5,028,780	5,091,475	5,014,709	5
	607,343	742,254	754,869	786,682	711,734	589,676	6
	102,471	111,445	126,940	109,672	105,710	120,242	7
	639,384	848,375	437,099	516,629	885,153	1,006,995	8
	199,996	225,740	229,198	232,955	258,964	1,425,544	9
	3,125	251	0	0	0	0	10
	149,550	145,246	151,702	144,125	144,443	152,361	11
	<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>	<u>12,245,769</u>	12
							13
	33,845	33,794	35,479	33,366	44,780	59,646	14
	24,013	56,030	45,641	30,347	30,286	6,442	15
	245,910	277,545	735,844	1,381,286	971,158	736,736	16
	4,342	5,050	4,511	4,540	5,217	4,718	17
	170,928	171,216	165,048	184,080	199,015	335,018	18
	0	0	0	0	0	0	19
	583	470	102	139	170	695	20
	1,977	2,681	3,384	4,561	3,429	3,488	21
	<u>481,598</u>	<u>546,786</u>	<u>990,009</u>	<u>1,638,319</u>	<u>1,254,055</u>	<u>1,146,743</u>	22
\$	<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>	<u>13,392,512</u>	23
							24
							25
							26
\$	281,027	\$ 308,030	\$ 322,789	\$ 344,150	\$ 342,849	\$ 446,341	27
	2,099,064	2,163,300	2,609,468	2,839,446	2,988,161	983,660	28
	395,050	407,737	425,331	747,276	692,079	484,634	29
	165,609	255,683	266,768	350,512	312,685	175,242	30
	66,477	68,020	72,042	74,804	80,324	92,906	31
	697,979	697,233	579,323	690,597	850,859	672,116	32
	122,938	139,367	138,245	159,009	190,052	1,939,093	33
	<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>	<u>4,793,992</u>	34
							35
	35,393	32,139	34,029	67,258	46,056	36,902	36
	36,010	38,079	43,108	26,719	31,570	29,350	37
	275,733	224,745	220,886	310,145	401,477	435,729	38
	7,395	5,508	4,049	3,148	9,004	4,932	39
	241,441	238,349	232,139	258,494	273,995	499,479	40
	0	0	0	0	0	0	41
	157	191	197	0	0	0	42
	912	127	901	674	730	815	43
	<u>597,041</u>	<u>539,138</u>	<u>535,309</u>	<u>666,438</u>	<u>762,832</u>	<u>1,007,207</u>	44
\$	<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>	<u>5,801,199</u>	45
							46
							47
\$	(6,724,924)	\$ (7,327,752)	\$ (7,116,365)	\$ (6,250,214)	\$ (6,878,449)	\$ (7,451,777)	48
	115,443	(7,648)	(454,700)	(971,881)	(491,223)	(139,536)	49
\$	<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>	<u>(7,591,313)</u>	50

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**Financial Trends**

**Revenues and Other Changes in Net Assets**

**Last Ten Fiscal Years**

*(Expressed in thousands)*

	<u>2003</u>	<u>2004</u>	<u>2005</u>
51 Governmental activities:			
52 Taxes			
53 Property tax	\$ 446,611	\$ 648,604	\$ 666,698
54 Income and inheritance tax	1,936,916	2,104,072	2,385,369
55 Sales and excise tax	2,496,744	2,510,227	2,660,026
56 Gross receipts tax	115,282	127,953	127,336
57 Investment earnings	13,422	11,437	26,401
58 Other revenue	150,857	232,168	275,320
59 Extraordinary items	45,710	68,294	77,383
60 Transfers	(606,944)	0	0
61 Total governmental activities revenues	<u>4,598,598</u>	<u>5,702,755</u>	<u>6,218,533</u>
62 Business-type activities: <sup>1</sup>			
63 Investment earnings	(636)	28,290	29,507
64 Other revenue	204,634	28,024	55,757
65 Transfers	606,944	(68,294)	(77,383)
66 Total business-type activities revenues	<u>810,942</u>	<u>(11,980)</u>	<u>7,881</u>
67 Total primary government revenues	<u>\$ 5,409,540</u>	<u>\$ 5,690,775</u>	<u>\$ 6,226,414</u>
68			
69 <b>Change in Net Assets</b>			
70 Governmental activities	\$ (25,396)	\$ (299,981)	\$ 458,005
71 Business-type activities	<u>11,793</u>	<u>(28,796)</u>	<u>124,995</u>
72 Total primary government	<u>\$ (13,603)</u>	<u>\$ (328,777)</u>	<u>\$ 583,000</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

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**Revenues and Other Changes in Net Assets**

**Last Ten Fiscal Years**

*(Expressed in thousands)*

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
							51
							52
\$ 548,725	\$ 593,229	\$ 613,222	\$ 631,800	\$ 625,862	\$ 610,463	\$ 626,121	53
2,866,019	3,210,696	3,431,970	2,997,595	2,562,404	3,033,559	3,203,760	54
2,789,933	2,863,794	2,949,551	2,883,012	2,764,218	3,289,025	3,424,419	55
132,928	134,872	138,094	138,532	139,813	161,280	163,862	56
61,617	106,727	35,563	17,811	30,229	48,684	(19,548)	57
244,009	218,482	106,339	232,779	278,082	237,319	313,929	58
0	0	0	0	0	0	0	59
66,868	69,881	78,160	78,177	81,784	69,530	122,855	60
<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>	<u>7,835,398</u>	61
							62
37,446	45,914	44,956	37,890	32,033	39,149	21,265	63
35,972	31,624	33,014	182,920	809,001	524,020	378,400	64
(66,868)	(69,881)	(78,160)	(78,177)	(81,784)	(69,530)	(122,855)	65
<u>6,550</u>	<u>7,657</u>	<u>(190)</u>	<u>142,633</u>	<u>759,250</u>	<u>493,639</u>	<u>276,810</u>	66
<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>	<u>\$ 8,112,208</u>	67
							68
							69
\$ 285,658	\$ 472,757	\$ 25,147	\$ (136,659)	\$ 232,178	\$ 571,411	\$ 383,621	70
171,228	123,100	(7,838)	(312,067)	(212,631)	2,416	137,274	71
<u>\$ 456,886</u>	<u>\$ 595,857</u>	<u>\$ 17,309</u>	<u>\$ (448,726)</u>	<u>\$ 19,547</u>	<u>\$ 573,827</u>	<u>\$ 520,895</u>	72

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**Financial Trends**

**Fund Balances, Governmental Funds**

**Fiscal Years 2003 through 2010**

*(expressed in thousands)*

	<u>2003</u>	<u>2004</u>	<u>2005</u>
1 General Fund			
2       Reserved	\$ 19,255	\$ 18,789	\$ 15,674
3       Unreserved	(53,782)	115,150	297,059
4 Total general fund	<u>\$ (34,527)</u>	<u>\$ 133,939</u>	<u>\$ 312,733</u>
5			
6 Social and Rehabilitation Fund <sup>1</sup>			
7       Reserved	\$ 15,762	\$ 15,763	\$ 19,413
8       Unreserved	4,961	45,747	70,426
9 Total social and rehabilitation fund	<u>\$ 20,723</u>	<u>\$ 61,510</u>	<u>\$ 89,839</u>
10			
11 Transportation Fund			
12       Reserved	\$ 971,806	\$ 1,011,621	\$ 942,114
13       Unreserved	(178,882)	(295,037)	(168,173)
14 Total transportation fund	<u>\$ 792,924</u>	<u>\$ 716,584</u>	<u>\$ 773,941</u>
15			
16 Transportation - Capital Projects Fund			
17       Reserved	\$ 0	\$ 0	\$ 0
18       Unreserved	(608,115)	(608,115)	(755,115)
19 Total transportation - capital projects fund	<u>\$ (608,115)</u>	<u>\$ (608,115)</u>	<u>\$ (755,115)</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	\$ 74,631	\$ 112,572	\$ 76,143
30           Reserved for encumbrances	163,830	167,582	155,113
31           Reserved for advances to other funds	60,164	79,888	79,215
32       Unreserved	204,844	324,311	353,789
33 Total all other governmental funds	<u>\$ 503,469</u>	<u>\$ 684,353</u>	<u>\$ 664,260</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.

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**Fund Balances, Governmental Funds**

**Fiscal Years 2003 through 2010**

*(expressed in thousands)*

<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	
\$ 22,386	\$ 28,871	\$ 7,324	\$ 24,663	\$ 29,680	1
649,526	791,980	414,713	(201,007)	(278,000)	2
<u>\$ 671,912</u>	<u>\$ 820,851</u>	<u>\$ 422,037</u>	<u>\$ (176,344)</u>	<u>\$ (248,320)</u>	3
					4
					5
					6
\$ 18,125	\$ 16,708	\$ 0	\$ 0	\$ 0	7
45,558	7,810	0	0	0	8
<u>\$ 63,683</u>	<u>\$ 24,518</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	9
					10
					11
\$ 962,147	\$ 977,154	\$ 735,930	\$ 1,022,259	\$ 781,308	12
(243,585)	(356,696)	(94,692)	(562,388)	(524,154)	13
<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	17
(755,115)	(755,115)	(755,115)	(885,715)	(664,315)	18
<u>\$ (755,115)</u>	<u>\$ (755,115)</u>	<u>\$ (755,115)</u>	<u>\$ (885,715)</u>	<u>\$ (664,315)</u>	19
					20
					21
\$ 4,152	\$ 8,405	\$ 0	\$ 7,964	\$ 5,204	22
4,917	15,785	1,464	8,722	4,312	23
<u>\$ 9,069</u>	<u>\$ 24,190</u>	<u>\$ 1,464</u>	<u>\$ 16,686</u>	<u>\$ 9,516</u>	24
					25
					26
					27
\$ 13,489	\$ 13,767	\$ 32,224	\$ 165,598	\$ 209,443	28
149,569	189,578	11,575	237,604	199,753	29
86,002	41,023	78,530	78,717	73,581	30
402,889	416,568	722,144	251,858	326,572	31
<u>\$ 651,949</u>	<u>\$ 660,936</u>	<u>\$ 844,473</u>	<u>\$ 733,777</u>	<u>\$ 809,349</u>	32
					33

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**Financial Trends**  
**Fund Balances, Governmental Funds**  
**Fiscal Years 2011 and 2012**  
*(expressed in thousands)*

	<u>2011</u>	<u>2012</u>
<b>General Fund</b>		
Nonspendable:		
Inventory	\$ 6,620	\$ 7,593
Unassigned	(182,683)	207,530
Total General Fund	<u>\$ (176,063)</u>	<u>\$ 215,123</u>
<b>Social and Rehabilitation Fund</b>		
Restricted for:		
Human resources	\$ 56,200	\$ 56,773
Total Social and Rehabilitation Fund	<u>\$ 56,200</u>	<u>\$ 56,773</u>
<b>Health and Environment Fund<sup>1</sup></b>		
Restricted for:		
Health and Environment	\$ 0	\$ 101,844
Total Health and Environment Fund	<u>\$ 0</u>	<u>\$ 101,844</u>
<b>Transportation Fund</b>		
Nonspendable:		
Inventory	\$ 23,968	\$ 24,940
Restricted for:		
Highways and other transportation	248,808	102,629
Total Transportation Fund	<u>\$ 272,776</u>	<u>\$ 127,569</u>
<b>Transportation - Capital Projects Fund</b>		
Unassigned	\$ (379,464)	\$ (504,312)
Total Transportation - Capital Projects Fund	<u>\$ (379,464)</u>	<u>\$ (504,312)</u>
<b>Health Policy Authority<sup>1</sup></b>		
Unassigned	\$ (16,319)	\$ 0
Total Health Policy Authority Fund	<u>\$ (16,319)</u>	<u>\$ 0</u>
<b>All Other Governmental Funds</b>		
Nonspendable:		
Long-Term Receivables	\$ 0	\$ 6,275
Inventory	0	4
Restricted for:		
Capital projects	33,134	67,654
Debt Service	101,204	82,836
General government	243,636	350,578
Human resources	22,574	24,698
Education	8,959	15,669
Public safety	40,305	44,056
Agriculture and natural resources	47,663	53,988
Highways and other transportation	25,902	19,306
Health and environment	41,293	0
Assigned to:		
Debt Service	106,038	113,867
Unassigned	0	0
Total All Other Governmental Funds	<u>\$ 670,708</u>	<u>\$ 778,931</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.

<sup>1</sup> Health Policy Authority was merged into the Department of Health and Environment during fiscal year 2012.

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**Financial Trends**

**Changes in Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

*(expressed in thousands)*

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>1 Revenues</b>				
2 Taxes	\$ 4,988,981	\$ 5,455,211	\$ 5,827,740	\$ 6,378,200
3 Charges for services	531,949	746,995	554,851	655,564
4 Intergovernmental (operating and capital grants)	2,730,334	2,697,149	2,910,532	3,042,060
5 Investment earnings	13,636	11,473	26,411	61,625
6 Other revenues (includes extraordinary items)	161,081	309,115	283,470	263,737
7 Total revenues	<u>8,425,981</u>	<u>9,219,943</u>	<u>9,603,004</u>	<u>10,401,186</u>
8				
9				
<b>10 Expenditures</b>				
11 General government	542,359	1,699,154	1,274,908	999,533
12 Human resources	2,805,640	3,111,624	3,125,941	2,982,450
13 Education	3,128,229	3,206,817	3,396,304	4,380,427
14 Public safety	467,663	451,511	507,215	577,042
15 Agriculture and natural resources	91,034	89,161	91,512	96,026
16 Highways and other transportation	898,645	1,018,471	1,026,447	1,027,094
17 Health and environment	175,636	186,653	190,761	199,016
18 Economic Development	0	0	3,293	3,780
19 Debt service:				
20       Principal	92,026	73,448	85,347	93,570
21       Interest	82,351	82,589	139,062	142,316
22 Total expenditures	<u>8,283,583</u>	<u>9,919,428</u>	<u>9,840,790</u>	<u>10,501,254</u>
23				
24 Excess of revenues over (under) expenditures	142,398	(699,485)	(237,786)	(100,068)
25				
26				
<b>27 Other Financing Sources (Uses)</b>				
28 Proceeds from sale of debt	383,863	1,321,417	257,125	532,422
29 Transfers, net	(612,542)	77,220	84,732	37,830
30 Other financing sources (uses)	(646,970)	(442,781)	(1,956)	(177,402)
31 Extraordinary items	45,710	0	0	0
32 Total other financing sources (uses)	<u>(829,939)</u>	<u>955,856</u>	<u>339,901</u>	<u>392,850</u>
33				
34 Net change in fund balances	<u>\$ (687,541)</u>	<u>\$ 256,371</u>	<u>\$ 102,115</u>	<u>\$ 292,782</u>
35				
36 Debt service as a percentage of noncapital				
37       expenditures	2.11%	1.57%	2.28%	2.25%

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**Changes in Fund Balances, Governmental Funds**

**Last Ten Fiscal Years**

*(expressed in thousands)*

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
							1
\$	6,828,429	\$ 7,138,723	\$ 6,625,408	\$ 6,207,094	\$ 7,032,605	\$ 7,474,894	2
	744,423	654,744	845,364	704,012	752,092	758,369	3
	3,091,345	3,391,868	3,580,727	4,486,248	4,723,639	3,955,974	4
	106,733	35,573	17,821	29,636	42,170	9,394	5
	290,090	127,260	240,323	260,349	213,449	319,926	6
	<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>	<u>12,518,557</u>	7
							8
							9
							10
	1,101,740	1,044,775	1,082,627	991,136	1,052,688	1,120,050	11
	3,089,907	3,289,095	3,697,593	3,777,533	4,040,706	2,741,155	12
	3,879,673	5,014,160	5,185,294	5,026,615	5,090,986	5,015,177	13
	611,471	749,165	755,762	779,411	720,548	614,237	14
	102,387	111,419	126,182	108,018	114,677	124,041	15
	1,033,768	1,033,419	1,010,200	988,028	1,022,332	1,101,841	16
	200,906	227,102	227,159	233,173	259,139	1,426,387	17
	3,125	251	0	0	0	0	18
							19
	112,398	135,524	134,367	190,938	187,832	204,455	20
	147,770	145,694	146,375	141,200	153,293	146,679	21
	<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>	<u>12,494,022</u>	22
							23
	777,875	(402,436)	(1,055,916)	(548,713)	121,754	24,535	24
							25
							26
							27
	54,188	225,171	117,248	561,972	370,053	178,448	28
	(797,276)	83,167	84,246	86,169	75,071	129,104	29
	0	(150,275)	0	0	0	0	30
	0	0	0	(87,359)	0	0	31
	<u>(743,088)</u>	<u>158,063</u>	<u>201,494</u>	<u>560,782</u>	<u>445,124</u>	<u>307,552</u>	32
							33
\$	<u>34,787</u>	<u>\$ (244,373)</u>	<u>\$ (854,422)</u>	<u>\$ 12,069</u>	<u>566,878</u>	<u>332,087</u>	34
							35
							36
	2.53%	2.39%	2.27%	2.71%	2.70%	2.81%	37



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**Revenue Capacity**

**Personal Income by Industry, Last Ten Calendar Years**

*(expressed in thousands)*

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
1 Private Earning				
2   Agricultural, Forestry, Fishing and Hunting	\$ 206,149	\$ 214,456	\$ 210,382	\$ 228,199
3   Mining	690,752	882,024	1,116,737	1,328,010
4   Utilities	651,345	617,946	657,098	690,152
5   Construction	3,268,284	3,328,533	3,484,446	3,776,521
6   Manufacturing	10,374,912	10,273,532	11,051,694	11,661,073
7   Wholesale trade	3,310,915	3,342,670	3,545,216	3,772,210
8   Retail trade	4,141,184	4,205,076	4,288,788	4,362,037
9   Transportation and warehousing	2,255,983	2,322,320	2,410,973	2,489,576
10   Information	3,228,551	3,337,931	3,467,343	3,344,081
11   Finance and insurance	3,251,123	3,443,020	3,538,324	3,684,245
12   Real estate and rental and leasing	944,983	1,030,623	1,084,156	1,167,144
13   Professional, scientific, and technical services	3,805,827	3,636,298	4,119,366	4,494,448
14   Management of companies and enterprises	657,341	642,242	646,177	684,829
15   Administrative and waste management services	1,884,145	1,912,856	2,047,391	2,469,462
16   Educational services	437,349	454,982	484,165	507,546
17   Health care and social assistance	5,504,250	5,737,227	6,121,229	6,444,008
18   Arts, entertainment, and recreation	295,488	262,264	275,033	274,399
19   Accommodation and food services	1,414,505	1,529,046	1,620,859	1,655,420
20   Other services, except public administration	1,819,250	1,923,437	1,933,757	1,984,554
21				
22 Government				
23   Federal, civilian	1,829,087	1,871,954	2,052,479	2,054,583
24   Military	1,359,767	1,611,419	1,732,548	1,889,902
25   State and local	7,627,869	8,376,916	9,482,014	9,889,548

Source: U.S. Department of Commerce, Bureau of Economic Analysis at: <http://www.bea.gov/regional/spi>

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**Revenue Capacity**

**Personal Income by Industry, Last Ten Calendar Years**

*(expressed in thousands)*

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
							1
\$	234,407	\$ 280,613	\$ 285,723	\$ 304,439	\$ 317,562	\$ 476,468	2
	1,589,409	1,569,892	1,288,477	1,549,581	1,119,291	1,312,659	3
	722,574	792,169	795,278	865,694	880,301	1,019,849	4
	4,094,066	4,071,929	4,413,807	3,988,070	4,192,919	4,295,913	5
	12,504,265	13,461,380	12,736,605	11,899,007	11,217,913	12,245,199	6
	3,991,402	4,241,222	4,657,163	4,436,794	4,549,753	4,622,713	7
	4,582,546	4,678,343	4,920,439	4,540,800	4,893,380	5,070,180	8
	2,611,443	2,767,873	2,970,686	2,850,770	2,824,582	3,035,855	9
	3,521,742	3,716,215	3,479,790	3,102,540	2,362,177	2,282,041	10
	3,883,858	4,188,156	4,361,995	4,232,883	4,512,022	4,847,908	11
	1,171,789	1,042,920	911,215	874,085	976,563	965,612	12
	4,875,571	5,190,583	5,215,212	5,252,448	5,294,398	5,437,098	13
	879,612	1,116,081	1,325,278	1,182,450	1,503,770	1,384,309	14
	2,847,681	2,855,338	3,098,871	2,925,202	3,163,367	3,511,110	15
	541,281	527,279	617,913	658,248	684,460	720,020	16
	6,819,398	7,198,640	8,139,847	8,503,526	8,893,444	9,226,828	17
	295,266	312,531	326,814	318,636	338,025	356,520	18
	1,759,646	1,793,797	2,102,920	2,018,859	2,114,290	2,158,100	19
	2,059,524	2,230,187	3,084,342	2,905,835	2,986,984	3,151,597	20
							21
							22
	2,145,533	2,140,546	2,197,668	2,321,229	2,560,832	2,628,836	23
	2,096,824	2,544,087	2,844,514	3,143,234	3,490,732	3,739,591	24
	10,239,615	9,703,924	10,333,042	10,770,093	10,799,866	10,961,004	25

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**Debt Capacity**

**Long Term Obligations**

**Last Ten Fiscal Years**

*(Expressed in thousands)*

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>1 Government Activities</b>				
2 Revenue bonds payable (includes demand bonds)	\$ 1,374,622	\$ 2,164,339	\$ 1,748,407	\$ 2,764,949
3 Sales tax limited obligation	136,292	160,830	173,239	232,322
4 Note payable	25,899	22,549	22,391	20,448
5 Capital leases payable	152,539	161,801	159,781	152,483
6 Arbitrage rebate payable	677	385	388	93
7 Claims and judgements	42,816	49,396	54,642	68,033
8 Compensated absences	95,456	94,726	100,030	109,214
9 Other post employment benefits	0	0	0	0
10 Pollution remediation	0	0	0	0
11 Total governmental activities	<u>1,828,301</u>	<u>2,654,026</u>	<u>2,258,878</u>	<u>3,347,542</u>
12				
<b>13 Business-Type Activities</b>				
14 Revenue bonds payable	878,605	584,824	650,193	720,978
15 Note payable	56,163	0	0	0
16 Arbitrage rebate payable	4,538	3,123	2,003	963
17 Unemployment benefits loan	0	0	0	0
18 Claims and judgements	297,372	185,909	187,474	186,871
19 Compensated absences	43,858	54	49	47
20 Other post employment benefits	0	0	0	0
21 Other	0	(930)	11,392	12,961
22 Total business-type activities	<u>1,280,536</u>	<u>772,980</u>	<u>851,111</u>	<u>921,820</u>
23				
<b>24 Component Units</b>				
25 Revenue bonds payable	306,540	619,409	726,535	691,253
26 Note payable	0	82,316	68,351	109,783
27 Capital leases payable	0	0	0	4,666
28 Arbitrage rebate payable	0	16	62	80
29 Compensated absences	0	44,887	47,919	49,655
30 Other post employment benefits	0	0	0	0
31 Pollution remediation	0	0	0	0
32 Other	0	17,129	106,726	103,761
33 Total component units	<u>306,540</u>	<u>763,757</u>	<u>949,593</u>	<u>959,198</u>
34 Total	<u>\$ 3,415,377</u>	<u>\$ 4,190,763</u>	<u>\$ 4,059,582</u>	<u>\$ 5,228,560</u>

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**Debt Capacity**  
**Long Term Obligations**  
**Last Ten Fiscal Years**  
*(Expressed in thousands)*

<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	
						1
\$ 2,740,099	\$ 2,726,970	\$ 2,744,828	\$ 2,861,825	\$ 3,077,604	\$ 3,066,913	2
218,420	185,924	156,196	208,425	225,548	192,045	3
18,278	17,597	26,655	25,843	20,031	18,399	4
145,366	140,106	130,533	138,821	129,089	114,926	5
97	481	385	400	827	136	6
61,593	82,858	85,920	87,216	88,797	88,501	7
118,795	121,255	134,386	129,921	126,241	120,131	8
0	16,813	26,626	36,270	47,188	51,998	9
0	0	81,092	70,936	73,660	69,152	10
<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>	<u>3,722,201</u>	11
						12
						13
714,857	677,472	765,976	749,001	767,878	620,153	14
0	0	0	0	0	0	15
1,340	1,755	2,885	1,254	173	176	16
0	0	0	88,159	170,821	4,602	17
180,802	205,766	218,332	215,402	221,160	199,234	18
59	56	72	68	73	68	19
0	89	155	224	300	343	20
13,730	14,703	17,115	17,697	17,597	17,093	21
<u>910,788</u>	<u>899,841</u>	<u>1,004,535</u>	<u>1,071,805</u>	<u>1,178,002</u>	<u>841,669</u>	22
						23
						24
684,398	692,025	705,223	700,808	691,971	667,137	25
20,443	119,073	146,517	174,530	217,034	263,592	26
16,143	15,019	14,147	14,568	13,616	11,761	27
69	163	123	98	51	46	28
52,503	58,743	61,943	65,691	69,101	73,516	29
0	11,775	20,068	30,404	41,794	48,078	30
0	0	0	4,000	3,700	1,200	31
127,836	110,071	111,701	110,928	61,395	54,711	32
<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>	<u>1,120,041</u>	33
<u>\$ 5,214,828</u>	<u>\$ 5,198,714</u>	<u>\$ 5,450,878</u>	<u>\$ 5,732,489</u>	<u>\$ 6,065,649</u>	<u>\$ 5,683,911</u>	34

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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)
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	2,871,238	37,418	36.1	13.28	511,258	7.3%
2012	(6)	40,883	(6)	-	507,259	6.4%

**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.

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**Demographic and Economic Information**

**Principal Employers in Kansas**

**Current Year and Ten Years Ago**

Employer	2012				2003			
	Local/Total Employees	Rank	Percentage of Total Employment	Total Employees	Rank	Percentage of Total Employment		
State Government (actual & excludes Regents)	23,530 / 23,530	1	1.56%	-	-	-		
Cessna Aircraft Corporation	6,200 / 32,000	2	0.41%	-	-	-		
Performance Contracting, Inc.	5,000 / 5,000	3	0.33%	9,200	3	0.64%		
Embarq Corp.	5,000 / 16,000	4	0.33%	-	-	-		
Royal Caribbean Cruises Ltd.	4,900 / 6,050	5	0.33%	-	-	-		
B & V - Baker Guam JV	4,500 / 4,500	6	0.30%	-	-	-		
Via Christi Hospitals Wichita, Inc.	4,000 / 10,000	7	0.27%	-	-	-		
Hawker Beechcraft Corp.	3,000 / 6,000	8	0.20%	-	-	-		
Stormont-Vail Healthcare, Inc.	2,871 / 3,557	9	0.19%	-	-	-		
International Union/UAW	2,600 / 11,378	10	0.17%	-	-	-		
Sprint Corporation	- / -	-	-	21,000	1	1.46%		
The Boeing Company	- / -	-	-	12,565	2	0.88%		
The Kroger Company	- / -	-	-	8,826	4	0.62%		
Raytheon Aircraft	- / -	-	-	7,000	5	0.49%		
Tyson Foods/IBP Inc.	- / -	-	-	6,500	6	0.45%		
KUMC	- / -	-	-	5,160	7	0.36%		
Via Christi Regional Medical Center	- / -	-	-	4,976	8	0.35%		
United Parcel Service	- / -	-	-	4,500	9	0.31%		
Burlington Northern Santa Fe	- / -	-	-	3,800	10	0.26%		
<b>Total</b>	<b>61,601 / 118,015</b>		<b>4.10%</b>	<b>83,527</b>		<b>5.82%</b>		

Source: Dun & Bradstreet Corporation, Million Dollar Databases 2012; Wichita and Kansas City Business Journal, Book of lists, June 2003. Kansas Department of Labor, <http://www.dol.ks.gov>. The base number used to calculate the percentage is the average number of the total employment in FY2012 and 2003 respectively.

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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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
1	General Government	5,541	5,551	5,518	5,745	5,843
2	Public Safety	5,064	5,083	5,083	5,114	5,102
3	Education	16,305	16,452	15,901	15,562	16,770
4	Transportation	3,248	3,248	3,248	3,252	3,238
5	Agriculture and Natural					
6	Resources	1,278	1,286	1,281	1,287	1,266
7	Human Resources	8,730	8,729	8,426	8,189	8,191
8	Total	<u>40,166</u>	<u>40,349</u>	<u>39,457</u>	<u>39,149</u>	<u>40,410</u>

**Source:** Department of Administration Workforce Reports at <http://www.da.ks.gov/ps/subject/workforce.htm>

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**Operating Information**

**Full-time Equivalent State Government Employees by Function/Program**

**Last Ten Fiscal Years**

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<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	
5,722	5,799	5,786	5,646	5,635	1
5,111	5,131	5,129	4,992	4,941	2
17,076	17,714	18,375	18,340	18,368	3
3,238	3,202	3,151	3,161	3,114	4
					5
1,271	1,243	1,342	1,329	1,281	6
8,160	8,337	8,313	8,209	8,184	7
<u>40,578</u>	<u>41,426</u>	<u>42,096</u>	<u>41,677</u>	<u>41,523</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 aggregate 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, 2012, which collectively comprise the State's basic financial statements and have issued our report thereon dated March 11, 2013. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions 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 26 percent, respectively, of the 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 3 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Bioscience Authority (KBA) which represents 2 percent and less than 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Public Employees Retirement System (KPERS) which represents 81 percent and 17 percent, respectively, of assets and revenues of the aggregate remaining fund information, and the Kansas Lottery which represents less than 1 percent and 8 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, 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 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.

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 2012-1 through 2012-4 to be material weaknesses.

### **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.

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*

March 11, 2013  
Overland Park, Kansas

# STATE OF KANSAS

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## SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2012

### **Finding 2012-1 - Material Weakness (Repeat from 2011)**

**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 July 1, 2010. 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 fiscal years 2011 and 2012.

At fiscal year-end 2012, the State was still unable to prepare accurate bank reconciliations in a timely manner. The problems existing at the point of conversion to the SMART system were further compounded by the difficulty in properly identifying and capturing cash transactions occurring in SMART during the 2011 and 2012 fiscal years. Additionally, the current reconciliation process creates further difficulty in properly identifying adjustments to the general ledger (as opposed to reconciling items) and ensuring that cash is reconciled to balances reported by financial institutions.

**Effect:** The State has attempted to prepare a bank reconciliation for each month of the 2011 and 2012 fiscal years. The State was unable to reconcile cash timely and accurately for each month of fiscal years 2011 and 2012.

**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 the auditor's finding and acknowledge the unresolved status of cash reconciliations between the SMART accounting system and the State Treasurer's common cash and investment accounts. The efforts required to complete the reconciliation process and fully identify and document the procedures has been greater than anticipated. In June 2012, a formal cash reconciliation team was established and dedicated to this task. The team continues to identify processing areas that affect the reconciliation bringing us closer to complete reconciliation.

In addition to the work on the current and prior fiscal years, the Department of Administration and the Office of the State Treasurer are jointly developing a web-based reporting tool to be used by agencies prospectively to allow weekly (and ultimately work toward daily) reconciliation of individual balances at the agency level in support of the central statewide cash reconciliation efforts. It is our goal to have the reporting tool available for agency use beginning June 30, 2013.

**Completion Date:** June 30, 2013

**Contact Person And Title:** Martin Eckhardt, Office of Financial Management

## STATE OF KANSAS

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### Schedule Of Findings And Responses (*Continued*)

#### **Finding 2012-2 - Material Weakness (Repeat from 2011)**

**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 Financial Management, surveys and related entries received from individual State agencies, surveys received from the universities, and financial statement disclosures drafted by the Office of Financial Management. Additionally, it was noted that a lack of standard period-end close and reporting practices among the individual State agencies with direct access to SMART further complicates the financial reporting process.

**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 Financial Management 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 Department of Administration generally agrees. Our goal is to minimize the risk of material misstatements by continuing to improve both accuracy and consistency with both system-generated and agency-provided data that comprise the Comprehensive Annual Financial Report. We have begun discussions with the auditors on specific areas that can be addressed and will utilize the auditor's advice on developing a prioritized approach to correct specific problematic areas. It is noted that standards, formal instructions, system job aids, and procedural checklists exist and are available for agency use. The Department of Administration will continue to work with agencies to improve the consistent application and execution of guidelines and standard practices. In addition, the Department of Administration has identified and begun the implementation of new internal controls through both structural changes at the organizational chart level and at the data entry and accumulation level that we believe will facilitate the process of error prevention and detection.

**Completion Date:** The Department of Administration will work with the auditors to identify and prioritize specific areas. This work plan will be completed by May 30, 2013 and the Department of Administration's goal will be to work on specific improvements to meet the auditor's threshold.

**Contact Person and Title:** Martin Eckhardt, Office of Financial Management

#### **Finding 2012-3 - Material Weakness (Repeat from 2011)**

**Condition:** Internal controls related to the reconciliation and review of the capitalization of construction in progress, infrastructure and other capital assets were not designed properly to capture all capital asset activity and related depreciation at fiscal year end.

## STATE OF KANSAS

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### Schedule Of Findings And Responses (*Continued*)

**Cause:** In the current year, processes and controls related to financial statement preparation at the Department of Transportation have been changed to include additional layers of review and increased communication between financial reporting personnel and non-financial reporting personnel. Identification of costs now relies more heavily on system generated reports in comparison to the previously manual process. As part of the enhanced reporting structure, both duplicate costs and costs that by their nature should not have been previously capitalized were identified. This resulted in material adjustments to both the beginning of period net assets and infrastructure balances.

**Effect:** Throughout the year and during the audit, the Department had to make material adjustments for construction in progress, infrastructure and certain other capital asset categories.

**Recommendation:** We recommend that management continue to review its 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 process that was created in 2002 to capture construction in progress and infrastructure balances was reviewed extensively in Fiscal 2012 by a team of Fiscal Services staff. Other Department of Transportation bureaus were also consulted in the process. As a result of this effort, project reports were revised and were key in locating capital assets with overstated balances. The Fiscal Services team will continue to review these reports in Fiscal 2013 for further enhancements to aid in the process of determining proper balances.

**Completion Date:** June 30, 2013

**Contact Person and Title:** Rhonda J. Seitz, Bureau Chief, Fiscal Services

### **Finding 2012-4 - Material Weakness (Repeat from 2011)**

**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:** The process of compiling information for the schedule of expenditures of federal awards is decentralized among the various State agencies receiving federal awards. A standard practice does not exist for reporting items such as awards to sub-recipients and transfers between agencies. It is also unclear whether or not some of the State agencies preparing the amounts for the schedule of expenditures have a complete understanding of what is required to be reported. This lack of standard practice, knowledge of the requirements, and sufficient review by a qualified individual at each agency increases the likelihood that incorrect amounts will be reported on the final schedule. The Office of Financial Management currently tries to review and compile the amounts from each agency, but lacks the knowledge about how certain transactions are handled and reported at each agency (since practices vary), thus making it difficult to provide an adequate review that would prevent or detect material errors in the schedule.

## STATE OF KANSAS

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### Schedule Of Findings And Responses (*Continued*)

**Effect:** Federal awards for certain programs and agencies required adjustments to be reported correctly.

**Recommendation:** The State should consider providing additional training to agencies on the reporting requirements for federal fund. In addition, the State should consider reviewing the current procedures and controls in place and determine if modifications are necessary 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):** The Department of Administration agrees with the finding. We agree that the accuracy issues are directly related to the inconsistencies found in the SEFA confirmations completed by agencies. There are 51 agencies that report federal expenditures under the SEFA. Even though standard reporting structures and detailed instructions are provided, inconsistencies have continued in this decentralized segment of financial reporting. Last year our efforts to address this finding focused on the non-monetary federal support reporting inaccuracies. Procedures were recommended to, and implemented by, the specific affected agencies. General instructions to all agencies were also modified to improve consistency and accuracy.

The Department of Administration plans to analyze the inconsistencies and inaccuracies that existed for the fiscal year 2012 SEFA to identify ways to improve the agency reporting. This may include consideration toward training, addition communication, feasibility of a SMART system solution, and/or revised SEFA reporting structure and instructions.

**Completion Date:** June 30, 2013

**Contact Person And Title:** Martin Eckhardt, Office of Financial Management