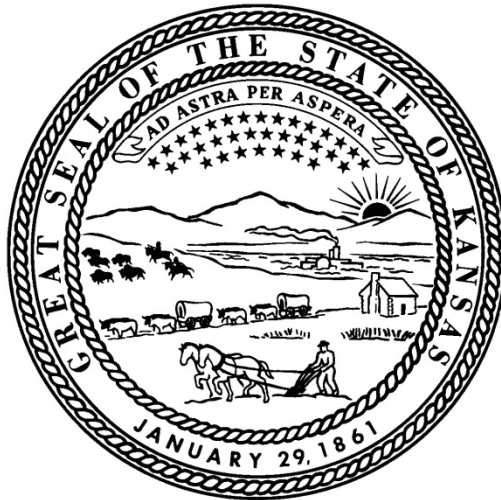


STATE OF KANSAS
Department of Administration
Office of the Chief Financial Officer



COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

July 1, 2017 to June 30, 2018

DeAnn Hill, CPA
Office of the Chief Financial Officer



STATE OF KANSAS

**Department of
Administration**

DeAnn Hill, CPA
Office of the Chief Financial Officer

State of Kansas
Fiscal Year 2018 Financial Report
June 30, 2018

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INTRODUCTION

STATE OF KANSAS

DEPARTMENT OF ADMINISTRATION
OFFICE OF THE CHIEF FINANCIAL OFFICER
700 SW HARRISON, SUITE 300
TOPEKA, KS 66603



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CHIEF FINANCIAL OFFICER
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GOVERNOR JEFF COLYER, M.D.
SARAH SHIPMAN, SECRETARY

November 20, 2018

The Honorable Jeff Colyer M.D., 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 64th Annual Financial Report of the State of Kansas for the fiscal year ended June 30, 2018, 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 Chief Financial Officer. 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 CliftonLarsonAllen LLP. 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, 2018, 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 comprises 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 budget serves as the foundation of the State's financial planning and control. On or before October 1 of even-numbered years, agencies are required to submit biennial budget estimates for the next two fiscal years 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 21st 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 is 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 for specific agencies.

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 in excess of appropriations or limitations and/or available cash and purchase orders in excess of appropriations or limitations. 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.

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 (five of the eight medical health plan options, prescription drug and dental), State employee workers' compensation, long-term disability, tort liability, personal and real property losses up to the

applicable deductibles (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles, with \$500,000 deductibles, and a statewide commercial policy on personal and real property with \$5,000,000 deductibles (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

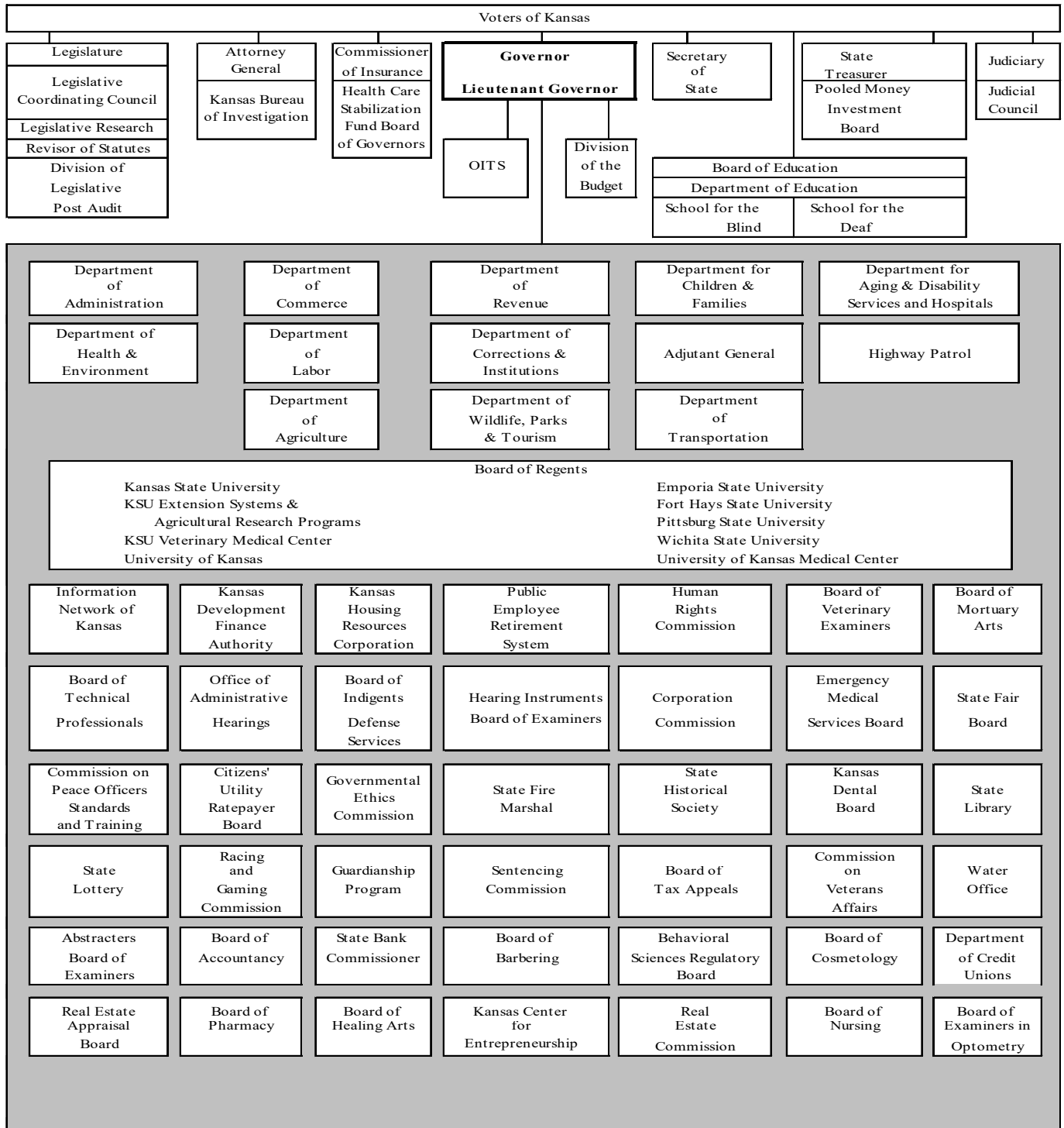
I wish to express my sincere thanks to the CFO Team. It is through their relentless efforts that this report was possible. I would also like to acknowledge the many other individuals in the State agencies, universities and component units. Their hard work and diligence in this process is much appreciated.

Sincerely,

A handwritten signature in dark ink, appearing to read "DeAnn Hill". The signature is fluid and cursive, with the first name "DeAnn" and the last name "Hill" clearly distinguishable.

DeAnn Hill, CPA
Chief Financial Officer for the State of Kansas

State of Kansas
June 30, 2018



Executive Branch

Governor
Jeff Colyer

Lieutenant Governor
Tracey Mann

Secretary of State
Kris W. Kobach

State Treasurer
Jake LaTurner

Attorney General
Derek Schmidt

*Commissioner of
Education*
Randy Watson

*Commissioner of
Insurance*
Ken Selzer

Legislative Branch

*Speaker of the House of
Representatives*
Ron Ryckman

*Speaker Pro Tempore of
the House of
Representatives*
Scott Schwab

President of the Senate
Susan Wagle

*Vice President of the
Senate*
Jeff Longbine

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

Secretary of Senate
Corey Carnahan

*Legislative Coordinating
Council Chair*
Rep. Ron Ryckman

*Legislative Research
Director*
Raney Gilliland

Judicial Branch

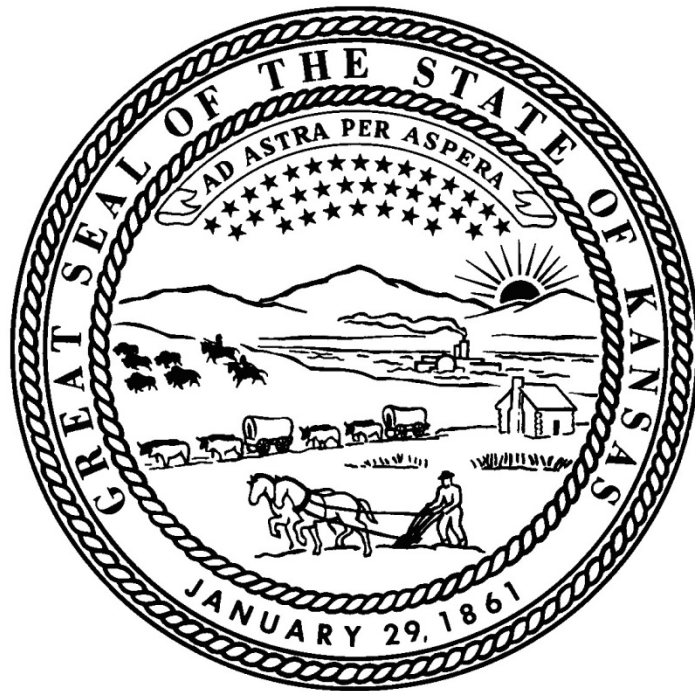
Supreme Court of Kansas
Chief Justice
Lawton Nuss

Justices
Marla J. Luckert
Carol A. Beier
Eric S. Rosen
Lee A. Johnson
Dan Biles
Caleb Stegall

Court of Appeals
Chief Judge
Karen Arnold-Burger

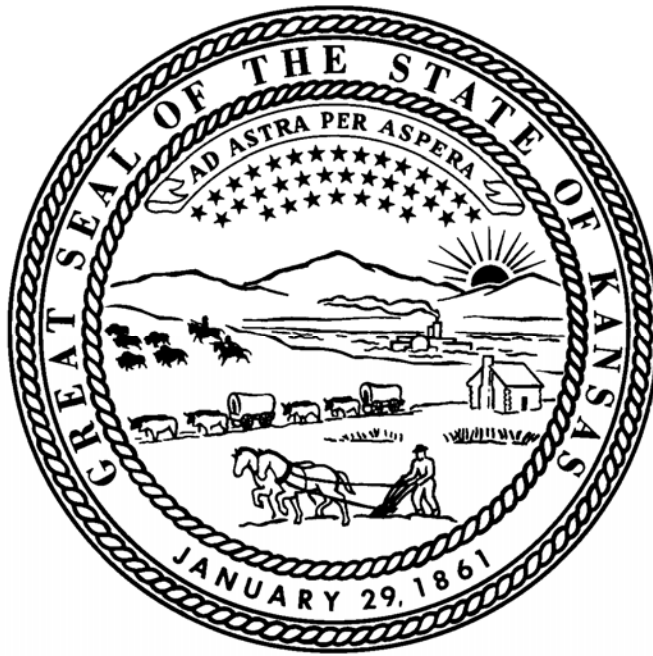
Judicial Council
Executive Director
Nancy J. Strouse

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

Report on the Financial Statements

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, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We did not audit the financial statements of the various component units of the six state universities, which represent 53 percent and 35 percent, respectively, of the assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Development Finance Authority (KDFA) which represents less than 1 percent and less than 1 percent, respectively, of assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Center for Entrepreneurship (KCE) which represents less than 1 percent and less than 1 percent, respectively, of assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Turnpike Authority (KTA) which represents 9 percent and 3 percent, respectively, of assets and deferred outflows of resources and revenues of the discretely presented component units, the Information Network of Kansas, Inc. (INK) which represents less than 1 percent and less than 1 percent, respectively, of assets and deferred outflows of resources and revenues of the discretely presented component units, the Kansas Universal Services Fund (reported within the State Regulatory Boards and Commissions Fund) which represents less than 1 percent and less than 1 percent, respectively, of the assets and deferred outflows of resources 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 deferred outflows of resources and revenues 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, KCE, KTA, and INK in the aggregate discretely presented component units, and the Kansas Universal Services fund and Kansas Lottery in the aggregate remaining fund information, is based solely on the reports of other auditors.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report 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 of Kansas as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

During the fiscal year ended June 30, 2018, the State of Kansas adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of GASB Statement No. 75, the State of Kansas reported a restatement for the change in accounting principle. See Note III.J of the notes to the financial statements for further information. Our opinions were not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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, the OPEB schedule of funding progress, schedule of the State's proportionate share of the net pension liability and the schedule of state contributions as listed in the table of contents 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 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.

Other Information

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 nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed and described above, and the report of other auditors, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections have 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Greenwood Village, Colorado
November 16, 2018

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, 2018. 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 and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at fiscal year ending June 30, 2018 by \$10.2 billion (presented as “net position”). Of this amount a negative \$2.6 billion was reported as unrestricted net position, which represents the amount available to be used to meet ongoing obligations to citizens and creditors.
- Total net position increased by \$1.1 billion (12.30 percent) in fiscal year 2018, including restatements. Net position of governmental activities increased by \$1.0 billion (12.62 percent), and net position of the business-type activities increased \$129.2 million (10.28 percent).

Fund highlights:

- For fiscal year 2018, the governmental funds reported a combined ending fund balance of \$1.4 billion, an increase of \$0.9 billion in comparison with the prior year. Of the total amount, \$691.3 million represents the fund balance of the Non-Major Governmental funds. The General Fund reported an unassigned fund balance for fiscal year 2018 of a positive \$59.1 million, as compared to the prior year unassigned balance of a negative \$518.7 million. See page 17 for additional information on the General Fund budget.

Long-term debt:

- The State's total long-term debt obligation (including bonds payable on demand) showed a net increase of \$6.1 million (0.08%) during the current year. This net increase was primarily due to net decreases in bonds outstanding and the net pension liability of \$35.2 million and \$25.2 million, respectively, offset by a net increase in the total OPEB liability of \$55.7 million due to the implementation of GASB Statement 75 and \$13.0 million increase to pollution remediation estimates.

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 Position* presents all the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as "net position". Over time, increases or decreases in the State's net position 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 position changed during the most recent fiscal year. All changes in net position 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 the component units or their entities 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 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 Services Fund, the Health and Environment Fund, the Education Fund and the Transportation 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, schedule of changes in the State's death & disability total OPEB liability and related ratios, schedule of the State's proportionate share of the net pension liability for the Kansas Pension Retirement Plan and schedule of State contributions for the Kansas Pension Retirement Plan.

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 Position

As noted earlier, net position may serve over time as a useful indicator of the financial position of a government. The combined net position of the State (government and business-type activities) totaled \$10.20 billion at the end of 2018, compared to \$9.11 billion at the end of the previous year, an increase of 12.30 percent.

The largest portion of net position reflects investment in capital assets such as land, buildings, equipment, and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that are still outstanding. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

State of Kansas
Management's Discussion and Analysis
June 30, 2018

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 3,180,714	\$ 2,080,185	\$ 1,931,020	\$ 1,818,204	\$ 5,111,734	\$ 3,898,389
Capital assets	13,882,776	13,784,463	528	580	13,883,304	13,785,043
Total assets	17,063,490	15,864,648	1,931,548	1,818,784	18,995,038	17,683,432
Accumulated decrease in fair value hedging	5,291	8,923	0	0	5,291	8,923
Deferred amounts on refunding	32,050	38,699	4,743	5,959	36,793	44,658
Deferred outflows - pensions	367,409	404,127	1,385	1,565	368,794	405,692
Deferred outflows - OPEB	6,263	0	0	0	6,263	0
Total deferred outflows	411,013	451,749	6,128	7,524	417,141	459,273
Non-current liabilities	7,083,919	7,060,038	510,772	528,585	7,594,691	7,588,623
Other liabilities	1,382,709	1,256,000	41,202	41,146	1,423,911	1,297,146
Total liabilities	8,466,628	8,316,038	551,974	569,731	9,018,602	8,885,769
Deferred inflows - pensions	165,280	150,310	459	504	165,739	150,814
Deferred inflows - OPEB	1,481	0	0	0	1,481	0
Total deferred inflows	166,761	150,310	459	504	167,220	150,814
Net investment in capital assets	10,188,970	10,103,755	528	580	10,189,498	10,104,335
Restricted	1,269,556	952,208	1,395,748	1,264,332	2,665,304	2,216,540
Unrestricted	(2,617,412)	(3,205,914)	(11,033)	(8,839)	(2,628,445)	(3,214,753)
Total net position	\$ 8,841,114	\$ 7,850,049	\$ 1,385,243	\$ 1,256,073	\$ 10,226,357	\$ 9,106,122

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

At the end of the current fiscal year, the State is able to report positive balances in the net investment in capital assets and restricted categories of net position, 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. Negative unrestricted net position reported for the government as a whole and for its separate governmental and business-type activities is due in part to the reporting of the total OPEB liability under GASB 75 and the net pension liability under GASB 68. See Note IV Sections E. and F., respectively, for more information.

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

	Component Units	
	2018	2017
Current and other assets	\$ 5,035,261	\$ 4,743,717
Capital assets	4,374,460	4,244,057
Total assets	9,409,721	8,987,774
Deferred amounts on refunding	9,793	11,504
Deferred outflows - pensions	45,769	52,064
Deferred outflows - OPEB	3,291	0
Total deferred outflows	58,853	63,568
Non-current liabilities	2,295,420	2,221,151
Other liabilities	378,196	404,257
Total liabilities	2,673,616	2,625,408
Deferred inflows - pensions	34,027	27,311
Deferred inflows - OPEB	761	0
Deferred amount on refunding	751	0
Total deferred inflows	35,539	27,311
Net investment in capital assets	2,601,670	2,587,811
Restricted	3,380,495	3,113,201
Unrestricted	777,254	697,611
Total net position	\$ 6,759,419	\$ 6,398,623

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Changes in Net Position – Primary Government

Net position increased by \$1.1 billion. Approximately 58.0 percent of the total revenue came from taxes, while 25.8 percent resulted from grants and contributions (including federal aid). Charges for various goods and services provided 12.4 percent of the total revenues. Expenses cover a range of services. The largest expenses of total expenses were for education (40.1 percent), human resources (19.5 percent), and health and environment (19.0 percent).

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 921,791	\$ 892,642	\$ 1,001,582	\$ 938,078	\$ 1,923,373	\$ 1,830,720
Operating grants and contributions	3,794,863	3,720,762	1,395	2,230	3,796,258	3,722,992
Capital grants and contributions	193,119	259,934	19,655	20,184	212,774	280,118
General revenues:						
Taxes						
Property taxes	698,404	669,275	0	0	698,404	669,275
Income and inheritance taxes	3,996,581	2,719,177	0	0	3,996,581	2,719,177
Sales and excise taxes	3,901,264	3,810,037	0	0	3,901,264	3,810,037
Gross receipts taxes	407,329	311,858	0	0	407,329	311,858
Investment earnings	32,232	23,896	17,862	14,769	50,094	38,665
Other revenue	521,597	540,855	17,885	21,508	539,482	562,363
Total revenues	<u>14,467,180</u>	<u>12,948,436</u>	<u>1,058,379</u>	<u>996,769</u>	<u>15,525,559</u>	<u>13,945,205</u>
Expenses:						
General government	799,293	678,024	0	0	799,293	678,024
Human resources	2,800,874	2,683,036	0	0	2,800,874	2,683,036
Education	5,754,793	5,410,778	0	0	5,754,793	5,410,778
Public safety	608,472	573,067	0	0	608,472	573,067
Agriculture and natural resources	144,841	133,706	0	0	144,841	133,706
Highways and other transportation	625,195	729,852	0	0	625,195	729,852
Health and environment	2,725,566	2,593,728	0	0	2,725,566	2,593,728
Interest expense	172,560	179,304	0	0	172,560	179,304
Water pollution and safety	0	0	16,003	30,608	16,003	30,608
Health care stabilization	0	0	41,576	38,878	41,576	38,878
Unemployment insurance	0	0	163,254	194,032	163,254	194,032
Workers' compensation	0	0	5,502	3,710	5,502	3,710
Lottory	0	0	496,065	473,074	496,065	473,074
Intergovernmental transfer program	0	0	219	267	219	267
Transportation revolving fund	0	0	47	812	47	812
Total expenses	<u>13,631,594</u>	<u>12,981,495</u>	<u>722,666</u>	<u>741,381</u>	<u>14,354,260</u>	<u>13,722,876</u>
Increase (decrease) in net assets before transfers	835,586	(33,059)	335,713	255,388	1,171,299	222,329
Transfers	<u>206,487</u>	<u>160,358</u>	<u>(206,487)</u>	<u>(160,358)</u>	<u>0</u>	<u>0</u>
Change in net position	1,042,073	127,299	129,226	95,030	1,171,299	222,329
Net position, beginning of year	7,850,049	7,679,312	1,256,073	1,161,043	9,106,122	8,840,355
Revisions to beginning net position	(51,008)	43,438	(56)	0	(51,064)	43,438
Net position, beginning of year (restated)	<u>7,799,041</u>	<u>7,722,750</u>	<u>1,256,017</u>	<u>1,161,043</u>	<u>9,055,058</u>	<u>8,883,793</u>
Net position, end of year	<u>\$ 8,841,114</u>	<u>\$ 7,850,049</u>	<u>\$ 1,385,243</u>	<u>\$ 1,256,073</u>	<u>\$ 10,226,357</u>	<u>\$ 9,106,122</u>

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Changes in Net Position – Component Units

Component unit net position increased by \$360.8 million or 5.6 percent. Charges for various goods and services provided 40.1 percent of the total revenues. Approximately 32.3 percent of the total revenue came from other revenue, while 21.4 percent resulted from grants and contributions (including federal aid). Expenses cover a range of services and are shown below by component unit below.

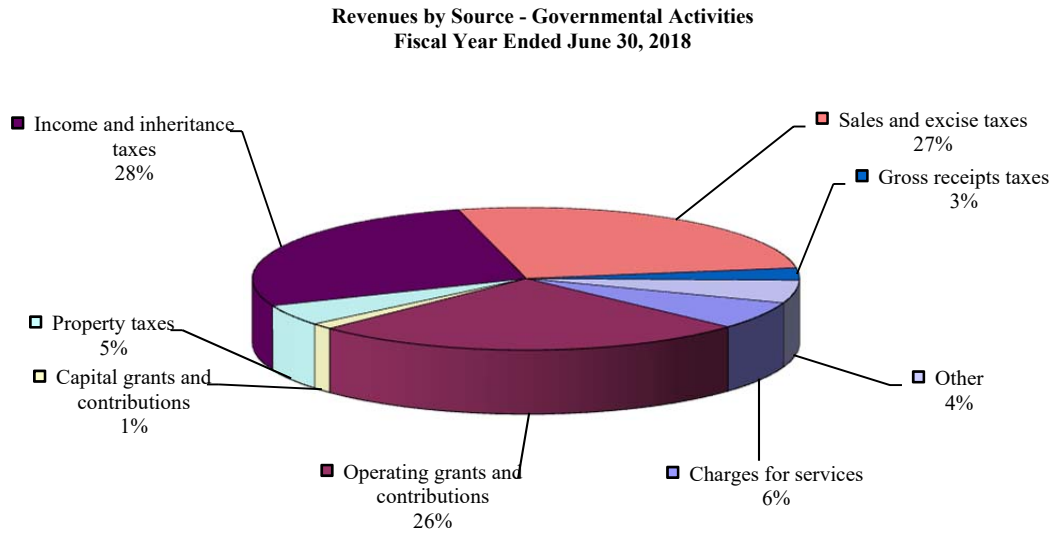
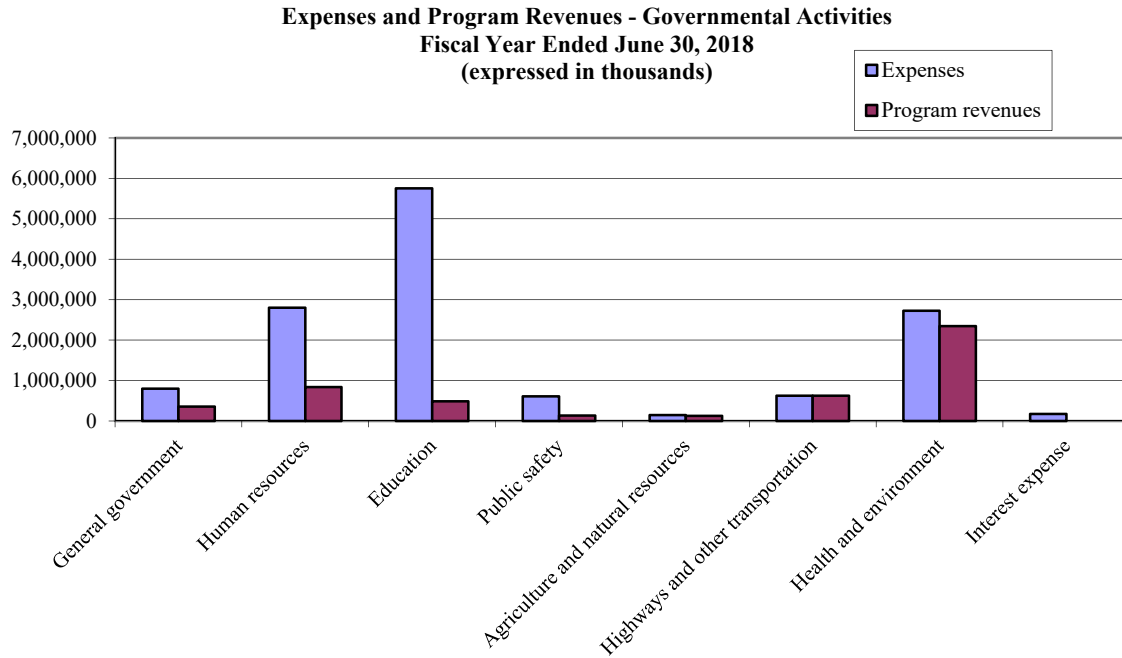
State of Kansas Changes in Net Position – Component Unit
(expressed in thousands)

	Component Units	
	2018	2017
Revenues:		
Program revenues:		
Charges for services	\$ 1,471,800	\$ 1,449,420
Operating grants and contributions	679,999	607,097
Capital grants and contributions	105,939	72,588
General revenues:		
Taxes		
Property Tax	7,916	7,569
Sales & excise Tax	0	0
Gross receipts taxes	0	0
Investment earnings	220,095	273,999
Other revenue	1,183,533	1,093,469
Total revenues	<u>3,669,282</u>	<u>3,504,142</u>
Expenses:		
Kansas Turnpike Authority	75,385	74,889
Kansas Development Finance Authority	1,858	1,893
Information Network of Kansas, Inc.	1,062	392
State University System	3,106,436	2,890,147
Kansas Center for Entrepreneurship	3,099	2,320
Kansas Housing Resources Corp.	87,313	85,310
Total expenses	<u>3,275,153</u>	<u>3,054,951</u>
Change in net position	394,129	449,191
Net position, beginning of year	6,398,623	5,994,013
Revisions to beginning net position	<u>(33,333)</u>	<u>(44,581)</u>
Net position, beginning of year (restated)	<u>6,365,290</u>	<u>5,949,432</u>
Net position, end of year	<u>\$ 6,759,419</u>	<u>\$ 6,398,623</u>

State of Kansas
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Governmental Activities

Governmental activities increased net position by \$1.0 billion in fiscal year 2018 including various restatements. 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:

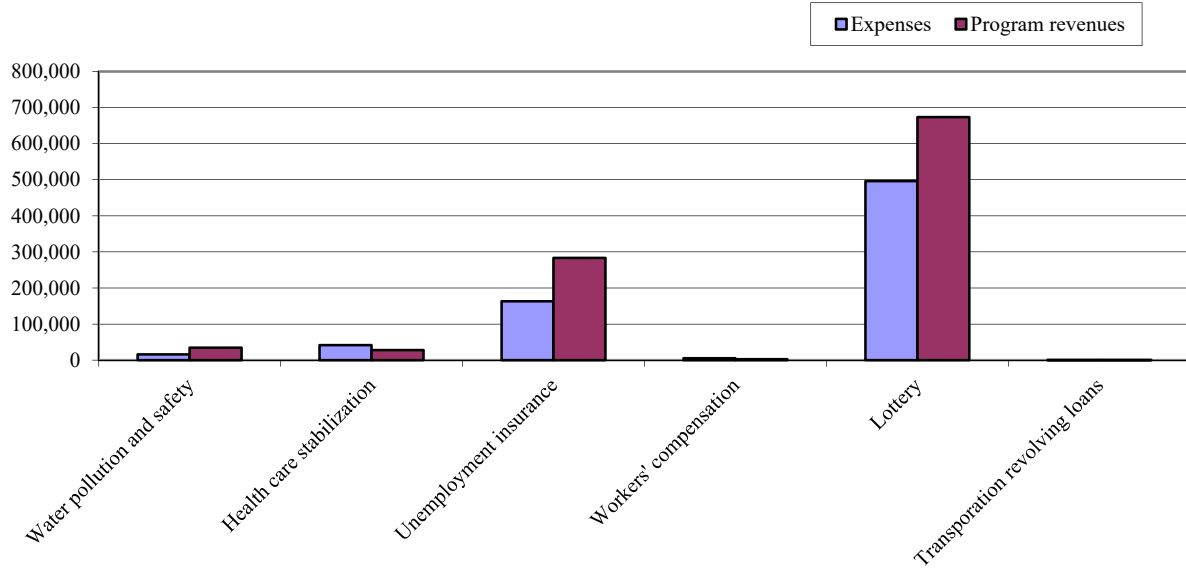


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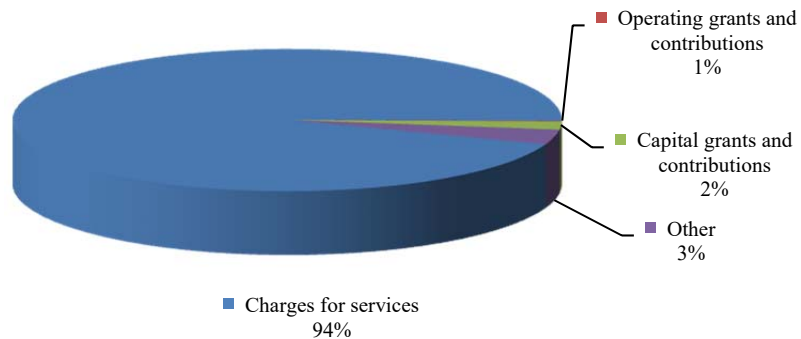
Business-Type Activities

The State's business-type activities increased the net position of the State by \$129.2 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, 2018
(expressed in thousands)



Revenues by Source - Business-Type Activities
Fiscal Year Ended June 30, 2018

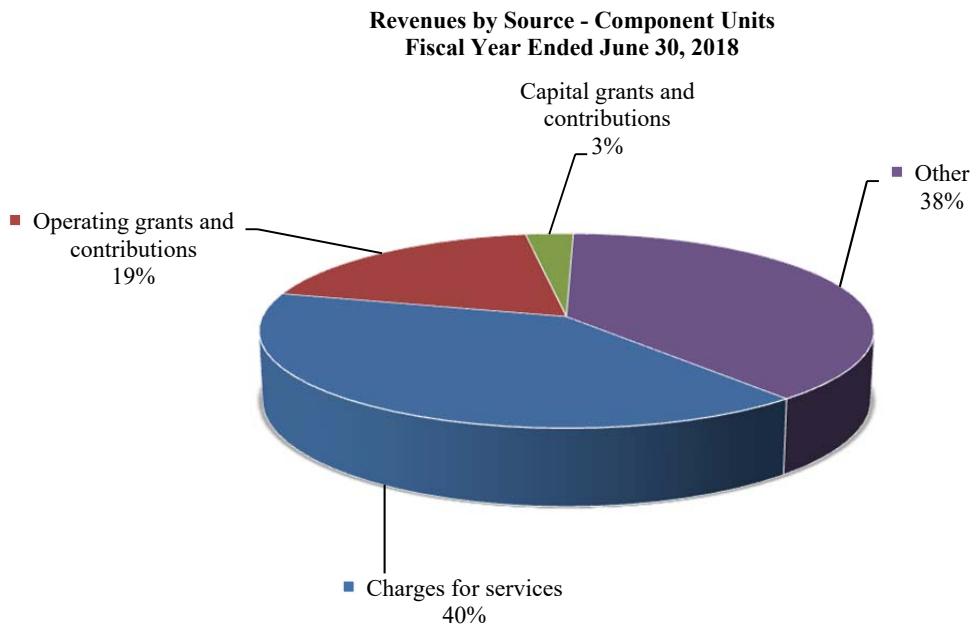
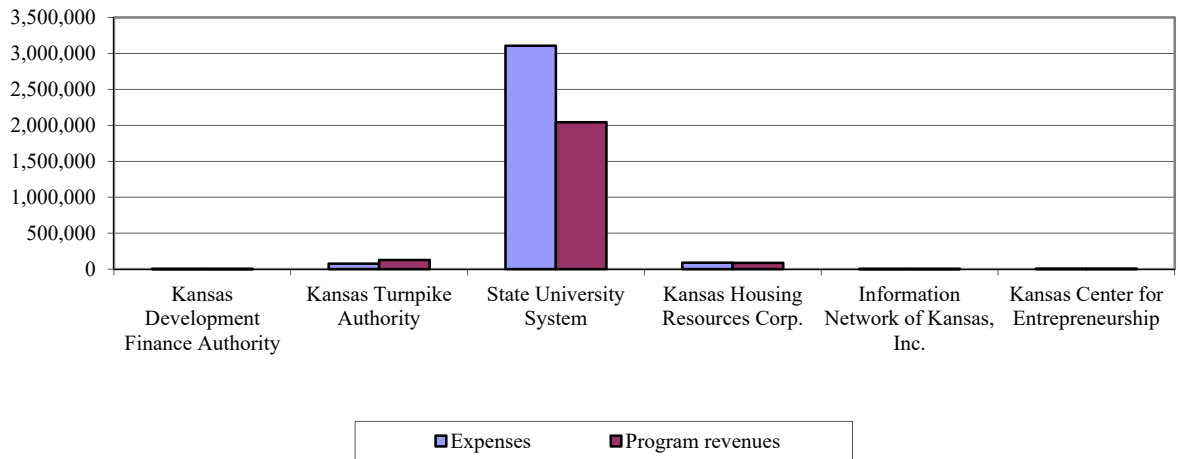


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Component Units

The State's component units increased the net position of the State by \$360.8 million, including restatements. 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, 2018
(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 2018, the governmental funds reported a combined ending fund balance of \$1.4 billion, an increase of \$894.4 million in comparison with the prior year. Part of this fund balance is nonspendable to indicate that it is not available for spending. The major portion of the Fund balance is restricted by the enabling legislation and purpose restricted grant funds.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unassigned fund balance of the General Fund was a positive \$59.1 million, while the total fund balance was a positive \$64.0 million. During fiscal year 2018, the State experienced increased revenue in income tax, property tax, gross receipts tax and sales and excise taxes. The cash and investment balance is approximately \$654.4 million higher in fiscal year 2018 than it was in fiscal year 2017.

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 position increased by \$129.2 million as a result of operations in the proprietary funds. This increase resulted from a \$25.0 million increase in the Water Funds, a \$155.3 million increase in the Unemployment Insurance Fund and a \$8.8 million decrease in the Health Care Stabilization Fund. There was a decrease of \$42.4 million in the Other Nonmajor 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 position increased by \$360.8 million. The Kansas Turnpike accounted for \$45.9 million of the increase in net position. The State University System accounted for an increase of \$314.6 million. The other four component units accounted for an increase in net position of \$250 thousand.

GENERAL FUND BUDGETARY HIGHLIGHTS

For fiscal year 2018, differences existed between the original budget, the revised budget, and the actual budget at the close of the fiscal year. Revenue estimates were revised upward by approximately \$325.4 million over the original estimate. Fiscal year 2018 ended with revenues \$58.1 million above the revised estimate.

Original estimates for expenditures for fiscal year 2018 were increased by \$107.3 million in the revised budget for the fiscal year. Fiscal year 2018 ended with expenditures \$48.7 million less than revised estimates.

The original estimate provided for revenues greater than expenditures of \$39.2 million. The final budget provided for \$257.4 million of revenues greater than expenditures. Subsequently, fiscal year 2018 was closed with revenues greater than expenditures of \$364.2 million.

Looking ahead to fiscal year 2019, there are several areas that will affect budget outcomes including, K-12 school finance, social service caseloads and pensions.

The 2017 Legislature passed and the Governor signed Senate Bill 19 which, among other things, enacted the Kansas School Equity and Enhancement Act. For fiscal years 2016 and 2017, K-12 education in Kansas was financed using a block grant system as an interim measure while the State considered funding options because of Kansas Supreme Court rulings that challenged the State's finance methodology. The Kansas School Equity and Enhancement Act returned K-12 finance to a system based on weightings and adjustments for a number of factors. On October 3, 2017, the Kansas Supreme Court ruled that the new school finance system passed in 2017 SB 19 was unconstitutional. In response to the court ruling, amendments to the Kansas School Equity and Enhancement Act were made by the 2018 Legislature and the Governor, which included technical changes to the school finance formula and increased appropriations for state aid payments to school districts. On June 25, 2018, the Kansas Supreme Court ruled that the State's formula equitably distributes school funding, but the total level of funding is inadequate. Ongoing issues related to the Kansas School Equity and Enhancement Act will be addressed by the Executive Branch and the Legislature during the 2019 Session of the Kansas Legislature, which begins January 2019.

Expenditures related to social service caseloads will continue to be revised as the state addresses ongoing trends of increasing populations in the foster care system and increasing Medicaid costs.

The 2017 Legislature approved reducing pension employer contributions by \$194.0 million in FY 2019. In order to return funds to the State's pension fund, the 2018 Legislature approved transferring \$138.0 million in FY 2018. In FY 2019, \$56.0 million will be transferred to the State's pension fund at the end of the fiscal year if actual State General Fund revenues are above estimates.

The Consensus Estimating Group met on November 9, 2018 to revise the State General Fund revenue estimate for fiscal year 2019 and make its first estimates for fiscal year 2020 and fiscal year 2021. The estimate for fiscal year 2019 was increased by \$306.4 million, or 4.4 percent, above the previous estimate made in April 2018 and subsequently adjusted for legislation enacted during the 2018 Legislative Session. The Group estimated that revenues would decrease by \$38.4 million in fiscal year 2020 and \$36.5 million in fiscal year 2021.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

State investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$13.9 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 increase in the investment in capital assets for governmental and business-type activities for the current fiscal year was 0.71 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 \$89.8 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 debt obligations increased by \$6.1 million during the current fiscal year. This net increase was primarily due to net decreases in bonds outstanding and the net pension liability of \$35.2 million and \$25.2 million, respectively, offset by a net increase in the total OPEB liability of \$55.7 million due to the implementation of GASB Statement 75 and \$13.0 million increase to pollution remediation estimates.

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 failed to show any significant growth in 2017 with a major factor being the continuing struggles in the agriculture sector. There were some positive economic indicators in 2017 with data from the first half of 2018 suggesting the economy is growing again. Unemployment remained low in Kansas as the annual unemployment rate decreased for the seventh consecutive year to 3.6 percent, the lowest rate recorded since 2000. The number of unemployed people and the number of unemployment insurance claims also continued to decrease. There were 36,452 continued unemployment claims in June 2018, down from 45,076 in June 2017. The total number of people in the labor force declined for the third consecutive year and the labor force participation rate fell for the eighth consecutive year.

Job numbers gave mixed signals in 2017 with nonfarm job estimates showing a decrease of 500 jobs over the year but jobs covered by unemployment insurance increasing by approximately 900. With both sources showing less than 0.1 percent change over the year, job growth was virtually nonexistent in 2017. Four industries gained jobs in 2017 with notable gains in manufacturing and leisure and hospitality while five industries lost jobs with financial activities, construction and information losing a notable number of jobs.

Fiscal Year 2018 State General Fund Allotments

An executive branch allotment system to reduce expenditures is applicable to the expenditures by State agencies when under certain circumstances for any fiscal year the resources of the State General Fund or any special revenue fund appear likely to be insufficient to cover appropriations made against the State General Fund or such special revenue fund. Such determinations are to be made by the Director of the Budget.

Allotment authority was expanded in fiscal years 2015, 2016 and 2017. The expanded authority allowed State General Fund expenditure reductions and transfers from special revenue funds to the State General Fund whenever the estimated State General Fund ending balance is below \$100.0 million.

There were no allotments enacted in fiscal year 2018.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of State finances for all of Kansas's citizens, taxpayers, customers, 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:

DeAnn Hill, CPA
Chief Financial Officer for the State of Kansas
Office of the Chief Financial Officer
700 SW Harrison, Suite 300
Topeka, KS 66603

Financial Statements

State of Kansas
Financial Statements
June 30, 2018

Government Wide - Statement of Net Position
June 30, 2018
(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
ASSETS				
Cash and cash equivalents	\$ 1,774,471	\$ 56,345	\$ 1,830,816	\$ 685,627
Investments	21,900	204,918	226,818	456,283
Receivables (net)	1,182,306	647,179	1,829,485	666,640
Due from primary government:				
Investment in direct financing leases, due within one year	0	0	0	345
Investment in direct financing leases, due in more than one year	0	0	0	1,135
Internal balances	4,128	(4,128)	0	0
Inventories	39,975	2,533	42,508	14,002
Other current assets	0	0	0	42,845
Restricted cash and cash equivalents	140,442	777,227	917,669	102,673
Restricted investments	16,276	246,946	263,222	3,044,155
Capital assets not being depreciated	12,770,947	0	12,770,947	899,125
Capital assets, net of accumulated depreciation	1,111,829	528	1,112,357	3,475,335
Other noncurrent assets	1,216	0	1,216	21,556
Total assets	<u>17,063,490</u>	<u>1,931,548</u>	<u>18,995,038</u>	<u>9,409,721</u>
DEFERRED OUTFLOWS OF RESOURCES				
Accumulated decrease in fair value of hedging derivatives	5,291	0	5,291	0
Deferred amounts on refunding	32,050	4,743	36,793	9,793
Deferred outflows - pensions	367,409	1,385	368,794	45,769
Deferred outflows - OPEB	6,263	0	6,263	3,291
Total deferred outflows of resources	<u>411,013</u>	<u>6,128</u>	<u>417,141</u>	<u>58,853</u>
LIABILITIES				
Accounts payable and other current liabilities	1,351,516	27,316	1,378,832	275,765
Due to component unit:				
Lease revenue bonds payable, due within one year	345	0	345	0
Lease revenue bonds payable, due in more than one year	1,135	0	1,135	0
Unearned revenue	18,207	13,886	32,093	102,431
Derivative instrument - interest rate swap	11,506	0	11,506	0
Noncurrent liabilities:				
Due within one year	363,810	66,626	430,436	156,878
Due in more than one year	6,720,109	444,146	7,164,255	2,138,542
Total liabilities	<u>8,466,628</u>	<u>551,974</u>	<u>9,018,602</u>	<u>2,673,616</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pensions	165,280	459	165,739	34,027
Deferred inflows - OPEB	1,481	0	1,481	761
Deferred amounts on refunding	0	0	0	751
Total deferred inflows of resources	<u>166,761</u>	<u>459</u>	<u>167,220</u>	<u>35,539</u>
NET POSITION				
Net investment in capital assets	10,188,970	528	10,189,498	2,601,670
Restricted for:				
Capital projects	54,207	0	54,207	242,817
Debt service	75,131	0	75,131	60,097
Nonexpendable	0	0	0	1,238,831
Other purposes	627,411	1,395,748	2,023,159	1,838,750
Highways and other transportation	512,807	0	512,807	0
Unrestricted	<u>(2,617,412)</u>	<u>(11,033)</u>	<u>(2,628,445)</u>	<u>777,254</u>
Total net position	<u>\$ 8,841,114</u>	<u>\$ 1,385,243</u>	<u>\$ 10,226,357</u>	<u>\$ 6,759,419</u>

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

State of Kansas
Financial Statements
June 30, 2018

Government Wide - Statement of Activities
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
Primary government:				
Governmental activities:				
General government	\$ 799,293	\$ 293,704	\$ 60,095	\$ 1
Human resources	2,800,874	142,381	697,095	0
Education	5,754,793	6,320	478,210	0
Public safety	608,472	72,948	60,589	6
Agriculture and natural resources	144,841	87,005	40,477	161
Highways and other transportation	625,195	218,765	211,151	192,951
Health and environment	2,725,566	100,668	2,247,246	0
Interest expense	172,560	0	0	0
Total governmental activities	13,631,594	921,791	3,794,863	193,119
Business-type activities:				
Water pollution and safety	16,003	15,224	0	19,655
Health care stabilization	41,576	28,121	0	0
Unemployment insurance	163,254	281,923	1,395	0
Workers' compensation	5,502	2,583	0	0
Lottery	496,065	673,457	0	0
Intergovernmental transfer program	219	50	0	0
Transportation revolving loans	47	224	0	0
Total business-type activities	722,666	1,001,582	1,395	19,655
Total primary government	\$ 14,354,260	\$ 1,923,373	\$ 3,796,258	\$ 212,774
Component units:				
Kansas Turnpike Authority	\$ 75,385	\$ 123,619	\$ 1,696	\$ 0
Kansas Development Finance Authority	1,858	1,126	0	0
Kansas Center for Entrepreneurship	3,099	3,049	203	0
Information Network of Kansas, Inc.	1,062	1,066	0	0
State University System	3,106,436	1,338,462	597,738	105,939
Kansas Housing Resources Corporation	87,313	4,478	80,362	0
Total component units	\$ 3,275,153	\$ 1,471,800	\$ 679,999	\$ 105,939

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

State of Kansas
Financial Statements
June 30, 2018

Net (Expense) Revenue and Changes in Net Position				
Primary Government				
	Governmental Activities	Business-Type Activities	Total	Component Units
	\$ (445,493)	\$ 0	\$ (445,493)	\$ 0
	(1,961,398)	0	(1,961,398)	0
	(5,270,263)	0	(5,270,263)	0
	(474,929)	0	(474,929)	0
	(17,198)	0	(17,198)	0
	(2,328)	0	(2,328)	0
	(377,652)	0	(377,652)	0
	(172,560)	0	(172,560)	0
	<u>(8,721,821)</u>	<u>0</u>	<u>(8,721,821)</u>	<u>0</u>
	0	18,876	18,876	0
	0	(13,455)	(13,455)	0
	0	120,064	120,064	0
	0	(2,919)	(2,919)	0
	0	177,392	177,392	0
	0	(169)	(169)	0
	0	177	177	0
	<u>0</u>	<u>299,966</u>	<u>299,966</u>	<u>0</u>
	<u>\$ (8,721,821)</u>	<u>\$ 299,966</u>	<u>\$ (8,421,855)</u>	<u>\$ 0</u>
	\$ 0	\$ 0	\$ 0	\$ 49,930
	0	0	0	(732)
	0	0	0	153
	0	0	0	4
	0	0	0	(1,064,297)
	0	0	0	(2,473)
	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,017,415)</u>
General revenues:				
Taxes:				
Property tax	\$ 698,404	\$ 0	\$ 698,404	\$ 7,916
Income and inheritance tax	3,996,581	0	3,996,581	0
Sales and excise tax	3,901,264	0	3,901,264	0
Gross receipts tax	407,329	0	407,329	0
Investment earnings	32,232	17,862	50,094	220,095
Other revenue	521,597	17,885	539,482	1,183,533
Transfers	206,487	(206,487)	0	0
Total general revenues	<u>9,763,894</u>	<u>(170,740)</u>	<u>9,593,154</u>	<u>1,411,544</u>
Change in net position	<u>1,042,073</u>	<u>129,226</u>	<u>1,171,299</u>	<u>394,129</u>
Net position - beginning	7,850,049	1,256,073	9,106,122	6,398,623
Revisions to beginning net position	(51,008)	(56)	(51,064)	(33,333)
Net position - beginning (restated)	<u>7,799,041</u>	<u>1,256,017</u>	<u>9,055,058</u>	<u>6,365,290</u>
Net position - ending	\$ 8,841,114	\$ 1,385,243	\$ 10,226,357	\$ 6,759,419

State of Kansas
Financial Statements
June 30, 2018

Balance Sheet - Governmental Funds
June 30, 2018
(expressed in thousands)

	General	Social Services	Health and Environment	Education	Transporta- tion	Nonmajor Governmental	Total Governmental
ASSETS							
Cash and cash equivalents	\$ 803,158	\$ 29,409	\$ 73,777	\$ 11,696	\$ 452,080	\$ 338,327	\$ 1,708,447
Investments	0	0	0	0	0	21,900	21,900
Receivables, net	748,754	88,242	202,763	2,628	94,090	44,301	1,180,778
Due from other funds	2,645	6,631	11,701	0	0	64,785	85,762
Inventories	4,958	307	0	0	24,266	4,281	33,812
Advances to other funds	0	32,753	58,504	0	0	327,873	419,130
Restricted cash and cash equivalents	0	0	0	0	0	112,815	112,815
Restricted investments	0	0	0	0	0	16,276	16,276
Total assets	<u>\$ 1,559,515</u>	<u>\$ 157,342</u>	<u>\$ 346,745</u>	<u>\$ 14,324</u>	<u>\$ 570,436</u>	<u>\$ 930,558</u>	<u>\$ 3,578,920</u>
LIABILITIES							
Accounts payable and other current liabilities	\$ 659,508	\$ 92,230	\$ 212,284	\$ 6,227	\$ 47,133	\$ 233,936	\$ 1,251,318
Due to other funds	78,236	83	0	0	0	3,032	81,351
Advances from other funds	418,323	41	0	0	0	436	418,800
Unearned revenue	0	0	0	0	16,572	1,635	18,207
Total liabilities	<u>1,156,067</u>	<u>92,354</u>	<u>212,284</u>	<u>6,227</u>	<u>63,705</u>	<u>239,039</u>	<u>1,769,676</u>
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - taxes	339,422	41	62	0	17,303	177	357,005
Deferred revenue - Federal	0	0	29,961	0	0	0	29,961
Total deferred inflows of resources	<u>339,422</u>	<u>41</u>	<u>30,023</u>	<u>0</u>	<u>17,303</u>	<u>177</u>	<u>386,966</u>
FUND BALANCES							
Nonspendable:							
Long-term receivables	0	0	0	0	7,572	0	7,572
Inventory	4,958	307	0	0	24,266	4,281	33,812
Restricted for:							
Capital projects	0	0	0	0	0	54,207	54,207
Debt service	0	0	0	0	0	127,401	127,401
General government	0	0	0	0	0	235,985	235,985
Human resources	0	64,640	0	0	0	56,614	121,254
Education	0	0	0	8,097	0	6,595	14,692
Public safety	0	0	0	0	0	71,910	71,910
Agriculture and natural resources	0	0	0	0	0	79,132	79,132
Highways and other transportation	0	0	0	0	457,590	55,217	512,807
Health and environment	0	0	104,438	0	0	0	104,438
Unassigned	59,068	0	0	0	0	0	59,068
Total fund balance	<u>64,026</u>	<u>64,947</u>	<u>104,438</u>	<u>8,097</u>	<u>489,428</u>	<u>691,342</u>	<u>1,422,278</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 1,559,515</u>	<u>\$ 157,342</u>	<u>\$ 346,745</u>	<u>\$ 14,324</u>	<u>\$ 570,436</u>	<u>\$ 930,558</u>	<u>\$ 3,578,920</u>

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

(Continued)

State of Kansas
Financial Statements
June 30, 2018

Balance Sheet - Governmental Funds - Continued
June 30, 2018
(expressed in thousands)

	Total Governmental
Reconciliation to the Statement of Net Position:	
Total fund balance from previous page	\$ 1,422,278
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds:	
Capital assets not being depreciated	12,770,947
Capital assets being depreciated	1,111,829
Internal service funds included in above	(63,687)
Other noncurrent assets and deferred outflows of resources are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Derivatives	5,291
Other noncurrent assets	1,216
Deferred refunding	32,050
Deferred outflows - pensions	367,409
Deferred outflows - OPEB	6,263
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	(11,932)
Capital leases payable	(136,728)
Revenue bonds payable	(4,263,802)
Pollution remediation	(91,863)
Unamortized premium discount	(279,919)
Total OPEB liability	(55,638)
Net pension liability	(2,021,444)
Compensated absences	(109,249)
Claims and judgments	(93,548)
Special assessment payable	(2,341)
Due to component unit (lease revenue bonds payable)	(1,480)
Arbitrage and derivative liabilities	(11,529)
Deferred inflows of resources adjustment for revenue unavailable at the fund level	386,966
Other accrued liabilities	(62,762)
Accrued interest	(52,270)
Internal service funds included in above	129,308
Other deferred inflows of resources are not due and payable in the current period and therefore are not reported in the funds:	
Deferred inflows - pensions	(165,280)
Deferred inflows - OPEB	(1,481)
Internal service funds: the assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	32,510
Net position of governmental activities	<u>\$ 8,841,114</u>

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

State of Kansas
Financial Statements
June 30, 2018

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)**

	General	Social Services	Health and Environment	Education	Transporta- tion	Nonmajor Governmental	Total Governmental
Revenues:							
Property tax	\$ 24	\$ 0	\$ 0	\$ 640,862	\$ 0	\$ 57,507	\$ 698,393
Income and inheritance tax	3,862,165	0	0	0	0	27,881	3,890,046
Sales and excise tax	3,046,304	3,449	785	7,198	834,272	16,777	3,908,785
Gross receipts tax	170,935	0	213,948	0	0	22,630	407,513
Charges for services	33,886	117,668	99,589	5,733	218,765	446,151	921,792
Operating grants	0	674,597	2,217,285	475,882	206,720	190,375	3,764,859
Capital grants	0	0	0	0	193,717	152	193,869
Investment earnings	19,439	162	484	3	3,970	5,530	29,588
Other revenues	8,983	28,242	316,698	57,696	8,430	87,291	507,340
Total revenues	7,141,736	824,118	2,848,789	1,187,374	1,465,874	854,294	14,322,185
Expenditures:							
Current:							
General government	280,927	0	0	0	0	401,485	682,412
Human resources	1,076,955	1,637,341	0	0	0	72,446	2,786,742
Education	4,202,785	0	0	1,491,220	0	61,265	5,755,270
Public safety	382,860	0	0	0	0	215,672	598,532
Agriculture and natural resources	10,225	0	0	0	0	135,487	145,712
Highways and other transportation	0	0	0	0	742,404	23,152	765,556
Health and environment	677,164	0	2,037,621	0	0	8,776	2,723,561
Debt service:							
Principal	2,629	448	0	0	0	223,715	226,792
Interest	2,424	341	0	0	0	200,772	203,537
Total expenditures	6,635,969	1,638,130	2,037,621	1,491,220	742,404	1,342,770	13,888,114
Excess of revenues over (under) expenditures	505,767	(814,012)	811,168	(303,846)	723,470	(488,476)	434,071
Other financing sources (uses):							
Issuance of bonds	0	0	0	0	0	200,000	200,000
Issuance of capital leases	0	5,832	0	0	0	2,206	8,038
Premium on issuance of debt	0	0	0	0	0	42,212	42,212
Transfers, net	72,851	821,197	(809,115)	301,509	(470,513)	295,458	211,387
Total other financing sources (uses)	72,851	827,029	(809,115)	301,509	(470,513)	539,876	461,637
Net change in fund balances	578,618	13,017	2,053	(2,337)	252,957	51,400	895,708
Fund balances, beginning	(514,592)	51,930	102,385	10,434	237,819	639,942	527,918
Change in reserves for inventory	0	0	0	0	(1,348)	0	(1,348)
Fund balances, end	\$ 64,026	\$ 64,947	\$ 104,438	\$ 8,097	\$ 489,428	\$ 691,342	\$ 1,422,278

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

(Continued)

State of Kansas
Financial Statements
June 30, 2018

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Total Governmental
Reconciliation to the Statement of Activities:	
Total net change in fund balance from previous page	\$ 895,708
Governmental funds report capital asset acquisition as expenditures. However, in the statement of activities, the cost of assets capitalized is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capitalized assets exceeded depreciation in the current period.	
Depreciation expense	(80,089)
Capitalized assets acquired	251,644
In the statement of activities, the gain or loss from the sale of capital assets is reported, whereas in the governmental funds, only proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the net book value of capital assets sold.	(67,199)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	
Unavailable revenue	128,000
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position:	
Revenue bonds	(200,000)
Bond premiums and discounts	(42,212)
Deferred refundings	(6,649)
Other borrowings	(8,038)
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 position.	
Revenue bonds	217,225
Other borrowings	9,567
The amortization of bond premiums and discounts affects long-term liabilities on the statement of net position, but does not provide or use current financial resources to governmental funds.	35,388
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	(237)
Pollution remediation	(13,607)
Accrued interest	(992)
Claims and judgments	2,335
Total OPEB liability	908
Net pension liability	25,154
Change in inventory for materials and supplies	(1,348)
Derivatives (liability), due to component and accrued accounts payable	(55,930)
Derivatives (assets and deferred outflows)	(3,708)
The amortization of collective deferred outflows and inflows of resources related to pensions affects change in net position, but does not provide or use current financial resources to governmental funds.	
Deferred outflows - pensions	(36,718)
Deferred inflows - pensions	(14,970)
Deferred outflows - OPEB	725
Deferred inflows - OPEB	(1,481)
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.	8,597
Changes in Net Position of Governmental Activities	<u>\$ 1,042,073</u>

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

State of Kansas
Financial Statements
June 30, 2018

Statement of Net Position - Proprietary Funds
June 30, 2018
(expressed in thousands)

	Business-Type Activities					Governmental Activities - Internal Service Funds
	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor Funds	Total	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 23,071	\$ 6,875	\$ 6,371	\$ 20,028	\$ 56,345	\$ 66,024
Restricted cash and cash equivalents	0	769,653	0	0	769,653	27,627
Investments	169,773	0	35,145	0	204,918	0
Receivables, net	78,122	18,992	2,208	13,784	113,106	1,528
Inventories	0	0	0	2,533	2,533	6,163
Total current assets	270,966	795,520	43,724	36,345	1,146,555	101,342
Noncurrent assets:						
Restricted cash and cash equivalents	7,574	0	0	0	7,574	0
Investments, restricted	3,180	0	243,766	0	246,946	0
Receivables, net	516,703	0	0	17,370	534,073	0
Capital assets not being depreciated	0	0	0	0	0	5,646
Capital assets (net of accumulated depreciation)	0	0	5	523	528	58,041
Total noncurrent assets	527,457	0	243,771	17,893	789,121	63,687
Total assets	798,423	795,520	287,495	54,238	1,935,676	165,029
DEFERRED OUTFLOWS OF RESOURCES						
Deferred amounts on refunding	4,743	0	0	0	4,743	0
Deferred outflows - pensions	0	0	0	1,385	1,385	0
Total deferred outflows of resources	4,743	0	0	1,385	6,128	0
LIABILITIES						
Current liabilities:						
Accounts payable and other current liabilities	3,663	5,138	93	18,422	27,316	2,598
Unearned revenue	0	0	13,377	0	13,377	0
Due to other funds	0	0	0	4,128	4,128	283
Compensated absences	0	0	80	8	88	1,210
Portion of long-term liabilities	30,408	0	28,385	7,745	66,538	41,071
Total current liabilities	34,071	5,138	41,935	30,303	111,447	45,162
Noncurrent liabilities:						
Compensated absences	0	0	15	1	16	231
Claims and judgments	0	0	215,809	28,060	243,869	52,290
Bonds, notes and loans payable	183,051	0	0	212	183,263	34,506
Unearned lease revenue	0	0	0	509	509	0
Arbitrage rebate payable	0	0	0	56	56	0
Other noncurrent liabilities	10,409	0	0	6,460	16,869	0
Total OPEB liability	0	0	0	73	73	0
Advances from other funds	0	0	0	0	0	330
Total noncurrent liabilities	193,460	0	215,824	35,371	444,655	87,357
Total liabilities	227,531	5,138	257,759	65,674	556,102	132,519
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - pensions	0	0	0	459	459	0
NET POSITION						
Net investment in capital assets	0	0	5	523	528	27,067
Restricted for:						
Other purposes	575,635	790,382	29,731	0	1,395,748	0
Unrestricted	0	0	0	(11,033)	(11,033)	5,443
Total net position	\$ 575,635	\$ 790,382	\$ 29,736	\$ (10,510)	\$ 1,385,243	\$ 32,510

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

State of Kansas
Financial Statements
June 30, 2018

**Statement of Revenues, Expenses, and Changes in
Fund Net Position - Proprietary Funds
For the Fiscal Year Ended June 30, 2018**
(expressed in thousands)

	Business-Type Activities					Governmental Activities - Internal Service Funds
	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor Funds	Total	
Operating revenues:						
Charges for services	\$ 1,581	\$ 281,923	\$ 28,121	\$ 676,314	\$ 987,939	\$ 91,926
Interest on loans	13,643	0	0	0	13,643	0
Other revenue	2,060	21,057	1,384	5,670	30,171	29,046
Total operating revenues	17,284	302,980	29,505	681,984	1,031,753	120,972
Operating expenses:						
Salaries and wages	0	0	1,509	6,614	8,123	24,150
Supplies and services	1,474	0	6,157	320,652	328,283	51,573
Lottery prize awards	0	0	0	157,891	157,891	0
Depreciation	0	0	3	350	353	9,760
Insurance claims and expenses	0	163,218	0	1,403	164,621	14,555
Program administration - Water Funds	2,015	0	0	0	2,015	0
Other expenses	2,988	36	33,907	14,697	51,628	5,436
Total operating expenses	6,477	163,254	41,576	501,607	712,914	105,474
Operating income (loss)	10,807	139,726	(12,071)	180,377	318,839	15,498
Nonoperating revenues (expenses):						
Operating grants	0	1,395	0	0	1,395	0
Capital grants	19,655	0	0	0	19,655	0
Investment earnings	3,128	14,889	(405)	250	17,862	136
Interest expense	(9,526)	0	0	(226)	(9,752)	(1,719)
Other revenues (expenses)	967	0	(1,129)	(12,124)	(12,286)	(418)
Total nonoperating revenues (expenses)	14,224	16,284	(1,534)	(12,100)	16,874	(2,001)
Income before transfers	25,031	156,010	(13,605)	168,277	335,713	13,497
Transfers in	0	21	5,049	2,355	7,425	1,093
Transfers out	0	(748)	(200)	(212,964)	(213,912)	(5,993)
Change in net position	25,031	155,283	(8,756)	(42,332)	129,226	8,597
Net position - beginning	550,604	635,099	38,492	31,878	1,256,073	23,913
Revisions to beginning net position	0	0	0	(56)	(56)	0
Net position - beginning (restated)	550,604	635,099	38,492	31,822	1,256,017	23,913
Net position - ending	\$ 575,635	\$ 790,382	\$ 29,736	\$ (10,510)	\$ 1,385,243	\$ 32,510

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

State of Kansas
Financial Statements
June 30, 2018

Statement of Cash Flows - Proprietary Funds
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor funds	Total	Governmental Activities - Internal Service Funds
Cash flows from operating activities:						
Cash receipts from customers	\$ 0	\$ 296,568	\$ 29,759	\$ 686,979	\$ 1,013,306	\$ 121,171
Cash payments to suppliers for goods and services	(1,474)	(1,520)	(6,132)	(841)	(9,967)	(56,148)
Cash payments to employees for services	0	0	(1,496)	(6,473)	(7,969)	(24,130)
Cash payments for lottery prizes	0	0	0	(487,087)	(487,087)	0
Claims paid	0	(163,218)	(26,138)	(1,208)	(190,564)	(19,808)
Other operating revenues	3,311	0	0	226	3,537	0
Other operating expenses	(2,015)	0	0	(3,081)	(5,096)	0
Net cash provided (used) by operating activities	(178)	131,830	(4,007)	188,515	316,160	21,085
Cash flows from noncapital financing activities:						
Operating grants receipts	0	1,395	0	0	1,395	0
Other non-operating expenses	0	0	(1,129)	0	(1,129)	(418)
Advances from other funds	0	0	0	0	0	(283)
Net transfers to other funds	0	(727)	4,849	(210,609)	(206,487)	(4,900)
Other cash inflows from noncapital financing activities	29,689	0	0	0	29,689	0
Other cash outflows from noncapital financing activities	(26,265)	0	0	(28,726)	(54,991)	0
Net cash provided (used) by noncapital financing activities	3,424	668	3,720	(239,335)	(231,523)	(5,601)
Cash flows from capital and related financing activities:						
Repayment of long-term debt	0	0	0	0	0	(1,954)
Interest payments	0	0	0	0	0	(1,719)
Proceeds from sale of fixed assets	0	0	0	17	17	90
Payments for purchase of fixed assets	0	0	0	(305)	(305)	(3,807)
Net cash provided (used) by capital and related financing activities	0	0	0	(288)	(288)	(7,390)
Cash flows from investing activities:						
Proceeds from sale and maturities of investment securities	668,404	0	35,363	15,277	719,044	0
Purchase of investments	(639,818)	0	(38,313)	0	(678,131)	0
Cash receipts from customers	13,399	0	0	0	13,399	0
Interest and dividends	3,202	14,889	7,714	485	26,290	136
Other investing revenues	53,171	0	0	0	53,171	0
Other investing expenses	(109,584)	0	0	0	(109,584)	0
Net cash provided (used) by investing activities	(11,226)	14,889	4,764	15,762	24,189	136
Net increase (decrease) in cash and cash equivalents	(7,980)	147,387	4,477	(35,346)	108,538	8,230
Cash and cash equivalents, beginning of year	38,625	629,141	1,894	55,374	725,034	85,421
Cash and cash equivalents, end of year	\$ 30,645	\$ 776,528	\$ 6,371	\$ 20,028	\$ 833,572	\$ 93,651
Reconciliation of operating income (loss) to net cash provided by operations:						
Operating income (loss)	\$ 10,807	\$ 139,726	\$ (12,071)	\$ 180,377	\$ 318,839	\$ 15,498
Adjustment to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	0	0	3	350	353	9,760
Changes in assets and liabilities:						
Receivables	(53,696)	(6,412)	0	5,386	(54,722)	199
Inventories	0	0	0	0	0	2,026
Accounts payable	(302)	(1,484)	25	1,874	113	(991)
Payroll liabilities	0	0	13	2	15	20
Due to other funds	0	0	0	173	173	(174)
Claims and judgments	0	0	7,769	195	7,964	(5,253)
Unearned revenue	0	0	254	(155)	99	0
Net change in pension deferred outflows/inflows	0	0	0	135	135	0
Net pension liability	0	0	0	(13)	(13)	0
OPEB liability	0	0	0	16	16	0
Lottery prize liability	0	0	0	175	175	0
Loan principal	(53,171)	0	0	0	(53,171)	0
Loans disbursed	109,583	0	0	0	109,583	0
Loan interest	(13,399)	0	0	0	(13,399)	0
Total adjustments	(10,985)	(7,896)	8,064	8,138	(2,679)	5,587
Net cash provided (used) by operating activities	\$ (178)	\$ 131,830	\$ (4,007)	\$ 188,515	\$ 316,160	\$ 21,085

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

State of Kansas
Financial Statements
June 30, 2018

Statement of Net Position
Fiduciary Funds
June 30, 2018
(expressed in thousands)

	Pension Trust	Investment Trust	Agency
ASSETS			
Cash and cash equivalents	\$ 49,235	\$ 1,139,268	\$ 311,194
Investments:			
Domestic equities	6,049,135	0	0
International equities	4,306,647	0	0
Short term	466,772	0	39,308
Fixed income	5,281,962	0	0
Alternative investments	1,290,641	0	0
Real estate	2,177,717	0	0
Certificates of deposit	0	0	114,557
Receivables, net	297,414	0	319,978
Capital assets	3,949	0	173
	<u>19,923,472</u>	<u>1,139,268</u>	<u>785,210</u>
LIABILITIES			
Accounts payable and other liabilities	<u>227,263</u>	<u>0</u>	<u>785,210</u>
	<u>227,263</u>	<u>0</u>	<u>\$ 785,210</u>
NET POSITION			
Net position held in trust	<u>\$ 19,696,209</u>	<u>\$ 1,139,268</u>	

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

State of Kansas
Financial Statements
June 30, 2018

Statement of Changes in Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Pension Trust	Investment Trust
ADDITIONS		
Contributions:		
Employer contributions	\$ 887,735	\$ 0
Employee contributions	420,285	0
Total contributions	1,308,020	0
Investment earnings:		
Net appreciation (depreciation) in fair value in investments	1,145,751	11,313
Interest	143,874	0
Dividends	219,738	0
Real estate income	94,853	0
Other investment income	14,706	0
Total investment earnings	1,618,922	11,313
Less investment expense	101,993	0
Net investment earnings	1,516,929	11,313
MIP deposits	0	3,885,838
Other income	5,734	0
Total investment earnings	1,522,663	3,897,151
Total additions	2,830,683	3,897,151
DEDUCTIONS		
Benefits and refunds:		
Monthly benefits and refunds	1,679,588	0
Refunds of contributions	64,967	0
Death benefits	11,300	0
Distributions	0	3,992,359
Total benefits and refunds	1,755,855	3,992,359
Administrative expenses	12,459	0
Total deductions	1,768,314	3,992,359
Change in net position	1,062,369	(95,208)
Net position - beginning	18,633,840	1,234,476
Net position - ending	\$ 19,696,209	\$ 1,139,268

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

State of Kansas
Financial Statements
June 30, 2018

Combining Statement of Net Position - Component Units
June 30, 2018
(expressed in thousands)

	Information Network of Kansas, Inc.	Kansas Turnpike Authority	Kansas Development Finance Authority	Kansas Housing Resources Corporation	Kansas Center for Entrepre- neurship	State University System	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 6,310	\$ 34,381	\$ 229	\$ 2,802	\$ 11,573	\$ 630,332	\$ 685,627
Restricted cash and cash equivalents	0	26,382	0	3,478	0	40,173	70,033
Investments	0	41,910	8,862	9,658	1,552	226,193	288,175
Restricted investments	0	9,306	3,139	0	0	511,817	524,262
Receivables, net	3,278	10,539	25	1,474	18,522	398,341	432,179
Due from primary government	0	0	345	0	0	0	345
Inventories	0	0	0	0	0	14,002	14,002
Other assets	27	2,508	81	127	5	40,097	42,845
Total current assets	<u>9,615</u>	<u>125,026</u>	<u>12,681</u>	<u>17,539</u>	<u>31,652</u>	<u>1,860,955</u>	<u>2,057,468</u>
Noncurrent assets:							
Restricted cash and cash equivalents	0	0	0	13	0	32,627	32,640
Investments	0	67,228	0	0	0	100,880	168,108
Restricted investments	0	0	0	0	0	2,519,893	2,519,893
Receivables, net	0	0	0	1,660	0	232,801	234,461
Due from primary government	0	0	1,135	0	0	0	1,135
Capital assets not being depreciated	0	626,358	0	0	0	272,767	899,125
Capital assets (net of accumulated depreciation)	4	36,781	479	423	0	3,437,648	3,475,335
Other noncurrent assets	0	0	0	0	0	21,556	21,556
Total noncurrent assets	<u>4</u>	<u>730,367</u>	<u>1,614</u>	<u>2,096</u>	<u>0</u>	<u>6,618,172</u>	<u>7,352,253</u>
Total assets	<u>9,619</u>	<u>855,393</u>	<u>14,295</u>	<u>19,635</u>	<u>31,652</u>	<u>8,479,127</u>	<u>9,409,721</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred amounts on refunding	0	1,805	0	0	0	7,988	9,793
Deferred outflows - pensions	0	2,926	305	787	0	41,751	45,769
Deferred outflows - OPEB	0	374	20	0	0	2,897	3,291
Total deferred outflows of resources	<u>0</u>	<u>5,105</u>	<u>325</u>	<u>787</u>	<u>0</u>	<u>52,636</u>	<u>58,853</u>
LIABILITIES							
Current liabilities:							
Accounts payable and other liabilities	5,491	13,141	475	639	639	255,380	275,765
Unearned revenue	0	510	368	242	0	101,311	102,431
Compensated absences	0	1,336	0	375	0	67,476	69,187
Portion of long-term liabilities	0	12,645	345	0	0	74,701	87,691
Total current liabilities	<u>5,491</u>	<u>27,632</u>	<u>1,188</u>	<u>1,256</u>	<u>639</u>	<u>498,868</u>	<u>535,074</u>
Noncurrent liabilities:							
Compensated absences	0	2,194	0	221	0	13,802	16,217
Bonds, notes and loans payable	0	161,001	1,135	0	0	1,602,939	1,765,075
Arbitrage rebate liability	0	0	0	0	0	20	20
Other noncurrent liabilities	0	0	2,771	0	0	67,868	70,639
Net pension liability	0	15,629	1,273	3,832	0	225,835	246,569
Total OPEB liability	0	7,383	65	0	0	32,574	40,022
Total noncurrent liabilities	<u>0</u>	<u>186,207</u>	<u>5,244</u>	<u>4,053</u>	<u>0</u>	<u>1,943,038</u>	<u>2,138,542</u>
Total liabilities	<u>5,491</u>	<u>213,839</u>	<u>6,432</u>	<u>5,309</u>	<u>639</u>	<u>2,441,906</u>	<u>2,673,616</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows - pensions	0	1,435	108	191	0	32,293	34,027
Deferred inflows - OPEB	0	17	0	0	0	744	761
Deferred amounts on refunding	0	0	0	0	0	751	751
Total deferred inflows of resources	<u>0</u>	<u>1,452</u>	<u>108</u>	<u>191</u>	<u>0</u>	<u>33,788</u>	<u>35,539</u>
NET POSITION							
Net investment in capital assets	4	491,297	479	423	0	2,109,467	2,601,670
Restricted for:							
Capital projects	0	0	0	0	0	242,817	242,817
Debt service	0	33,216	0	0	0	26,881	60,097
Nonexpendable	0	0	0	0	0	1,238,831	1,238,831
Other purposes	0	0	0	3,752	0	1,834,998	1,838,750
Unrestricted	<u>4,124</u>	<u>120,694</u>	<u>7,601</u>	<u>10,747</u>	<u>31,013</u>	<u>603,075</u>	<u>777,254</u>
Total net position	<u>\$ 4,128</u>	<u>\$ 645,207</u>	<u>\$ 8,080</u>	<u>\$ 14,922</u>	<u>\$ 31,013</u>	<u>\$ 6,056,069</u>	<u>\$ 6,759,419</u>

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

State of Kansas
Financial Statements
June 30, 2018

Combining Statement of Activities-Component Units
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Information Network of Kansas, Inc.	Kansas Turnpike Authority	Kansas Development Finance Authority	Kansas Housing Resources Corporation	Kansas Center for Entrepre- neurship	State University System	Total
Expenses:							
Salaries and wages	\$ 112	\$ 19,243	\$ 1,178	\$ 3,603	\$ 0	\$ 1,766,581	\$ 1,790,717
Supplies and services	949	44,062	575	1,458	176	684,049	731,269
Depreciation and amortization	1	3,617	105	152	0	198,855	202,730
Interest expense	0	8,463	0	0	0	53,209	61,672
Other expenses	0	0	0	82,100	2,923	403,742	488,765
Total expenses	1,062	75,385	1,858	87,313	3,099	3,106,436	3,275,153
Program Revenues:							
Charges for services	1,066	123,619	1,126	4,478	3,049	1,338,462	1,471,800
Operating grants	0	1,696	0	80,362	203	597,738	679,999
Capital grants	0	0	0	0	0	105,939	105,939
Total program revenues	1,066	125,315	1,126	84,840	3,252	2,042,139	2,257,738
Net (Expense) Revenue	4	49,930	(732)	(2,473)	153	(1,064,297)	(1,017,415)
General Revenues:							
Taxes:							
Property tax	0	0	0	0	0	7,916	7,916
Investment earnings	29	1,436	(28)	341	567	217,750	220,095
Other revenue (loss)	0	1,852	22	2,424	1	1,179,234	1,183,533
Total general revenues	29	3,288	(6)	2,765	568	1,404,900	1,411,544
Change in net position	33	53,218	(738)	292	721	340,603	394,129
Total net position - beginning	4,095	599,271	8,876	14,630	30,292	5,741,459	6,398,623
Revisions to beginning net position	0	(7,282)	(58)	0	0	(25,993)	(33,333)
Total net position - beginning (restated)	4,095	591,989	8,818	14,630	30,292	5,715,466	6,365,290
Total net position - ending	\$ 4,128	\$ 645,207	\$ 8,080	\$ 14,922	\$ 31,013	\$ 6,056,069	\$ 6,759,419

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

I. Summary of Significant Accounting Policies

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 types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2018, 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, 2018

I. Summary of Significant Accounting Policies

<u>Component Unit</u>	<u>Description: Criteria for Inclusion</u>	<u>Reporting Method</u>	<u>For Separate Financial Statements</u>
Kansas Turnpike Authority (KTA)	The State has oversight responsibility of day-to-day operations and administration of KTA. The State also has the power to impose its will on KTA.	Reported as a discrete component unit, because the board is not the same and services are provided to other entities.	Kansas Turnpike Authority 9401 E. Kellogg Wichita, Kansas 67207
Kansas Development Finance Authority (KDFA)	The Governor appoints the members of the KDFA Board, who are additionally subject to confirmation by the Kansas Senate. The State has the power to impose its will on KDFA.	Reported as a discrete component unit, because the board is not the same and services are provided to other entities.	Kansas Development Finance Authority 534 S. Kansas Avenue, Suite 800 Topeka, Kansas 66603
Kansas Housing Resources Corporation (KHRC)	KHRC is a subsidiary corporation of KDFA and a legal entity separate and distinct from KDFA and the State.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Kansas Housing Resources Corporation 611 S. Kansas Avenue, Suite 300 Topeka, Kansas 66603
Kansas Center for Entrepreneurship (KCE)	The State appoints a voting majority of KCE and has the power to impose its will on KCE.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Kansas Center for Entrepreneurship P.O. Box 877 Andover, Kansas 67002
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 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., Suite 100 Topeka, KS 66603-3803
Information Network of Kansas, Inc. (INK)	The State appoints a voting majority of INK and has the power to impose its will on INK.	Reported as a discrete component unit because the board is not the same and services are provided to other entities.	Information Network of Kansas, Inc. 300 SW 8th Ave, Suite 300 Topeka, KS 66603

I. Summary of Significant Accounting Policies

Kansas Turnpike Authority (KTA) was established as a public corporation in 1953 by the Kansas Legislature. Its enabling statutes are found in K.S.A. 68-2001 et seq., as amended and supplemented. K.S.A. 68-2003 was amended during the State of Kansas' 2013 and 2015 legislative sessions. The legislative amendment changed the reporting requirement for the State of Kansas. KTA is now reported as a discretely presented component unit. Prior to the 2013 legislative session KTA was not included as a State reporting entity. The amendment named the Secretary of Transportation of the State of Kansas as the director of the Authority, effective July 1, 2013. The director is responsible for the daily administration of the toll roads, bridges, structures and facilities constructed, maintained or operated by the Authority. While the Authority retains its separate identity, powers and duties as an instrumentality of the State, the amendment requires duplication of effort, facilities, and equipment between the Kansas Department of Transportation and the Authority be minimized in operation and maintenance of turnpikes and highways of the State.

KTA was created to construct, operate and maintain turnpike projects and to issue revenue bonds for any of its corporate purposes, payable solely from the tolls and revenue pledged for their payment.

Kansas Development Finance Authority (KDFA) 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 supplemented. KDFA is a public body politic and corporate, constituting an independent instrumentality of the State. 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.

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 efficient 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 Center for Entrepreneurship (KCE) is an independent instrumentality of the State. Its enabling statutes are found in K.S.A. 74-99c-01 through 74-99c-11 et seq., as amended and supplemented. KCE was created with the passage of the Kansas Growth Act. KCE was created for the purpose of promoting an entrepreneurial environment in Kansas by providing expertise, education, and economic resources to small business owners. The economic resources are provided in the form of low interest and/or reduced collateral loans and grants. These funds may only be accessed by working with a local or regional non-profit business support provider, who partners with KCE in providing a local match to the funds being provided.

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.

I. Summary of Significant Accounting Policies

Kansas Public Employees Retirement System (KPERS) is a body corporate and an instrumentality of the State. KPERS is an umbrella organization administering the following three statewide pension groups under one plan, as provided by the Kansas Statutes Chapter 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.

Information Network of Kansas, Inc. (INK) was created by K.S.A. 74-9301 et seq. in 1990 by the State of Kansas legislature to provide electronic access for members of the public to public information of agencies by means of a centralized electronic information system, to develop and expand the system and to provide oversight of the network manager. INK is governed by a nine-member Board of Directors with membership on the board established by statute.

B. Government-wide and Fund Financial Statements

Government-wide Statements – The statement of net position 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) highways and other 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. *Highways and other 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.

I. Summary of Significant Accounting Policies

Net position is 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 position. 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.

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, except for the Kansas Department of Health and Environment Medicaid Drug Rebate Program which is considered to be available if collected within ninety 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 is both restricted and unrestricted net position 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.

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:

I. Summary of Significant Accounting Policies

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

Health and Environment Fund – This special revenue 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.

Education Fund – This special revenue fund accounts for the activities of the Department of Education. Revenues into this fund include property taxes and grants as authorized by legislation.

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

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, wildlife, architectural, personnel services, workers' compensation, GIS services 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.

I. Summary of Significant Accounting Policies

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.

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

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

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

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund 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 greater 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
- Loans to Local Taxing Districts (K.S.A 79-2005) not to exceed \$50 million
- High grade commercial paper
- High grade corporate bonds

I. Summary of Significant Accounting Policies

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

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

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

Fair Value of Investments –Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. The guidance requires three levels of fair value measurement based on the respective inputs.

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 stated net of estimated allowance for uncollectible amounts, which are determined, based upon past collection experience and current economic conditions. Student tuition and fees receivables are recorded at rates established at the time a student registers classes. Provisions for uncollectable student accounts are recorded to

I. Summary of Significant Accounting Policies

maintain an adequate allowance for anticipated losses. Net realizable value (NRV) is the actuarial devaluation method of taxes receivable at the Kansas Department of Revenue. NRV is a complex algorithmic formula, based upon debt size, age, whether the debt is filed or assessed, and historical collections. As debts age, the ability to collect the debt at face value decreases exponentially. The application of NRV on taxes receivable uses the collectability of the debt over time to determine a realistic current value.

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 expenses to properly reflect the amount of inventory consumed during the fiscal year.

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 acquisition 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.

I. Summary of Significant Accounting Policies

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

State employees who are benefits eligible 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.

Legislative Branch employees may accrue vacation leave with no limit and are paid for all leave at separation. Sick leave accrual and payout at retirement follows the Executive Branch policy.

Judicial Branch employees accrue vacation under a different schedule from the Executive Branch but may not accrue more than 240 hours. Sick leave accrual and payout at retirement follows the Executive Branch policy.

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 position. Bond premiums and discounts 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.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures/expenses.

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 position.

Pensions

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

I. Summary of Significant Accounting Policies

For purposes of measuring the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS) and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources/Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The State has four items that qualify for reporting in this category. First is the deferred charge on refunding reported in the balance sheet. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Second is the accumulated decrease in fair value of hedging derivatives. The last two deferred outflows relate to other post-employment benefits (OPEB) and pensions, which is discussed in Note IV, Sections E and F, respectively.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The State has four items that qualify for reporting in this category. Unavailable revenue, which arises only under a modified accrual basis of accounting, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from sales, income and excise taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Second is the deferred charge on refunding reported in the balance sheet. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The last two deferred inflows relate to other post-employment benefits (OPEB) and pensions, which is discussed in Note IV, Sections E and F, respectively.

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 nonspendable, restricted or assigned as unassigned fund balance.

Per K.S.A. 75-6702(c), the provisions of subsection (b) are hereby suspended for the fiscal year ending June 30, 2018, and the fiscal year ending June 30, 2019, and shall not prescribe a maximum amount of expenditures and demand transfers from the state general fund that may be authorized by act of the legislature during the 2017 or 2018 regular session of the legislature.

I. Summary of Significant Accounting Policies

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, deferred outflows of resources, liabilities and deferred inflows of resources, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used in preparing the financial statements.

G. New Governmental Accounting Standards Board Statements

The State has implemented the following new pronouncements for fiscal year 2018:

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

GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The government that receives resources pursuant to an irrevocable split-interest agreement must recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. The government must also recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interest. Revenue must be recognized when the resources become applicable to the reporting period. Adoption of this statement had no impact on the State's financial position.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The adoption of this statement did not have a material impact on the State's financial position. The State's pension required supplemental disclosures were properly done under these rules so no change was required to those schedules. The State implemented the other post-employment benefit required supplemental schedule changes with the implementation of GASB No. 75.

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

At June 30, 2018, the Governmental Accounting Standards Board (GASB) had issued several statements not yet effective for or implemented by the State. The State plans to implement the provisions of these statements on or

I. Summary of Significant Accounting Policies

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, 2018:

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and a corresponding deferred outflow of resources for AROs when the liability is incurred and reasonable estimable. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for estimating the liability and the estimated remaining useful life of the associated tangible capital asset. The provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2019.

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

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, improves information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2019.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies the accounting for interest cost incurred before the end of a construction period. Provisions of this statement are effective for financial statements for the State's fiscal year ending June 30, 2020.

GASB Statement No. 90, *Major Equity Interests*, improves consistency and comparability of reporting a government's majority equity interest in a legally separate organization, and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. Provisions of this statement are effective for financial statements for the State's year ending June 30, 2020.

II. Stewardship, Compliance, Accountability

A. Deficit Fund Equity

The Workers' Compensation Fund had a deficit net position in fiscal year 2018 because historical claims and expenses paid out of the fund exceeded charges for services received. During 2018, charges for services received did exceed claims paid, but the deficit net position still increased. The State will continue to monitor the activity of this fund.

The Lottery Fund had a deficit net position in FY 2018 of \$9.1 million. Of that amount, \$6.5 million is due to implementation of GASB Statement 68 Net pension liability in prior years and GASB Statement 75 Other post-employment benefits. As the State continues to take action to improve KPERS long-term sustainability, the unfunded pension liability will be reduced which will impact the Lottery's Fund deficit net position. FY 2018 also had an increase of \$2.2 million in current liabilities primarily due to timing differences at year-end for the expanded lottery (casino) financial statements. Payments to the casino managers are made on the same day every week. On June 30th, the amounts due could represent the manager's share of net revenues for as few as five days and as many as 11 days.

The State Workers Compensation Fund had a deficit net position in fiscal year 2018 because of historical claims exceeding the internal charges made to the other State's funds. Current year internal charges exceeded claims paid, decreasing the negative net position. The State operates this fund as a pay as you go fund because future claims may take years to materialize. This is what has caused negative net position in the past and future years. Future claims would be covered with future collections from other State agencies.

State of Kansas
Notes to the Financial Statements
June 30, 2018

III. Detailed Notes On All Funds

A. Deposits and Investments

A summary of deposits and investments at June 30, 2018, is as follows (expressed in thousands):

	Governmental & Business - Type Activities	Weighted Average Duration	Fiduciary	Weighted Average Duration	Component Unit	Weighted Average Duration
Investments:						
US Treasury	\$ 11,601	1.19	\$ 2,027,140	4.15	\$ 52,483	1.83
U.S Agencies securities	974,484	0.71	827,565	1.64	46,702	0.70
Asset Backed	17	<10yrs	0		0	
Repurchase Agreements	693,188	0.01	291,312	0.01	0	
Investment Agreement	3,180	2.50	0		1,419	>10years
Money Market mutual funds	2,929	<1yr	0		0	
Mutual Fund-Fixed Income	0		0		11,941	<1yr
Mutual Fund-Equities	0		0		58,547	
Equity Securities	0		13,824,481		7,777	
Commercial Paper	1,332,588	0.18	495,109	0.13	23,440	<1yr
Corporate Bonds	181,023	0.50	2,825,487	3.75	2,234	3.61
State or Local Debt Obligation	6,309	0.50	0		1,786	
University assets reported under FASB*	0		0		3,217,424	
Other Investment	20,032		477,359	0.50	114,780	
Treasurer's pool	(676,958)		252,648		424,310	
Cash and cash equivalents	690,132		205,335		325,895	
	<u>\$ 3,238,525</u>		<u>\$ 21,226,436</u>		<u>\$ 4,288,738</u>	

*The State University System's 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, 2018, the Kansas University Endowment Association held \$1.75 billion of securities at fair value mainly in money markets, domestic equities, U.S. Treasuries, mutual funds, common trust equity and fixed income funds, marketable alternatives and other LLCs and LLPs. The marketable alternatives, LLCs, and LLPs are accounted for at fair value using the NAV as the practical expedient.

At June 30, 2018, the Kansas State University Foundation held \$0.73 billion 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, 2018, the Wichita State University Foundation held \$0.26 billion of securities at fair value held mainly in common and preferred stocks, foreign stocks, corporate bonds, mortgage-backed securities, U.S. government securities, commodities, hedged funds and foreign bonds.

State of Kansas
Notes to the Financial Statements
June 30, 2018

III. Detailed Notes On All Funds

A reconciliation of deposits and investments to the financial statements at June 30, 2018, is as follows (expressed in thousands):

Disclosures Regarding Deposits and Investments:

Total investments and time deposits (includes demand deposits for Component Units)	\$ 28,736,277
Carrying amount of demand deposits for Governmental and Business-Type Activities	17,422
Total	<u>\$ 28,753,699</u>

Statement of Net Position

Governmental and Business-Type Activities

Cash and cash equivalents	\$ 1,830,816
Investments at fair market value	226,818
Restricted cash and cash equivalents	917,669
Restricted investments	263,222

Component Units

Cash and cash equivalents	685,627
Investments at fair market value	456,283
Restricted cash and cash equivalents	102,673
Restricted investments	3,044,155

Statement of Fiduciary Net Position

Cash and cash equivalents	1,499,697
Investments at fair market value	19,726,739
Total	<u>\$ 28,753,699</u>

Deposits. At June 30, 2018, the carrying amount was \$17.4 million for Governmental and Business-Type activities. 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 CMOs 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.

III. Detailed Notes On All Funds

Fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. The guidance requires three levels of fair value measurement based on the respective inputs. The following table presents the State's recurring fair value measurements as of June 30, 2018.

State of Kansas
Notes to the Financial Statements
June 30, 2018

III. Detailed Notes On All Funds

Investments and Derivative Instruments Measured at Fair Value (expressed in thousands)

	6/30/2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
U.S. treasury securities	\$ 2,020,637	\$ 124,641	\$ 1,895,996	\$ 0
U.S. agency securities	1,718,381	19,917	1,698,464	0
Corporate bonds	220,123	178,424	41,699	0
Commercial paper	1,851,137	163,464	1,687,673	0
Vanguard short-term bond index	11,941	11,941	0	0
Yankees	373,916	0	373,916	0
International	411,550	0	411,550	0
Foreign bonds	3,237	3,122	115	0
US corporate, municipalities	1,860,966	0	1,857,942	3,024
US bank loan	150,601	0	147,111	3,490
GNMA	88,904	0	88,904	0
Debt securities	8,663	8,663	0	0
Mutual fund	90,096	90,096	0	0
Municipal bonds	2,169	0	2,169	0
Certificate of deposit	12,286	0	12,286	0
Commercial mortgage-backed securities	11,287	0	11,287	0
Collateralized mortgage obligations	48,465	0	48,465	0
State or municipal debt obligation	7,785	0	7,785	0
Other	18,342	11,712	6,630	0
Total debt securities	8,910,486	611,980	8,291,992	6,514
Equity securities				
International commingled and ETF	1,132,395	1,132,395	0	0
Domestic common stock	6,048,441	6,045,775	0	2,666
Domestic preferred	694	694	0	0
International common	3,146,567	3,146,567	0	0
International preferred stock	27,686	27,686	0	0
Common & preferred stock	47,013	47,013	0	0
Foreign stock	34,015	34,015	0	0
Consumer discretionary	1,208	1,208	0	0
Commodity	2,379	2,379	0	0
Energy	323	323	0	0
Financials	1,203	1,203	0	0
Healthcare	692	692	0	0
Industrials	1,038	1,038	0	0
Information technology	1,651	1,651	0	0
Telcommunication services	95	95	0	0
Mutual funds	71,079	71,079	0	0
Fixed income	27,216	27,216	0	0
Equity securities	24,515	24,515	0	0
Private equity limited partnership	6,094	0	0	6,094
Hedge fund	15,005	0	0	15,005
Real estate limited partnership	2,493	0	0	2,493
Other	175,739	174,174	0	1,565
Total equity securities	10,767,541	10,739,718	0	27,823
Derivatives by Fair Value Level				
To-be-announced agencies	132,098	0	132,098	0
Options	75	75	0	0
Total derivatives by fair value level	132,173	75	132,098	0
Other				
Money market and ST obligations	2,646	2,646	0	0
Money market fund	11,864	11,864	0	0
Repurchase agreements	984,500	0	984,500	0
Guaranteed investment contracts	1,770	350	1,420	0
Investment agreement	3,180	3,180	0	0
Closely held common stock	96,258	0	0	96,258
Real estate held for investment	135,670	0	0	135,670
Mutual fund	58,547	58,547	0	0
KMIP	26,912	26,912	0	0
External investment pools	443,826	375,549	66,913	1,364
Other	110,788	10,578	947	99,263
Total other capital investments	1,875,961	489,626	1,053,780	332,555
Total investments by fair value level	\$ 21,686,161	\$ 11,841,399	\$ 9,477,870	\$ 366,892

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III. Detailed Notes On All Funds

Investments measured at the net asset value (NAV)	
Private equity partnerships	\$ 1,290,440
Real estate partnership	701,147
Common trust funds-equities	382,786
Common trust funds-fixed income	61,794
Hedge funds	566,334
Private investment	303,430
Other LLC's & LLP's	73,687
Equity long/short hedge funds	66,437
Event-driven hedge funds	7,634
Equity securities	145,830
Venture capital	80,859
Domestic private equity	28,676
International equity	13,218
Private capital distressed debt	4,000
Natural resources	21,623
Fixed income	43,008
Multi-strategy hedge funds	15,160
Other securities and investments	23,265
Real estate funds	1,436,324
Other	8,085
Total investments measured at the NAV	<u>5,273,737</u>
Total investments measured at fair value	<u>\$ 26,959,898</u>
Investment valued at amortized cost	
Money market investment	\$ 553,277
Equity security	1,552
Other	17,609
Total investment valued at amortized cost	<u>\$ 572,438</u>

Debt, equity and other securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt and other securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt securities classified as level 3 are those securities in inactive markets where prices have been determined to be stale otherwise do not meet observable level 2 criteria.

Marketable equity securities classified in Level 3 of the fair value hierarchy are valued using a market approach models including multiples of adjusted earning, guideline companies and market-based valuations.

Hedge funds, venture capital, and private equity limited partnership investments classified as level 3: Fair value is determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

Other investments of \$1.6 million classified as level 3 are equity security holdings which are not publicly traded or readily marketable so are therefore recorded at cost.

All currency forwards and other derivative instruments are used for investment activities. Level 1 options are traded on active exchanges. Currency forwards are included in payables and receivables on the Statement of Fiduciary Position. Fair value for these is reflected by adjusting those payable/receivable values for daily fluctuations in currency exchange rates. KPERS had \$4.8 billion in outstanding currency forward contract payables and receivable at June 30, 2018. The net fluctuations in currency rates at that time increased the unrealized fair value of those contracts by \$27.3 million.

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III. Detailed Notes On All Funds

Other securities classified as level 3 are valued based on fair value estimates from investment managers or fair value specialist on a monthly, quarterly or annual basis. For real estate investments management obtains fair value estimates from both internal and external valuation sources, including county tax appraisals and historic comparable sales information. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Investments Measured at the NAV (expressed in thousands)

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Equity long/short hedge funds	\$ 66,437	0	monthly to annually	30-90 days
Common trust funds-equities	390,419	0	daily, monthly to annually	1-45 dys
Common trust funds-fixed income	61,794	0	daily, monthly	1-5days
Common trust funds		0		
Hedge funds and fixed income partnerships		0		
Hedge funds	504,998	12,000	quarterly, semi-annually, annually	15-90 days
Private investment	303,430	269,706	N/A	N/A
Other LLC's & LLP's	73,687	0	monthly	1-30days
Venture capital	61,440	26,913	None	None
Domestic private equity	28,676	45,861	None	None
International private equity	13,218	8,188	None	None
Private capital distressed debt-liquid	3,999	6,514	None	None
Natural resources	21,623	15,810	None	None
Other securities and investments	126	0		
Pooled funds equity securities	145,830	0	monthly	5-45 days
Pooled funds fixed income	40,151	0	monthly	1 day
Private equity partnerships	1,298,526	1,191,562	quarterly	30 days
Real estate partnership	705,791	337,208	quarterly	30 days
Real estate fund	28,246	8,281	None	None
Real estate core funds	1,326,831	120,000	quarterly	30 days
Real estate other funds	76,606	0	Biannual	30 days
Northgate	4,093	245	N/A	N/A
Siguler Guff	527	90	N/A	N/A
Varde fund	757	0	N/A	N/A
Venture investment assoc	4,157	2,280	N/A	N/A
WCP real estate fund III , LLC	1,709	0	N/A	N/A
Archstone offshore fund Ltd	197	0	N/A	N/A
AQR group EL offshore fund	6,370	0	N/A	N/A
HBK offshore, LTD (CITCO)	8,302	0	N/A	N/A
OZ overseas fund II	1,065	0	N/A	N/A
GSO special situations	34	0	N/A	N/A
Palo Alto offshore II, Ltd	2,607	0	N/A	N/A
Graham global investment fund II, Ltd	3,248	0	N/A	N/A
Falcon strategic partners IV, L.P	4,740	1,669	N/A	N/A
MKP opportunity offshore, LTD	3,463	0	N/A	N/A
Claren road credit fund	5	0	N/A	N/A
Rimrock high income plus	4,422	0	N/A	N/A
FEG POF	22,371	14,600	N/A	N/A
Harvest MLP	8,482	0	N/A	N/A
Fixed income	2,857	2,150		
Futures	23,139		None	None
NGP natural resources	1,956	247	N/A	N/A
Governors Lane	2,893	0	N/A	N/A
Indaba capital patners	3,124	0	N/A	N/A
Indus capital partners	1,927	0	N/A	N/A
Atalan offshore, LTD	4,208	0	N/A	N/A
Elliott international, LTD	1,018	0	N/A	N/A
Pelham long/short fund	4,238	0	N/A	N/A
Total investments measured at the NAV	<u>\$ 5,273,737</u>	<u>\$ 2,063,324</u>		

KPERS NAV Methodology. KPERS wholly owns three separate properties including timber land and its home office. These are valued according to annual independent professional appraisals and can be sold at any time. Appraisals utilize comparable sales, inventory estimates and present values of cash flows to determine respective property valuations. There are no unfunded commitments for these properties. The home office property is 50 percent KPERS occupied and 50 percent rentable space. This building was split into two units of account at purchase. KPERS' portion is included in capital assets. The alternatives distribution is valued based on general partner information that is unobservable.

For 72 private equity partnerships, 29 real estate partnerships and three infrastructure partnerships, the fair value of each investment has been determined using the NAV per share or its equivalent of KPERS' ownership interest in the partners'

III. Detailed Notes On All Funds

capital. All partnerships provided audited December 31, 2017 financial reports with unmodified opinions, along with unaudited quarterly reports. Net asset values one quarter in arrears plus current quarter cash flows are used when recent information is not available. These partnerships are diversified across types and vintage years. The expected term of each partnership is between seven to ten years. Any sales of these would be on an inefficient secondary market that could result in values above or below those listed. Transfers to buyers are restricted to quarter end dates. No sales are contemplated.

STIF funds are open-end mutual fund provided and operated by the custodian bank, that serves the daily cash needs of specific investment managers. They are not required to meet SEC 2a-7 standards. There are no redemption restrictions and shares are typically redeemed at book value of \$1 per share using amortized cost. Price per share may vary. Amortized cost is materially equivalent to fair value.

Money market investments are highly liquid debt instruments purchased within one year of maturity, including U.S. Treasury and Agency obligations. Asset-backed securities, derivatives and structured notes are not included in money market investments.

KSU NAV Methodology. Investments in common trust funds – equities includes investments in pooled separate accounts which hold exchange-traded equity securities and fixed income securities. While the underlying securities in these accounts are primarily highly liquid, exchange-traded securities, the nature of this type of account generally only allows for monthly liquidity at a month end net asset value.

Investments in private equity and venture capital funds are structured as close-end, commitment-based investment funds where a specified amount of capital is committed upon inception of the fund which is then drawn down over a period of three to five years, and distributions are received through the liquidation of underlying assets of the fund. The typical term of these investments is 12-15 years. Such funds generally do not provide redemption options for investors.

Investments in event-driven hedge funds pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a "Gate"). In addition certain funds may delay payment of a portion of redemption proceeds (a "Holdback") until the annual audited financial statements are distributed.

Investments in equity long/short hedge funds take both long and short positions, primarily in U.S. common stocks. Management of the funds has the ability to shift investments among differing investment strategies. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a "Gate"). In addition certain funds may delay payment of a portion of redemption proceeds (a "Holdback") until the annual audited financial statements are distributed.

KU NAV Methodology. Investments in common trust funds – equities and fixed income are invested primarily in marketable common stocks and bonds. The fair values of these investments have been estimated using the NAV per share of the investments.

Hedge funds, private investments, and investments in other LLCs and LLPs are also accounted for at fair value using NAV as the practical expedient. The primary objectives of these investment types are to improve diversification and reduce volatility. These investments have various liquidity schedules, which are monitored on a continuous basis. Redemption frequency of hedge funds can be subject to rolling lockups. Of the hedge funds approximately 93% is available for redemption within 12 months and another 6% is available for redemption within four years. The remaining 1% is deemed to be illiquid due to special investments of the manager.

WSU NAV Methodology. Fair value for hedge funds and venture capital/private equity is determined through consideration of the net asset values provided by the fund manager and other market factors. Other factors include, but are not limited to, estimates of liquidation value, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment.

III. Detailed Notes On All Funds

ESU NAV Methodology. Investments in multi-strategy hedge funds pursue multiple strategies to diversify risks and reduce volatility. Some examples of the strategies hedge funds invest in include long/short equity, long/short credit, event driven, global macro and multi-strategy. Hedge funds have initial lock-up periods ranging from zero to one year, and thereafter require between 95 and 100 days of advance notice prior to quarterly redemption windows.

Investments in real estate partnerships consists of an open-end real estate product that invests across all major property types using public REITS, private open-end core real estate funds and a portfolio of directly held properties. This investment provides investors with quarterly redemptions. Redemption payments may be delayed in the vent of extraordinary circumstances.

Other investments include private equity investments involved in acquiring stakes in private companies. Private debt involves providing debt capital to private investors. Natural resources include investments across a broad spectrum, including natural resources and energy related investments and commodities. Fund of funds are utilized to access these investments since this provides diversification and reduces risk. These investments are considered to be long-term endeavors and have limited liquidity. Investments make a dollar commitment identifying how much they will invest. During the “Drawdown” period (typically the first several years) committed capital is called from investors. Capital is returned to investors as investments are divested through sales.

Interest Rate Risk. Interest rate 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 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 their portfolios and maintaining a standard of quality of authorized eligible investments. The Primary Government, Component Units, and Fiduciary investments as of June 30, 2018 are presented below with applicable credit ratings (expressed in thousands):

Governmental and Business-Type Activities Investments at June 30, 2018				
	Fair Value	Quality Ratings		
		AAA	AA	Unrated
Asset Backed	\$ 17	\$ 17	\$ 0	\$ 0
U.S. Treasury	11,601	0	11,601	0
U.S Agencies Securities	974,484	997	973,487	0
Repurchase Agreements	693,188	0	693,188	0
Money market mutual funds	2,929	2,929	0	0
Investment Contracts	3,180	0	0	3,180
Commercial paper	1,332,588	0	1,169,123	163,465
Corporate Bonds	181,023	2,599	178,424	0
Municipal securities	6,309	0	0	6,309
Other	20,032	0	0	20,032
	<u>\$ 3,225,351</u>	<u>\$ 6,542</u>	<u>\$ 3,025,823</u>	<u>\$ 192,986</u>

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Component Units Investments at June 30, 2018

	Fair Value	Quality Ratings						
		AAA	AA	A	BBB	BB	B	Unrated
U.S Treasury	\$ 52,483	\$ 0	\$ 52,483	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
U.S Agencies Securities	46,702	0	46,702	0	0	0	0	0
Investment Contracts	1,419	0	0	0	0	0	0	1,419
Mutual Fund -Fixed Income	11,941	0	0	11,941	0	0	0	0
Mutual Fund-Equities	58,547	0	0	0	0	0	0	58,547
Equity Securities	7,777	124	1,034	2,266	2,379	31	196	1,747
Corporate Bonds and Commercial paper	25,674	25	525	24,894	230	0	0	0
State or Local Debt Obligations	1,726	0	1,476	0	0	0	0	250
Municipal Securities	60	0	0	60	0	0	0	0
Unversity assets reported under FASB*	3,217,424	0	0	0	0	0	0	3,217,424
Other Investment	114,780	0	0	0	0	0	0	114,780
	<u>\$ 3,538,533</u>	<u>\$ 149</u>	<u>\$ 102,220</u>	<u>\$ 39,161</u>	<u>\$ 2,609</u>	<u>\$ 31</u>	<u>\$ 196</u>	<u>\$ 3,394,167</u>

Fiduciary Fund Investments at June 30, 2018

February Fund Investments as of June 30, 2016														
	Fair Value	Quality Ratings												
		AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Unrated		
U.S Government	\$ 2,027,140	\$ 1,938,236	\$ 88,904	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0		
U.S Agency	827,565	390	817,042	645	8,499	0	989	0	0	0	0	0		
Money Market investment	477,359	0	10,437	59,369	34,133	0	11	0	0	0	0	373,409		
Repurchase Agreements	291,312	0	291,312	0	0	0	0	0	0	0	0	0		
Equity Securities	13,824,481	0	0	0	0	0	0	0	0	0	0	13,824,481		
Corporate Bonds and Commercial paper	3,320,596	246,775	930,119	438,494	771,461	407,768	306,077	115,217	8,609	6,252	1,258	88,566		
	\$ 20,768,453	\$ 2,185,401	\$ 2,137,814	\$ 498,508	\$ 814,093	\$ 407,768	\$ 307,077	\$ 115,217	\$ 8,609	\$ 6,252	\$ 1,258	\$ 14,286,456		

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 five percent of the investment portfolio be invested in the securities of a single issuer or business entity (excluding U.S. Treasury Securities and U.S. Government Agency Securities), and requiring that commercial paper and corporate bonds never exceed 60 percent of the investment portfolio. As of June 30, 2018, Federal National Mortgage Association, Federal Home Loan Bank and Federal Home Loan Mortgage Corporation comprised 19.41%, 7.53% and 14.45%, respectively of KHRC's investment portfolio. As of June 30, 2018, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank, Bank of Tokyo Mitsubishi, BNP Paribas NY Branch Comm Paper, Credit Agricole CIB NY Comm Paper, and ING Funding LLC Comm Paper comprised 21.48%, 15.86%, 25.07%, 5.69%, 5.69%, 5.70%, and 4.17%, respective of KTA's investment portfolio. As of June 30, 2018, the remaining Component Units and Fiduciary Funds held investments from no single issuer in excess of five percent of their total portfolio values. As of June 30, 2018, U.S. Government Agency Securities, commercial paper, repurchases agreement and Kansas Bank CDs comprised 31.7%, 42.5%, 24.9% and 0.9%, respectively, of the 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:

III. Detailed Notes On All Funds

- 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 came in “physical form” (actual piece of paper identifying type, dollar amount, etc.) and would have been safe kept (held) by either the State (in the State Treasurer’s Vault) or at the State’s 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. At June 30, 2018, KPERS had US Dollar and foreign currency balances at custodial banks with a net value of \$39.6 million. This is primarily foreign currency deposits facilitating international investments in the respective local markets. KPERS’ deposits of \$16.7 million held at the State Treasury were fully collateralized at fiscal year end by FDIC insurance or pledged collateral (government securities or FHLB letters of credit). 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, 2018, including the underlying securities on the repurchase agreement, are held by the investment’s counterparty. At June 30, 2018, \$1.7 million of KTA’s bank balances were exposed to custodial credit risk. At June 30, 2018, KCE’s deposits were fully insured or collateralized with securities held by KCE or by its agent in KCE’s name. At June 30, 2018, INK’s deposits were insured by the FDIC up to \$250,000 per bank. At December 31, 2017, an amount of \$0.37 million was unsecured.

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, 2018, were distributed among currencies in the following list.

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III. Detailed Notes On All Funds

Fiduciary Fund
Foreign Currency at June 30, 2018

USD Equivalent		Currency	Total
Equity	Fixed		
\$ 196	\$ 1,241	Argentine Peso	\$ 1,437
36,177	7,198	Australian Dollar	43,375
8,314	6,024	Brazilian Real	14,338
525,681	194,596	British Pound Sterling	720,277
215,935	18,449	Canadian Dollar	234,384
71,319	1,537	Danish Krone	72,856
1,057,131	120,117	Euro Currency Unit	1,177,248
240,238	0	Hong Kong Dollar	240,238
8,505	4,051	Indonesian Rupiah	12,556
12,742	0	Israeli New Shekel	12,742
550,643	43,195	Japanese Yen	593,838
13,116	0	Mexican New Peso	13,116
54,122	0	New Taiwan Dollar	54,122
10,827	4,502	New Zealand Dollar	15,329
37,795	0	Norwegian Krone	37,795
3	0	Polish Zloty	3
3	4,045	Russian Ruble	4,048
44,520	0	Singapore Dollar	44,520
36,753	0	S African Comm Rand	36,753
63,745	0	South Korean Won	63,745
66,567	5,877	Swedish Krona	72,444
166,561	0	Swiss Franc	166,561
10,038	0	Thailand Baht	10,038
4,277	0	Turkish New Lira	4,277
0	729	Uruguayan Peso	729
<u>\$ 3,235,208</u>	<u>\$ 411,561</u>		<u>\$ 3,646,769</u>

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 23.5 percent of assets in dedicated international equities. KPERS utilizes two currency overlay managers to reduce risk by hedging up to 100 percent of the developed foreign currency market for selected international equity portfolios. At June 30, 2018, KPERS total foreign currency exposure was 65.1 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 specified future date, of a specified instrument, at a specified 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.

III. Detailed Notes On All Funds

Accordingly, the credit risk due to nonperformance of the counterparties to futures contracts is minimal. Daily, the net change in the futures contract value is settled in cash with the exchanges, making the fair values always equal to zero after the daily margin flow. At the close of business June 30, 2018, KPERS had total net margins receivable the next day of \$0. 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 gains of \$9.6 million were associated with futures for the year ending June 30, 2018.

Options

KPERS also participates in option contracts. These contractual agreements give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a specified price within a specified 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 exposures to positive market moves and limit exposures to interest rate and currency volatility.

Investment Derivative Summary at June 30, 2018

(expressed in thousands)

<u>Derivative</u>	<u>Asset Class*</u>	<u>Notional Value</u>	<u>Fair Value</u>
Domestic Equity Futures	Domestic Equities	\$ 51,888	\$ 0
Fixed Futures	Fixed	85,208	0
TBA Agency Bonds**	Fixed	132,098	132,098
Foreign Currency Forwards	Fixed	4,829,706	27,313
Options Purchased	Fixed	50	75

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

** TBA Agency Bond notional values are equal to their fairvalues. KPERS investment policy allows managers to carry short TBA values as long as they have offsetting long holdings in similar securities with similar characteristics.

Swaps

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

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

III. Detailed Notes On All Funds

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 four days before issue date, with the same settle date. This allows the trader to realize a gain or loss on the security based on changes in interest rates, without taking possession of, or paying for, the security. The only cash cost is the broker cost of the trades. These have minimal credit risk, while this scenario is designed specifically to increase interest rate exposure.

Investment Derivative Fair Values

(expressed in thousands)

Derivative	June 30, 2017	Increases	Decreases	June 30, 2018
TBA agency bonds*	\$ 100,769	\$ 1,257,671	\$ 1,226,342	\$ 132,098
Foreign currency forwards	(15,212)	42,525	0	27,313
Options purchased	0	841	766	75
Total	<u>\$ 85,557</u>	<u>\$ 1,301,037</u>	<u>\$ 1,227,108</u>	<u>\$ 159,486</u>

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

Foreign Currency Forwards

KPERS' international investment managers use forward contracts to obtain currencies necessary for trade execution and manage the exposure of the international investments to fluctuations in foreign currency. Active international investment managers use forward contracts to enhance returns or to control volatility. Currency risk arises due to foreign exchange rate 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. Foreign currency forwards are reflected on the financial statements in offsetting notional receivable and payable amounts for the two sides of the contract. Fair value is reflected as unrealized gains or losses when currency rates fluctuate during the life of the contract.

KPERS utilizes two currency overlay managers to reduce, or partially hedge, KPERS' exposure to foreign currencies through the international equities portfolio. At June 30, 2018, the fair value of international equities was \$4.3 billion. The overlay managers evaluate KPERS' international equities exposure to currencies, and buy/sell inverse currency forwards in relation to the overall currency exposures. The inverse relationship of these hedging investment 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."

The forward contracts are purchased as needs are determined by the hedge manager, and mature quarterly. 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 to any changes to portfolio currency exposures. 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. An investment 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 exposures.

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

Foreign Currency Forwards
(expressed in thousands)

<u>Currency</u>	<u>Notional Cost (USD)</u>	<u>Pending Foreign Exchange Receivables</u>	<u>Pending Foreign Exchange Payables</u>	<u>Fair Value June 30, 2018</u>
<u>Investment Currency Forwards</u>				
Australian Dollar	\$ 170,569	\$ 168,887	\$ 168,505	\$ 382
Brazilian Real	161	161	143	18
British Pound Sterling	1,124,923	1,125,167	1,116,455	8,712
Canadian Dollar	217,039	216,598	215,323	1,275
Danish Krone	35,835	35,806	35,601	205
Euro Currency Unit	1,822,986	1,822,169	1,809,168	13,001
Hong Kong Dollar	149,146	149,146	149,136	10
Indonesian Rupiah	924	924	893	31
Israeli New Shekel	7,565	7,565	7,488	77
Japanese Yen	768,787	768,563	763,934	4,629
Mexican New Peso	6,603	6,624	6,522	102
New Zealand Dollar	92,306	90,449	92,161	(1,712)
Norwegian Krone	75,806	75,582	75,576	6
Russian Ruble	600	600	599	1
Singapore Dollar	34,930	34,874	34,530	344
South Korean Won	25	25	25	0
Swedish Krona	71,028	70,342	70,327	15
Swiss Franc	250,473	249,644	249,427	217
Total	<u>\$ 4,829,706</u>	<u>\$ 4,823,126</u>	<u>\$ 4,795,813</u>	<u>\$ 27,313</u>

III. Detailed Notes On All Funds

Currency Forwards Counterparty Exposure
(expressed in thousands)

Counterparty Name	By Counterparty at June 30, 2018		Worst
	Notional \$USD	Fair Values	Long Term Rating
<i>Investment forwards counterparty exposure</i>			
Australia and New Zealand Banking Group	\$ 87,644	\$ (1,887)	AA-
Bank of America, N.A.	889,115	894	AA-
Barclays Bank PLC Wholesale	23,627	(260)	A
BNP Paribas SA	14,276	(50)	A
Citibank N.A.	179,609	2,361	A+
Credit Suisse International	508	2	A
Deutsche Bank Ag	95,661	1,214	BBB+
Goldman Sachs International	2,272	(14)	A
HSBC Bank PLC	147,203	(129)	AA-
HSBC Bank USA	174	0	AA-
Income Repatriation Boston	771	(1)	NR
JPMorgan Chase Bank N.A.	297	0	A+
JPMorgan Chase Bank N.A. London	372,269	4,544	AA
Merrill Lynch International	94,665	5,791	A-
Morgan Stanley and Co. International PLC	9,051	(535)	A+
National Australia Bank Limited	433,163	2,270	AA-
Nomura International PLC	8,760	193	A-
Royal Bank of Canada (UK)	834,279	4,657	AA
State Street Bank and Trust Company	6,812	41	AA-
State Street Bank London	446,486	(1,045)	AA-
Subcustodian	25	0	NR
Toronto Dominion Bank	387,530	4,499	AA-
UBS AG London	398,529	6,426	AA-
Westpac Banking Corporation	396,980	(1,658)	AA-
Total	\$ 4,829,706	\$ 27,313	

State of Kansas
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III. Detailed Notes On All Funds

B. Receivables

Accounts receivable as of June 30, 2018, 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	\$ 816,534	\$ 0	\$ 816,534	\$ 0
Intergovernmental receivable	20,710	0	20,710	2,346
Loan receivable	18,910	606,644	625,554	22,917
Accrued interest	1,045	10,026	11,071	1,305
Other receivables	325,107	30,509	355,616	640,072
Total	<u>\$ 1,182,306</u>	<u>\$ 647,179</u>	<u>\$ 1,829,485</u>	<u>\$ 666,640</u>

Taxes receivable and other receivables are shown net of allowances for uncollectible amounts of \$279.8 million and \$208.8 million (\$57.9 million governmental activities and \$150.9 million business-type activities), respectively.

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, 2018, is as follows (expressed in thousands):

Total minimum lease payments to be received	\$ 1,647
Less: unearned income	<u>(167)</u>
Net investment in direct financing leases	<u>\$ 1,480</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 Position because their use is limited by applicable bond covenants or statutory provisions.

III. Detailed Notes On All Funds

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 position. The amount of net appreciation available to be spent can be found in the individual foundation annual financial reports.

E. Equity

Net investment in capital assets, restricted for capital projects, restricted for debt service, restricted for highways and other transportation and restricted for other purposes are each shown separately on the Statement of Net Position. Restricted for capital projects, restricted for debt service, restricted for highways and other transportation and restricted for other purposes are restricted for externally imposed constraints. In addition, \$1.2 billion included in the State University System Component Unit restricted for other purposes category is nonexpendable.

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

F. Capital Assets

Primary Government

(expressed in thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities</i>				
Capital assets, not being depreciated:				
Construction in progress	\$ 800,963	\$ 131,376	\$ 385,291	\$ 547,048
Infrastructure (including construction in progress)	11,608,650	360,341	49,295	11,919,696
Land	282,442	30,700	8,939	304,203
Total capital assets, not being depreciated	<u>12,692,055</u>	<u>522,417</u>	<u>443,525</u>	<u>12,770,947</u>
Capital assets, being depreciated:				
Buildings and improvements	1,572,200	63,149	19,025	1,616,324
Equipment and furnishings	533,238	36,574	18,001	551,811
Intangible-software	72,402	3,001	0	75,403
Land improvements	132,993	3,735	1,612	135,116
Vehicles	88,206	11,776	7,216	92,766
Water rights	32,431	0	0	32,431
Total	<u>2,431,470</u>	<u>118,235</u>	<u>45,854</u>	<u>2,503,851</u>
Less accumulated depreciation for:				
Buildings and improvements	771,688	36,111	13,854	793,945
Equipment and furnishings	355,354	33,068	16,410	372,012
Intangible-software	60,190	7,181	0	67,371
Land improvements	66,917	3,067	1,342	68,642
Vehicles	63,487	9,586	5,283	67,790
Water rights	21,426	836	0	22,262
Total	<u>1,339,062</u>	<u>89,849</u>	<u>36,889</u>	<u>1,392,022</u>
Total capital assets, being depreciated, net	<u>1,092,408</u>	<u>28,386</u>	<u>8,965</u>	<u>1,111,829</u>
Governmental activity capital assets, net	<u>\$ 13,784,463</u>	<u>\$ 550,803</u>	<u>\$ 452,490</u>	<u>\$ 13,882,776</u>
<i>Business-type activities</i>				
Capital assets, being depreciated:				
Equipment and furnishings	\$ 1,692	\$ 43	\$ 11	\$ 1,724
Vehicles	801	262	175	888
Total	<u>2,493</u>	<u>305</u>	<u>186</u>	<u>2,612</u>
Less accumulated depreciation for:				
Equipment and furnishings	1,303	258	11	1,550
Vehicles	610	95	171	534
Total	<u>1,913</u>	<u>353</u>	<u>182</u>	<u>2,084</u>
Business-type activity capital assets, net	<u>\$ 580</u>	<u>\$ (48)</u>	<u>\$ 4</u>	<u>\$ 528</u>

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

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

Governmental activities

General government	\$ 21,645
Human resources	6,444
Education	1,474
Public safety	25,522
Agriculture and natural resources	8,053
Highways and other transportation	25,802
Health and environment	909
Total depreciation expense – Government activities	<u>\$ 89,849</u>

Business-Type activities

Health care stabilization	\$ 3
Lottery	347
Communication system revolving	3
Total depreciation expense – Business-type activities	<u>\$ 353</u>

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

Component Units

(expressed in thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Information Network of Kansas, Inc.</i>				
Capital assets, being depreciated				
Equipment and furnishings	\$ 19	\$ 0	\$ 0	\$ 19
Less accumulated depreciation	<u>14</u>	<u>1</u>	<u>0</u>	<u>15</u>
Total capital assets, being depreciated, net	<u>\$ 5</u>	<u>\$ (1)</u>	<u>\$ 0</u>	<u>\$ 4</u>
<i>Kansas Development Finance Authority</i>				
Capital assets, being depreciated				
Buildings and improvements	\$ 586	\$ 0	\$ 0	\$ 586
Equipment and furnishings	322	3	0	325
Less accumulated depreciation	<u>327</u>	<u>105</u>	<u>0</u>	<u>432</u>
Total capital assets, being depreciated, net	<u>\$ 581</u>	<u>\$ (102)</u>	<u>\$ 0</u>	<u>\$ 479</u>
<i>Kansas Housing Resources Corporation</i>				
Capital assets, being depreciated				
Buildings and improvements	\$ 244	\$ 0	\$ 0	\$ 244
Equipment and furnishings	1,397	1	141	1,257
Assets in progress	0	43	36	7
Vehicles	52	0	12	40
Less accumulated depreciation	<u>1,152</u>	<u>152</u>	<u>179</u>	<u>1,125</u>
Total capital assets, being depreciated, net	<u>\$ 541</u>	<u>\$ (108)</u>	<u>\$ 10</u>	<u>\$ 423</u>
<i>Kansas Turnpike Association</i>				
Capital assets, not being depreciated				
Land	\$ 20,074	\$ 0	\$ 0	\$ 20,074
Infrastructure, including CIP	<u>570,978</u>	<u>68,021</u>	<u>32,715</u>	<u>606,284</u>
Total capital assets, not being depreciated	<u>591,052</u>	<u>68,021</u>	<u>32,715</u>	<u>626,358</u>
Capital assets, being depreciated				
Buildings and improvements	34,496	5,199	0	39,695
Equipment and furnishings	28,386	2,989	1,736	29,639
Less accumulated depreciation	<u>30,422</u>	<u>3,617</u>	<u>1,486</u>	<u>32,553</u>
Total capital assets being depreciated, net	<u>32,460</u>	<u>4,571</u>	<u>250</u>	<u>36,781</u>
Total capital assets, net	<u>\$ 623,512</u>	<u>\$ 72,592</u>	<u>\$ 32,965</u>	<u>\$ 663,139</u>

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

	(expressed in thousands)			
	Beginning Balance	Increases	Decreases	Ending Balance
<i>University system</i>				
Capital assets, not being depreciated				
Construction in progress	\$ 636,454	\$ 588,868	\$ 1,038,048	\$ 187,274
Land	136,939	2,247	53,693	85,493
Total capital assets, not being depreciated	<u>773,393</u>	<u>591,115</u>	<u>1,091,741</u>	<u>272,767</u>
Capital assets, being depreciated				
Buildings and improvements	4,205,688	739,567	28,945	4,916,310
Land improvements	59,484	9,892	6,943	62,433
Equipment and furnishings	706,496	69,606	36,594	739,508
Intangible, software	27,867	7,854	841	34,880
Vehicles	61,917	3,733	1,688	63,962
Total capital assets, being depreciated	<u>5,061,452</u>	<u>830,652</u>	<u>75,011</u>	<u>5,817,093</u>
Less accumulated depreciation for:				
Buildings and improvements	1,608,958	138,021	0	1,746,979
Land improvements	28,086	2,126	0	30,212
Equipment and furnishings	516,696	48,488	33,124	532,060
Intangible, software	15,489	4,584	35	20,038
Vehicles	46,198	5,636	1,678	50,156
Totals	<u>2,215,427</u>	<u>198,855</u>	<u>34,837</u>	<u>2,379,445</u>
Total capital assets, being depreciated, net	<u>2,846,025</u>	<u>631,797</u>	<u>40,174</u>	<u>3,437,648</u>
University system capital assets, net	<u>\$ 3,619,418</u>	<u>\$ 1,222,912</u>	<u>\$ 1,131,915</u>	<u>\$ 3,710,415</u>
<i>All component units</i>				
Capital assets, not being depreciated				
Construction in progress	\$ 636,454	\$ 588,868	\$ 1,038,048	\$ 187,274
Land	157,013	2,247	53,693	105,567
Infrastructure, including CIP	570,978	68,021	32,715	606,284
Total capital assets, not being depreciated	<u>1,364,445</u>	<u>659,136</u>	<u>1,124,456</u>	<u>899,125</u>
Capital assets, being depreciated				
Buildings and improvements	4,241,014	744,766	28,945	4,956,835
Land improvements	59,484	9,892	6,943	62,433
Equipment and furnishings	736,620	72,642	38,507	770,755
Intangible, software	27,867	7,854	841	34,880
Vehicles	61,969	3,733	1,700	64,002
Total capital assets, being depreciated	<u>5,126,954</u>	<u>838,887</u>	<u>76,936</u>	<u>5,888,905</u>
Less accumulated depreciation for:				
Buildings and improvements	1,623,319	138,964	0	1,762,283
Land improvements	28,086	2,126	0	30,212
Equipment and furnishings	534,197	51,420	34,777	550,840
Intangible, software	15,489	4,584	35	20,038
Vehicles	46,251	5,636	1,690	50,197
Totals	<u>2,247,342</u>	<u>202,730</u>	<u>36,502</u>	<u>2,413,570</u>
Total capital assets, being depreciated, net	<u>2,879,612</u>	<u>636,157</u>	<u>40,434</u>	<u>3,475,335</u>
All component units capital assets, net	<u>\$ 4,244,057</u>	<u>\$ 1,295,293</u>	<u>\$ 1,164,890</u>	<u>\$ 4,374,460</u>

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

Construction Commitments

The State has active construction projects as of June 30, 2018. 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
Department of Administration			
Elevator renovation	1,530	456	State R& R
Adjutant General			
Ft. Leavenworth Mission Training Complex Barracks	298	722	Federal funds
Department of Transportation			
Various roadway projects	397,135	572,481	Federal, State and Local Funds
Kansas Wildlife, Parks & Tourism			
El Dorado Shooting Range Phase I	1,300	65	
El Dorado Shooting Range Phase II	891	145	
Leavenworth Spillway Repair	200	1,083	
Woodson State Fishing Lake Spillway Repair	1,296	512	
Flint Hills Trail Phase IV	3,641	148	
Component Units:			
Fort Hays State University			
Art Building	1,615	9,081	General Fees - Tuition
Wiest Hall Construction	30,218	38	Bonds & Restricted Fee Fund
ERP - Finance -HR System	1,221	7,225	General Fees - Tuition
Emporia State University			
Schallenkamp Hall & Abigail Morse Renovation	4,658	27,430	Bond Proceeds
Pittsburg State University			
Fine & Performing Arts Center	6,196	988	Private Funding
Heckert Wells New HVAC and Lab Hood Systems	4,435	8	State R& R
Weede Physical Education Building Renovation	2,206	271	Private Funding
Kansas State University			
Trotter Hall 3 rd Floor Anatomy Labs	3,298	174	Restricted Fee Fund
Student Union Expansion	25,183	472	Bonds and Restricted Fee Fund
New Residence Hall and Dining Center	62,848	732	Bonds and Housing System Operation Fund
College of Architecture Renovation	62,212	644	Bonds and State General Fund
Chilled Water Expansion Project	49,184	240	Bonds and Restricted Fee Fund
Campus Infrastructure 12.5kv Improvements	1,878	2,796	Bonds
Rathbone Parking Lot A28	207	821	Parking Fee Fund

State of Kansas
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III. Detailed Notes On All Funds

Agency - Project	Spent to Date	Remaining Commitment	Funding Source
Component Units:			
University of Kansas			
District Chilled Water Plant	156	9,743	State Fund and University Funds
Bailey Hall HVAC Upgrades	48	4,652	State Fund and University Funds
Chalmers Hall HVAC Upgrades	88	8,401	State Fund and University Funds
Parking Improvements	6,983	6,317	University Parking Funds
Simons Laboratory Addition	6,861	7,139	KUCR Funds and Private Gifts
Irving Hill Road Improvements	197	4,753	State Fund and University Funds
Lewis Hall HVAC Remediation	102	1,298	University Housing Funds
Jayhawker Tower B Renovation	124	10,041	Revenue Bonds, University Housing Funds
Battenfield Hall Renovation	295	1,905	University Housing Funds
Life Science Research Lab Phase I Expansion	0	6,600	KUCR Funds and Private Gifts
Wichita State University			
Hydropuls Crash Simulation System	1,668	1,112	Federal and Restricted Fee Fund
Total	<u>\$ 678,172</u>	<u>\$ 688,493</u>	

As of June 30, 2018, the State, through the activities of the former Kansas Bioscience Authority, had agreed to \$14.4 million in approved unfunded commitments to Kansas bioscience companies, research institutions, and bond lending agencies. Commitments to companies are generally contingent upon the grantee meeting various performance or other contingencies to achieve actual funding. Included in the outstanding approved unfunded commitments are \$9.6 million in special assessments payable, accrued interest payable and bonds payable which were incurred for construction of the Kansas Bioscience Park and Venture Accelerator facility.

Significant encumbrances at June 30, 2018 (amounts in thousands)

Fund	Amount
General	\$ 38,794
Social Services	52,205
Education	10,647
Health and Environment	131,435
Transportation	548,353
Other Governmental Funds	165,543
Total	<u>\$ 946,977</u>

State of Kansas
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III. Detailed Notes On All Funds

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, 2018, is as follows (expressed in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Non-major Governmental Funds	\$ 2,645
Social Services Fund	General Fund	6,551
	Non-major Enterprise Funds	80
Health and Environment Fund	General Fund	11,701
Non-major Governmental Funds	General Fund	59,984
	Social Services Fund	83
	Non-major Governmental Funds	387
	Non-major Enterprise Funds	4,048
	Internal Service Funds	283
		<u>\$ 85,762</u>

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

Advances to/from other funds

Advances to/from other funds represent long-term loans from one fund to another fund. Advances at June 30, 2018, were as follows (expressed in thousands):

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Social Services Fund	General Fund	\$ 32,753
Health and Environment Fund	General Fund	58,504
Non-major Governmental Funds	General Fund	327,066
	Social Services Fund	41
	Non-major Governmental Funds	436
	Internal Service Funds	330
		<u>\$419,130</u>

The 2017 legislature passed and the governor signed into law, Senate Substitute for Substitute House Bill 2052. Section 45(m) of House Bill 2052 authorized internal borrowing from the Pooled Money Investment Board idle funds pool for deposit to the State General Fund. On June 27, 2017, the director of the budget certified an amount of \$198.4 million to be transferred. An additional \$118.8 million was certified to be transferred on July 3, 2017 for a total internal borrowing of \$317.2 million. These transactions were recorded as advances to and from in the impacted funds. The internal borrowing will be repaid over six fiscal years in equal installments beginning on or before June 30, 2019.

The amounts payable from the General Fund and owed to the Social Services Fund, Health and Environment Fund and Non-major Government Funds mostly relate to the above transaction. The remaining amount payable to the Non-major Governmental Funds relate to expected claims from escheated property, see Note IV, Section C, Contingencies and Commitments for further information. The remainder of the advance to/from have to do with the Master Lease Purchase Program, see Note III, Section I, Master Lease Purchase Program for further information.

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III. Detailed Notes On All Funds

Transfers

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

Fund	Net Transfers In	Net Transfers Out
General	\$ 72,851	\$ 0
Social Services	821,197	0
Health & Environment	0	809,115
Education	301,509	0
Transportation	0	470,513
Non-major Governmental	295,458	0
Unemployment Insurance	0	727
Health Care Stabilization	4,849	0
Non-major Enterprise Funds	0	210,609
Internal Service Funds	0	4,900
Total	<u>\$ 1,495,864</u>	<u>\$ 1,495,864</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, 2018, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2017 Beginning Balance	Additions	Deletions	6/30/2018 Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 900,000	\$ 900,000	\$ 0
Accrued receivables:				
Expanded Lottery Act Revenues Fund	0	86,522	86,522	0
Children's Initiatives Fund	0	20,877	20,877	0
Correctional Institutions' Building Fund	0	3,994	3,994	0
State Economic Development Initiatives Fund	0	31,880	31,880	0
Kansas Endowment for Youth Fund	0	187	187	0
Kansas Educational Building Fund	0	31,520	31,520	0
State Institutions Building Fund	0	15,829	15,829	0
Total short-term obligations	<u>\$ 0</u>	<u>\$ 1,090,809</u>	<u>\$ 1,090,809</u>	<u>\$ 0</u>

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$900 million was issued on July 3, 2017, and redeemed on June 1, 2018.

III. Detailed Notes On All Funds

Per Senate Substitute for House Bill No. 2002, Section 65 of the 2017 Session, on July 1, 2017, receivables are to be posted to the State Treasurer's receivables for the Expanded Lottery Act Revenues Fund. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2018, a receivable was posted for \$86.5 million and was reduced to zero in June 2018.

Per Senate Substitute for House Bill No. 2002, Section 65 of the 2017 Session, on July 1, 2017, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2018 a receivable was posted for \$20.9 million and was reduced to zero in April 2018.

Per Senate Substitute for House Bill No. 2002, Section 65 of the 2017 Session, on July 1, 2017, 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 2018, a receivable was posted for \$4.0 million and was reduced to zero in January 2018.

Per Senate Substitute for House Bill No. 2002, Section 65 of the 2017 Session, on July 1, 2017, 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 2018, a receivable was posted for \$31.9 million and was reduced to zero in January 2018.

Per Senate Substitute for House Bill No. 2002, Section 65 of the 2017 Session, on July 1, 2017, 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 75 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 2018, a receivable was posted for \$186,427 and was reduced to zero in December 2017.

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 State Building Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2018, \$31.5 million was posted to the Kansas Educational Building Fund and \$15.8 million to the State Institutions Building Funds. The receivables were reduced to zero in June 2018.

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III. Detailed Notes On All Funds

I. Long-term Obligations

A summary of long-term obligations at June 30, 2018, for the fiscal year then ended is as follows (expressed in thousands):

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	\$ 4,543,721	\$ 213,799	\$ 930,425	\$ 5,687,945
Notes payable	11,932	0	0	11,932
Other component units of university system	0	0	752,267	752,267
Capital leases payable	136,728	0	70,145	206,873
Arbitrage rebate payable	23	56	20	99
Claims	93,548	279,871	0	373,419
Judgments	17,432	0	0	17,432
Special assessment payable	2,341	0	0	2,341
Compensated absences	109,249	104	85,404	194,757
Total OPEB liability	55,638	73	40,022	95,733
Net pension liability	2,021,444	6,460	246,569	2,274,473
Pollution remediation	91,863	0	0	91,863
Other	0	10,409	170,568	180,977
Total long-term obligations	<u>\$ 7,083,919</u>	<u>\$ 510,772</u>	<u>\$ 2,295,420</u>	<u>\$ 9,890,111</u>

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Long-term obligations at June 30, 2018, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2017 Beginning Balance	Prior Period Adjustment	Additions	Deletions	6/30/2018 Ending Balance	Amounts Due In One Year
Governmental Activities										
Revenue bonds payable:										
KDFA series 2004 C	2004	3.43 - 5.50%	2034	\$ 500,000	\$ 393,075	\$ 0	\$ 0	\$ 14,775	\$ 378,300	\$ 15,515
KDFA series 2006 A	2006	4.00 - 5.00%	2027	209,490	10,230	0	0	10,230	0	0
KDFA series 2007 K-1, 2A, 2B, & 3	2008	4.00 - 5.25%	2028	59,455	8,655	0	0	2,755	5,900	2,885
KDFA series 2008 L-1, 2, & 3	2009	2.00 - 5.25%	2029	43,265	4,065	0	0	1,990	2,075	2,075
KDFA series 2009 A	2009	2.50 - 5.00%	2035	3,825	3,460	0	0	130	3,330	135
KDFA series 2009 B	2009	5.00%	2019	515	225	0	0	110	115	115
KDFA series 2009 A & 2009 B	2009	3.30 - 5.50%	2022	10,080	7,650	0	0	509	7,141	446
KDFA series 2009 F	2009	3.00 - 5.00%	2019	49,425	13,895	0	0	6,810	7,085	7,085
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2035	89,765	68,850	0	0	3,325	65,525	3,455
KDFA series 2009 N	2010	3.88 - 5.80%	2025	10,050	7,835	0	0	810	7,025	850
KDFA series 2010 C	2010	5.00%	2020	52,755	20,210	0	0	6,410	13,800	6,730
KDFA series 2010 E-1 & E-2	2010	2.00 - 6.12%	2035	84,160	62,370	0	0	7,305	55,065	7,615
KDFA series 2010 F	2010	1.58 - 6.25%	2032	10,580	9,285	0	0	465	8,820	480
KDFA series 2010 O-2	2011	2.70 - 6.10%	2030	39,945	32,305	0	0	2,030	30,275	2,090
KDFA series 2011 B	2012	2.00 - 4.13%	2031	53,780	40,865	0	0	2,260	38,605	2,350
KDFA series 2011 K	2012	3.00 - 5.00%	2023	109,135	95,050	0	0	5,895	89,155	6,195
KDFA series 2013 A-1, 2 & 3	2014	4.00 - 5.00%	2033	71,885	59,855	0	0	3,655	56,200	3,815
KDFA Series 2013 B	2014	3.00 - 5.00%	2024	40,555	24,195	0	0	5,375	18,820	5,660
KDFA Series 2015 A	2015	3.20 - 5.00%	2035	230,475	225,190	0	0	6,185	219,005	11,405
KDFA Series 2015 G	2015	4.84 - 5.00%	2035	203,585	203,585	0	0	7,250	196,335	7,600
KDFA Series 2015 H	2016	1.44 - 4.927%	2045	1,005,180	986,880	0	0	20,330	966,550	20,710
KDFA Series 2016 H	2017	2.00 - 5.0%	2029	51,500	51,500	0	0	335	51,165	1,010
KDOT series 2004 A	2004	4.50 - 5.50%	2019	250,000	76,235	0	0	36,775	39,460	39,460
KDOT series 2004 C*	2005	Variable	2025	147,000	147,000	0	0	0	147,000	0
KDOT series 2009 A	2010	2.25 - 5.00%	2021	176,680	94,270	0	0	24,590	69,680	19,630
KDOT series 2010 A	2011	4.60%	2036	325,000	325,000	0	0	0	325,000	0
KDOT series 2012 B	2013	5.00%	2023	144,885	144,885	0	0	0	144,885	0
KDOT series 2012 C	2013	4.00 - 5.00%	2033	200,000	185,800	0	0	7,400	178,400	7,600
KDOT series 2014 A	2015	5.00%	2031	250,000	250,000	0	0	0	250,000	0
KDOT series 2014 B	2015	Variable	2020	212,875	137,730	0	0	39,519	98,211	49,945
KDOT series 2015 A	2016	2.75 - 5.00%	2025	190,875	190,875	0	0	0	190,875	0
KDOT series 2015 B	2016	5.00%	2036	400,000	400,000	0	0	0	400,000	0
KDOT series 2017 A	2018	5.00%	2038	200,000	0	0	200,000	0	200,000	0
				5,426,720	4,281,025	0	200,000	217,223	4,263,802	224,856
Plus deferred amounts:										
Net unamortized premium (discount)				0	273,095	0	42,212	35,388	279,919	0
Total revenue bonds payable				<u>\$ 5,426,720</u>	<u>4,554,120</u>	<u>0</u>	<u>242,212</u>	<u>252,611</u>	<u>4,543,721</u>	<u>224,856</u>
Notes payable:										
Water supply storage in federal reservoirs				29,189	13,722	0	0	1,790	11,932	825
Total notes payable				<u>\$ 29,189</u>	<u>13,722</u>	<u>0</u>	<u>0</u>	<u>1,790</u>	<u>11,932</u>	<u>825</u>
Arbitrage rebate payable					23	0	0	0	23	0
Capital leases payable					138,422	0	8,038	9,732	136,728	9,308
Claims					98,151	0	404,433	409,036	93,548	38,957
Judgments					19,331	0	1,343	3,242	17,432	17,429
Special assessment payable					2,342	0	0	1	2,341	433
Compensated absences					109,073	0	60,904	60,728	109,249	51,964
Total OPEB liability					0	56,546	6,721	7,629	55,638	0
Net pension liability					2,046,598	0	450,444	475,598	2,021,444	0
Pollution remediation					78,256	0	13,607	0	91,863	20,038
Total governmental activities				<u>\$ 7,060,038</u>	<u>\$ 56,546</u>	<u>\$ 1,187,702</u>	<u>\$ 1,220,367</u>	<u>\$ 7,083,919</u>	<u>\$ 363,810</u>	

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	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2017 Beginning Balance	Prior Period Adjustment	Additions	Deletions	6/30/2018 Ending Balance	Amounts Due In One Year
Business-type Activities										
Revenue bonds payable:										
KDFA series 2010 SRF 1,2 & 3 (CW & DW)	2011	1.68 - 5.95%	2030	\$ 194,865	\$ 166,310	\$ 0	\$ 0	\$ 12,435	\$ 153,875	\$ 23,160
KDFA series 2011 SRF DW 2	2011	2.00-4.20%	2031	49,880	49,880	0	0	0	49,880	0
KDFA series 2008 G	2009	4.60 - 5.05%	2023	14,200	569	0	0	229	340	127
KDFA series 2009 TR	2009	2.50 - 4.78%	2028	30,950	15,805	0	0	15,805	0	0
KDFA series 2018 SRF-1	2018	2.16%	2019	5,600	0	0	5,600	0	5,600	5,600
Plus deferred amounts:										
Net unamortized premium (discount)				0	6,030	0	0	1,926	4,104	1,648
Total revenue bonds payable				\$ 295,495	238,594	0	5,600	30,395	213,799	30,535
Arbitrage rebate payable										
					295	0	0	239	56	0
Claims and judgments					271,907	0	7,964	0	279,871	36,003
Compensated absences					95	0	93	84	104	88
Other					11,222	0	0	813	10,409	0
Total OPEB liability					0	56	25	8	73	0
Net pension liability					6,472	0	1,372	1,384	6,460	0
Total business-type activities				\$ 528,585	\$ 56	\$ 15,054	\$ 32,923	\$ 510,772	\$ 66,626	

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2017 Beginning Balance	Prior Period Adjustment	Additions	Deletions	6/30/2018 Ending Balance	Amounts Due In One Year
Component Units										
Revenue bonds payable:										
KDFA series 2001 B	2001	3.65 - 5.20%	2021	\$ 2,805	\$ 795	\$ 0	\$ 0	\$ 795	\$ 0	\$ 0
KDFA series 2001 W-1	2002	3.00 - 5.00%	2022	1,720	600	0	0	110	490	115
KDFA series 2002 H	2003	2.50 - 4.70%	2022	3,765	1,215	0	0	225	990	230
KDFA series 2002 N-2	2003	3.00 - 5.25%	2018	3,955	360	0	0	360	0	0
KDFA series 2005 D	2005	3.79 - 5.18%	2022	30,160	7,500	0	0	2,075	5,425	1,270
KDFA series 2005 F	2006	3.25 - 4.40%	2026	8,930	5,235	0	0	5,235	0	0
KDFA series 2008 D	2008	5.10%	2038	1,600	1,600	0	0	0	1,600	0
KDFA series 2008 L	2009	2.00 - 5.25%	2029	21,070	1,910	0	0	935	975	975
KDFA series 2009 G	2009	2.50 - 4.75%	2024	825	435	0	0	55	380	55
KDFA series 2009 H-1 & H-2	2009	2.50 - 7.30%	2035	13,460	12,185	0	0	455	11,730	475
KDFA series 2009 J-1 & J-2	2009	2.50 - 7.00 %	2030	3,880	3,325	0	0	195	3,130	205
KDFA series 2009 K-1 & K-2	2010	2.63 - 5.63%	2040	6,140	5,540	0	0	135	5,405	145
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2030	27,150	19,775	0	0	1,425	18,350	1,495
KDFA series 2010 A	2010	2.00 - 4.05%	2030	23,700	17,920	0	0	1,165	16,755	1,205
KDFA series 2010 B	2010	2.50 - 3.75%	2027	21,650	14,530	0	0	1,260	13,270	1,320
KDFA series 2010 G-1 & G-2	2010	2.00 - 6.60%	2040	20,050	19,525	0	0	535	18,990	555
KDFA series 2010 J	2010	0.75 - 4.45%	2030	14,765	10,605	0	0	650	9,955	670
KDFA series 2010 K-1 & K-2	2010	2.00 - 6.20%	2035	15,050	9,590	0	0	720	8,870	750
KDFA series 2010 M-1 & M-2	2010	2.00 - 5.10%	2026	14,865	13,560	0	0	1,335	12,225	1,375
KDFA series 2010 P-1 & P-2	2011	2.00 - 5.00%	2031	15,930	11,980	0	0	725	11,255	740
KDFA series 2010 U-1 & U-2	2011	1.80 - 6.20%	2029	25,180	15,065	0	0	1,745	13,320	1,145
KDFA series 2011 C	2011	2.00 - 4.50%	2036	13,450	11,135	0	0	415	10,720	430
KDFA series 2011 D-1, 2 & 3	2011	2.00 - 4.40%	2024	9,465	4,675	0	0	895	3,780	650
KDFA series 2011 G	2012	0.50 - 4.13%	2041	16,300	13,740	0	0	390	13,350	400
KDFA series 2012 A	2012	3.00 - 5.00%	2024	27,610	17,100	0	0	2,420	14,680	2,550
KDFA series 2012 D	2012	2.00 - 4.50%	2029	43,230	40,000	0	0	2,480	37,520	2,575
KDFA series 2012 F	2013	2.00 - 5.00%	2033	17,205	14,645	0	0	695	13,950	720
KDFA series 2012 H	2012	2.00 - 5.00%	2034	35,970	31,790	0	0	1,350	30,440	1,415
KDFA series 2014 A-1 & 2	2014	3.00 - 4.25%	2035	35,175	32,415	0	0	1,465	30,950	1,510
KDFA series 2014 B	2014	0.50%	2019	2,423	976	0	0	487	489	489
KDFA series 2014 C-1, 2, 3, 4 & 5	2014	3.00 - 5.00%	2039	56,655	53,515	0	0	1,955	51,560	2,050
KDFA series 2014 D-1, 2, 3 & 4	2014	3.00 - 5.00%	2035	133,550	126,210	0	0	4,225	121,985	4,435
KDFA series 2013 G-1 & 2	2014	4.00 - 5.00%	2038	77,335	71,770	0	0	2,730	69,040	2,880
KDFA series 2015 B-1, 2 & 3	2015	3.00 - 5.00%	2037	61,865	57,660	0	0	1,905	55,755	2,005
KDFA series 2016 A	2016	2.00 - 4.00%	2040	97,815	94,885	0	0	3,275	91,610	3,345
KDFA series 2016 B-1, 2 & 3	2016	2.00 - 4.00%	2041	31,115	30,595	0	0	1,280	29,315	1,195
KDFA series 2016 C	2016	2.00 - 4.00%	2041	45,330	45,330	0	0	1,280	44,050	1,310
Series 2015 K	2016	0.61%	2021	1,500	1,254	0	0	248	1,006	249
2015 M FCIP	2016	0.75%	2023	2,136	1,838	0	0	301	1,537	303
KDFA series 2016 J	2017	2.00 - 5.00%	2036	9,245	9,100	0	0	260	8,840	265
KDFA series 2017 A	2017	3.00 - 5.00%	2042	67,510	65,990	0	0	2,525	63,465	2,985
KDFA series 2017 B	2017	2.52%	2032	2,884	2,884	0	0	0	2,884	175
KDFA series 2017 D	2018	3.00 - 5.50%	2038	36,075	0	0	36,075	260	35,815	695
KDFA series 2017 E	2018	1.97%	2025	8,100	0	0	8,100	500	7,600	1,025
Plus deferred amounts:										
Net unamortized premium (discount)				0	39,066	0	2,001	4,098	36,969	0
Total revenue bonds payable				\$ 1,108,593	939,823	0	46,176	55,574	930,425	46,381
Other component units of university system										
					750,454	0	69,400	67,587	752,267	23,832
Arbitrage rebate payable					39	0	0	19	20	0
Capital leases					7,125	0	63,020	0	70,145	4,833
Compensated absences					79,588	0	74,288	68,472	85,404	69,187
Other					184,423	0	0	13,855	170,568	12,645
Total OPEB liability					508	36,322	8,096	4,904	40,022	0
Net pension liability					259,191	0	52,368	64,990	246,569	0
Total component units				\$ 2,221,151	\$ 36,322	\$ 313,348	\$ 275,401	\$ 2,295,420	\$ 156,878	

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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, 2018, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
Revenue bonds:						
2019	\$ 224,856	\$ 185,173	\$ 28,887	\$ 9,869	\$ 46,381	\$ 35,378
2020	233,238	160,275	26,618	8,646	47,679	33,459
2021	236,923	149,280	29,270	7,363	48,378	31,356
2022	252,215	139,376	24,841	5,900	49,396	29,258
2023	255,695	130,318	17,978	4,710	55,989	29,839
2024-2028	1,031,695	536,435	57,155	13,638	247,328	106,916
2029-2033	1,010,655	340,023	24,946	2,061	194,415	59,394
2034-2038	647,190	150,213	0	0	148,790	26,645
2039-2043	252,200	67,820	0	0	51,185	5,498
2044-2048	119,135	8,875	0	0	3,915	157
Unamortized premium	279,919	0	4,104	0	36,969	0
Totals	<u>4,543,721</u>	<u>1,867,788</u>	<u>213,799</u>	<u>52,187</u>	<u>930,425</u>	<u>357,900</u>
Notes payable:						
2019	825	456	0	0	0	0
2020	855	425	0	0	0	0
2021	887	393	0	0	0	0
2022	920	360	0	0	0	0
2023	954	326	0	0	0	0
2024-2028	4,874	1,080	0	0	0	0
2029-2033	2,617	197	0	0	0	0
Totals	<u>11,932</u>	<u>3,237</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital leases payable	136,728	49,891	0	0	70,145	54,533
Long-term debt without scheduled						
Debt service:						
Arbitrage rebate payable	23	0	56	0	20	0
Claims and judgments	110,980	0	279,871	0	0	0
Special assessment payable	2,341	0	0	0	0	0
Compensated absences	109,249	0	104	0	85,404	0
Total OPEB liability	55,638	0	73	0	40,022	0
Net pension liability	2,021,444	0	6,460	0	246,569	0
Pollution remediation	91,863	0	0	0	0	0
Component units of university system	0	0	0	0	752,267	0
Other	0	0	10,409	0	170,568	0
Total long-term obligations	<u>\$ 7,083,919</u>	<u>\$ 1,920,916</u>	<u>\$ 510,772</u>	<u>\$ 52,187</u>	<u>\$ 2,295,420</u>	<u>\$ 412,433</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, 2018. 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. However, these rates will vary. This will require interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments to also vary.

(expressed in thousands)

Fiscal Year Ended June 30	Principal	Interest	Hedging Derivative Instruments (Net)	Total
2019	\$ 49,945	\$ 4,081	\$ 2,673	\$ 56,699
2020	48,265	3,257	1,673	53,195
2021	0	3,105	1,038	4,143
2022	32,010	2,545	1,046	35,601
2023	33,315	1,846	821	35,982
2024-2027	81,676	1,293	903	83,872
Total	<u>\$ 245,211</u>	<u>\$ 16,127</u>	<u>\$ 8,154</u>	<u>\$ 269,492</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 Turnpike Authority (KTA) has four outstanding series of Turnpike Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of the Kansas Turnpike. Principal and interest payments on these bond issues are paid from revenues collected from the operations of KTA, including toll revenues. Please reference Note III, Section I, Long-term Obligations, for KTA revenue bonds and future principal and interest payments.

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 eleven 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.

III. Detailed Notes On All Funds

The coupon interest rate on outstanding bonds varies from 3.00 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 0.94 percent to 2.11 percent on the weekly adjustable bonds. In July 2017, KDOT defeased Transportation Revolving Fund Bonds Series 2009-TR using existing resources. These bonds were deposited in an irrevocable trust with a third-party escrow agent to provide for all future debt service payments on the 2009-TR Bond Series. In September 2017, KDOT issued Highway Revenue Bonds Series 2017A. The purpose of these bonds was to pay a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. The bonds were issued with a \$42.2 million premium and have interest rates of 5.0% and annual maturities through September 2037.

Sales Tax Limited Obligation Bonds

Sales tax limited obligation bonds (STAR bonds) have been issued for various local governments throughout the state. Pursuant to issuance of the STAR bonds, the State and local governments have entered into Redevelopment District Tax Distribution Agreements. The agreements provide that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally from the State's and the local governments' respective share of sales taxes generated within the related Districts. These bonds are special limited obligations of the State, 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 the State. Accordingly, such STAR bonds are not included in the State's June 30, 2018 balance sheet. The State's portion of the STAR bonds at June 30, 2018 total \$301.1 million.

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 KDFA, 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 KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2018, balance sheet. KDFA's special obligation bonds at June 30, 2018, total \$3.3 billion.

Private activity bonds are special limited obligations of KDFA 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 KDFA's June 30, 2018, balance sheet. KDFA's private activity bonds at June 30, 2018, total \$1.4 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 42 years for water supply storage capacity in large Federal multipurpose lakes under the 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, 2018, for portions of the storage designated as "future use" storage.

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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, 2018 are as follows (expressed in thousands):

Fiscal Year	
2019	\$ 10,348
2020	9,541
2021	10,368
2022	7,536
2023	7,539
2024-2028	31,463
2029-2033	25,185
2034-2038	9,328
2039-2044	1,607
Total future minimum lease payments	<u>\$ 112,915</u>
Rent expenditures/expenses for operating leases for the year ended June 30, 2018	<u>\$ 10,784</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 Position at the present value of the future minimum lease payments. Interest expense for capital leases is not capitalized.

The following schedule presents future minimum lease payments as of June 30, 2018 (expressed in thousands):

Year Ending June 30	Governmental Activities	
	Principal	Interest
2019	\$ 9,308	\$ 5,884
2020	9,346	5,491
2021	9,451	5,090
2022	9,533	4,676
2023	8,863	4,265
2024-2028	44,321	16,073
2029-2033	34,284	6,670
2034-2038	8,984	1,490
2039-2044	2,638	252
Total	<u>\$ 136,728</u>	<u>\$ 49,891</u>

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III. Detailed Notes On All Funds

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2018, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	\$ 14,819
Buildings	139,993
Equipment	9,532
Less: Accumulated depreciation	(36,468)
Total	<u>\$ 127,876</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, 2018, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2017 Beginning Balance	Current Year Defeased	Payments	6/30/2018 Ending Balance
Governmental Activities				
KDFA Series 2008L	\$ 25,565	\$ 0	\$ 0	\$ 25,565
KDOT Highway Revenue	200,000	0	0	200,000
KDOT 2009 TR	0	15,805	4,000	11,805
KDFA Series 2007K	30,645	0	30,645	0
Total governmental activities	<u>\$ 256,210</u>	<u>\$ 15,805</u>	<u>\$ 34,645</u>	<u>\$ 237,370</u>

During fiscal year 2018, KDOT issued 2017A which partially refunded Series 2009 TR in the amount of \$15.8 million. Although, the defeasance resulted in the recognition of an accounting loss of \$158 for the year ended June 30, 2018, KDOT in effect reduced its future aggregate debt service payments by approximately \$3,000.

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Bond Issue	6/30/2017 Beginning Balance	Current Year Defeased	Payments	6/30/2018 Ending Balance
Business-type Activities				
KDFA Series 2001 II	\$ 7,000	\$ 0	\$ 7,000	\$ 0
KDFA 2005 II	19,875	0	10,220	9,655
Total business-type activities	<u>\$ 26,875</u>	<u>\$ 0</u>	<u>\$ 17,220</u>	<u>\$ 9,655</u>

Component Unit

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain revenue and lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2018, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2017 Beginning Balance	Current Year Defeased	Payments	6/30/2018 Ending Balance
Component Units				
KDFA series 2008 L	\$ 12,765	\$ 0	\$ 0	\$ 12,765
Total component units	<u>\$ 12,765</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,765</u>

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$23 thousand for Governmental Activities, \$56 thousand for Business-type Activities, and \$20 thousand for Component Units.

Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2018 financial statements are as follows debit (credit) (expressed in thousands):

	Change in Fair Value		Fair Value at June 30, 2018		Notional
	Classification	Amount	Classification	Amount	
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ 3,632	Debt	\$ (5,291)	\$ 170,210
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	2,505	Investment	(6,215)	75,000

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 position.

III. Detailed Notes On All Funds

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 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.

(ii) Reduce interest expense from expected benefit resulting from the difference 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 one part of the swap transaction and 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.

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III. Detailed Notes On All Funds

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2018 (expressed in thousands):

Associated KDOT Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Rating
Series 2014 B *	\$ 200,000	\$ 61,380	10/23/2002	9/1/2019	3.1640% Contractual; 0.8192% GASB 64 At-the-Market	67% of USD-LIBOR	\$ 193	Goldman Sachs Bank USA	A1/A-/A
Series 2014 B *	112,139	36,830	3/1/2012	9/1/2019	3.1640% Contractual; 0.8183% GASB 64 At-the-Market	67% of USD-LIBOR	115	The Bank of New York Mellon	Aa2/AA-/AA
Series 2004 C*	147,000	72,000	11/23/2004	9/1/2024	3.571%	63.5% USD-LIBOR + 0.29%	(5,599)	Goldman Sachs Bank USA	A1/A-/A
Series 2004 C**	75,000	75,000	7/1/2007	9/1/2024	3.571%	62.329% of 10 Year CMS	(6,215)	Goldman Sachs Bank USA	A1/A-/A
Total Termination Value							<u>\$ (11,506)</u>		

*- considered a fair value hedge

** - considered an investment derivative

KDOT derivative instruments detailed discussion

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

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2018, 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 2014 B Swaps (Formerly 2002 B 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 continues with hedge accounting on the new at-the-market swap with a fixed rate computed at prevailing interest rates on the day of termination.

On September 2, 2014, KDOT issued Series 2014B Bonds to refund the outstanding principal amounts of the Series 2002B & C 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 the 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. This is amortized over the shorter of the life of the new bonds or refunded bonds.

KDOT Series 2004C 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.

III. Detailed Notes On All Funds

Since many tax-exempt and municipal issuers fund capital projects with long-term traditional or synthetic fixed-rate debt, but are constrained to investing short-term for liquidity reasons, in a normal or upwardly sloped yield curve they incur “negative carry” (cost of borrowing exceeds investment rate). KDOT determined that it could mitigate this imbalance through the execution of the two Constant Maturity Swaps (CMS). On June 15, 2007, based on the results of a previously distributed competitively bid request for quotes for a swap provider, effective July 1, 2007, KDOT amended the floating index from 63.5 percent plus 29 basis points to 62.329 percent of the 10-year LIBOR CMS rate on \$75 million of the existing \$147 million swap.

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. Fair values reflect the effect of non-performance risk, which includes KDOT’s credit risk.

Credit risk. As of June 30, 2018, KDOT has no credit risk exposure on the swap transactions. This is due to the swaps having negative mark-to-market values, meaning the counterparties are exposed to KDOT in the amount of the derivatives’ mark-to-market values. However, should interest rates change and the mark-to-market 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 mark-to-market 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 mark-to-market value, KDOT would be liable to the counterparty for a payment equal to the swap’s mark-to-market value.

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III. Detailed Notes On All Funds

J. Revisions to Beginning Net Position

Various adjustments were made to the beginning net positions to correct errors in the prior year financial statements.

For fiscal year 2018, the governmental activities beginning net position was \$7.85 billion. During the year, the State implemented the provisions of GASB 75 resulting in a decrease to beginning net position of \$51 million. For more information on this revision see Note IV, Section E.

For fiscal year 2018, the business-type and proprietary fund beginning net position was \$1.26 billion. During the year, the Lottery fund implemented provisions of GASB 75 resulting in a decrease to beginning net position of \$0.06 million. For more information on this revision see Note IV, Section E.

For fiscal year 2018, component unit beginning net position was \$6.40 billion. Revisions were made to component units for the implementation of GASB 75 which resulted in a decrease to net position to KTA of \$7.3 million, KDFA of \$0.06 million, and the State University System of \$26.0 million. For more information on this revision see Note IV, Section E.

The following table provides a summary of the revisions to beginning net position (expressed in thousands):

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Component</u>
June 30, 2017 net position as previously reported	\$ 7,850,049	\$ 1,256,073	\$ 9,106,122	\$ 6,398,623
<i>Revisions</i>				
GASB 75 Other Post Employment Benefits	<u>(51,008)</u>	<u>(56)</u>	<u>(51,064)</u>	<u>(33,333)</u>
June 30, 2017 net position as restated	<u>\$ 7,799,041</u>	<u>\$ 1,256,017</u>	<u>\$ 9,055,058</u>	<u>\$ 6,365,290</u>

IV. Other Information

A. Tax Abatements

Local Municipalities

Local municipalities within the State of Kansas have entered into various tax abatement agreements to encourage economic development impacting the State's tax revenue. Kansas statutes provide a process for municipalities to abate property tax on qualifying property. GASB 77 also requires disclosure information about tax abatements entered into by other governments affecting revenues of the State. These agreements are disclosed individually and the State has set a threshold of one million dollars or above for disclosure purposes.

Following are the current tax abatement programs affecting State revenues that have been entered into by local municipalities within the State of Kansas as of June 30, 2018:

Other government tax abatement programs affecting the State of Kansas revenues entered into as of June 30, 2018					
Name of government	Tax being abated	Dollar amount of taxes abated for FY 2018	Name of abatement	Dollar amount(s) received from or due from other governments in association with (and offsetting) abated taxes	Information not reported due to legal prohibition
Brown County	Ad Valorem Property Tax	\$6.2 million	Economic Development	N/A	N/A
Brown County	Ad Valorem Property Tax	\$2.5 million	IRB	N/A	N/A
Johnson County	Ad Valorem Property Tax	\$2.5 million	IRB	N/A	N/A
McPherson County	Ad Valorem Property Tax	\$112.9 million	IRB	N/A	N/A
Montgomery County	Ad Valorem Property Tax	\$5.8 million	IRB	N/A	N/A
Montgomery County	Ad Valorem Property Tax	\$1.9 million	Economic Development	N/A	N/A
Sedgwick County	Ad Valorem Property Tax	\$1.0 million	IRB	N/A	N/A

STAR Bonds

Per State statutes K.S.A. 12-17,160 through 12-17,179, sales tax limited obligation bonds (STAR bonds) have been issued for various local governments throughout the state to promote, stimulate and develop the general and economic welfare of the state of Kansas and its communities and to assist in the development and redevelopment of eligible areas within and without a city thereby promoting the general welfare of the citizens of the state. Pursuant to issuance of the STAR bonds, the State and local governments have entered into Redevelopment District Tax Distribution Agreements. The agreements provide that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally from the State's and local governments' respective share of sales taxes generated within the related Districts. Recipients of the agreement make commitments to promote economic development by engaging in qualified activities as outlined in K.S.A. 12-17,162. Eligibility for one or more projects may be undertaken by a city or county within an established STAR bond project district per the rules and guidelines established in K.S.A. 12-17,166. The State's portion of foregone sales taxes for fiscal 2018 was \$25.56 million.

IV. Other Information

B. 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 (five of the eight medical health plans options, prescription drug and dental), State employee workers' compensation, long-term disability, tort liability, and personal and real property losses up to the applicable deductibles (except where separate coverage is required by bond covenant). The State has commercial vehicle liability coverage on all vehicles with \$500,000 deductibles, and a statewide commercial policy on personal and real property with single limit of \$5,000,000 (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 five of the eight medical health plan options is provided by the Health Benefits Administration Clearing Fund for all active employees, as well as for the post-employment populations (retirees). Risk is managed by the performance of experience studies throughout the 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 and are recorded with the cash reserves to pay these claims in the accounting services fund.

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, 2018, there were no material claims incurred but unpaid.

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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The following table presents the changes in claims liability balances (both current and non-current) during the current fiscal year ended June 30, 2018 (expressed in thousands):

	Claims Liability Beginning balance	Plus: Current Year Claims and Changes Estimate	Less: Claim Payments	Claims Liability Ending balance	Non- Current - Liability	Current Liability
Current Fiscal Year						
State Self-Insurance Fund	\$ 66,505	\$ 10,905	\$ (14,886)	\$ 62,524	\$ 51,992	\$ 10,532
Health and Dental Care Claims	28,918	380,218	(381,142)	27,994	294	27,700
Post Employment Health and Dental Claims	1,077	12,660	(13,008)	729	4	725
Total	<u>\$ 96,500</u>	<u>\$403,783</u>	<u>\$ (409,036)</u>	<u>\$ 91,247</u>	<u>\$ 52,290</u>	<u>\$ 38,957</u>
Prior Fiscal Year						
State Self-Insurance Fund	\$ 54,045	\$ 29,012	\$ (16,552)	\$ 66,505	\$ 54,116	\$ 12,389
Health and Dental Care Claims	28,435	406,857	(406,374)	28,918	129	28,789
Post Employment Health and Dental Claims	1,506	20,738	(21,167)	1,077	6	1,071
Total	<u>\$ 83,986</u>	<u>\$456,607</u>	<u>\$ (444,093)</u>	<u>\$ 96,500</u>	<u>\$ 54,251</u>	<u>\$ 42,249</u>

Notes:

1. Claims liability ending balance is based on Actuary IBNR modeling estimates using claims lag data through June 30, 2018.
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 2% expense load and 3.5% margin.
4. Non-current liability represents the remaining IBNR reserve for the prior fiscal year.

C. 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 effect on the financial position of the State, except for cases below.

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. In their suit, the plaintiffs claim that the State has unconstitutionally made cuts in funding for public education in contravention of Article 6 of the Kansas Constitution. Plaintiffs also contend that certain components of the school finance formula are unconstitutional. In their suit, plaintiffs sought injunctive relief to prohibit implementation of an unconstitutional funding formula, money damages, costs, reasonable attorneys' fees, and other equitable relief. The case was tried in the summer of 2012 before a three-judge panel and on January 11, 2013 the panel ruled in favor of the plaintiffs. As relief, the panel ordered a specific and substantial increase in the base state aid per pupil going forward, and also ordered a substantial increase in the State's funding of school district capital outlay funds. In response, the legislature passed and the Governor signed into law, an appropriation of \$25.2 million in capital outlay equalization funding and an additional \$109.3 million of local option budget equalization funding for Fiscal Year 2015. The matter was before the three-judge panel on remand and on June 11, 2014 the panel stated that it would not take further action on the equalization issue. On December 30, 2014,

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the panel ruled that the present school finance system is not reasonably calculated to have all Kansas public education students meet or exceed standards. On March 25, 2015, the Governor signed into law House Substitute for Senate Bill 7 that created a two-year “block grant” system of financing K-12 public education while the Legislature devised a new school finance formula. On March 26, 2015, the plaintiffs filed a Motion of Declaratory Judgment and Injunctive Relief seeking that the school finance block grant bill is unconstitutional. The panel ruled that Senate Bill 7 violates Article 6 of the Kansas Constitution, both in regard to adequacy of funding and its embedding of inequities on the provision of capital outlay state aid and supplemental general state aid. After appeal, briefing and oral arguments to the Kansas Supreme Court, the Court held on February 10, 2016, the Supreme Court issued an Order finding that the district court panel correctly held the State has not carried its burden to show it has cured supplemental general state aid's unconstitutional inequities that were affirmed to exist. In accordance with the directive of the Court, the Kansas legislature attempted to fix the equity issues identified by the Court in its February 10, 2016 Order, but after additional briefing and oral arguments, the Court again, on May 27, 2016, found that the State has not carried its burden to show it has cured the unconstitutional inequities in the local option budget and supplemental general state aid that were affirmed to exist. On June 24, 2016, the legislature passed Senate Substitute for House Bill 2001 in an effort to bring equity funding into constitutional compliance. The bill was signed by the Governor on June 27, 2016 with an effective date of July 1, 2016. After the parties stipulated that the new law satisfied the Court's equity concerns, the Court entered an Order on June 28, 2016, determining that the legislature has currently satisfied the Court's earlier rulings in regard to equity and that no judicial remedy was necessary. After the equity component of the litigation had been resolved, the Court ordered that any supplemental briefing by the parties on adequacy be completed by August 12, 2016. Oral argument was scheduled for September 21, 2016. On March 2, 2017, the Court ruled that the Classroom Learning Assuring Student Success Act of 2015 did not correct the finding of constitutional infirmity regarding adequacy. In response to the Court's decision the legislature passed Senate Bill 19 which included the Kansas School Equity and Enhancement Act (“KSEEA”). The KSEEA provided more than \$290 million in additional K-12 funding phased in over the next two fiscal years. The Governor signed Senate Bill 19 into law on June 15, 2017. The Court ordered additional briefing from the parties on the Legislature's response, and oral argument was held on July 18, 2017. On October 2, 2017, the Kansas Supreme Court issued an Opinion finding that 2017 SB 19 had failed to produce a school funding formula that met the adequacy and equity components of Article 6 of the Kansas Constitution. The Court ordered the parties to submit by April 30, 2018 concurrent briefs addressing any legislative remedies of constitutional infirmities; oral arguments were set for May 22, 2018 and the Court retained jurisdiction until June 30, 2018. 2018 Substitute for Senate Bill 423 and 2018 House Substitute for Senate Bill 61, together with 2017 SB 19 provide more than one billion dollars in additional annual state funding to schools by 2022-23 above the funding levels in the 2016-17 school year. On June 25, 2018, the Kansas Supreme Court issued its Opinion that the State had not yet met the adequacy requirement of Article 6 of the Kansas Constitution. The Court went on to find that by virtue of the new legislation the State was now fully in compliance with the equity requirement of Article 6. The Supreme Court stayed the mandate of its ruling until June 30, 2019, to allow the State time to comply with the Court's conclusions.

The State will continue to handle the case on appeal and the chance of loss remains uncertain. The precise range of potential prospective monetary obligations is not capable of quantification at this point, but if the plaintiffs are successful the amount could well be in the hundreds of millions of dollars in additional, annual future school funding and could have a material adverse impact on the State's budget, financial position, cash flow and fund balances. It remains possible that intervening legislation will be found to have altered the school finance law in such a fashion that the pending legal proceedings are moot, but the chance of that happening is too early to assess.

Bicknell v. KDOR, This is an individual income tax case pending before the District Court of Crawford County, Kansas in which the taxpayer is seeking to overturn a decision of the Board of Tax Appeals in which the Board upheld a decision of the Department of Revenue that the taxpayer was a resident of the state of Kansas for tax years 2005 and 2006 and therefore subject to Kansas individual income tax. The Department had assessed the taxpayer after it determined that the taxpayer was a resident of Kansas for those years, which were the two tax years involved in that particular audit period. The taxpayer claimed that he was a resident of Florida and not Kansas during that audit period, and therefore not subject to Kansas individual income tax. The Court of Tax Appeals upheld the assessment, and the taxpayer appealed to the Kansas Court of Appeals. The Kansas Court of Appeals vacated the

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decision of the Court of Tax Appeals (whose name was later changed to the Board of Tax Appeals) and remanded the case back to the Board for further findings. As stated above, the Board of Tax Appeals upheld the assessment, and the taxpayer then appealed that decision to the District Court of Crawford County. Following a decision by the District Court of Crawford County, the matter is likely to be appealed back to the Kansas Court of Appeals and possibly to the Kansas Supreme Court. The taxpayer had remitted \$48.5 million in tax, interest and penalty. If the taxpayer ultimately prevails in this matter, he would be entitled to a refund of that amount and would possibly be entitled to interest on that amount as well. However, the taxpayer's chances of success are only reasonably possible.

Health and Human Services Disallowed Costs, The Department of Administration has reached an agreement with Health and Human Services for disallowed costs regarding the State Health Care Benefits Program in the Cafeteria Benefits Fund; State Workers Compensation Self-Insurance Fund; and the State leave Payment Reserve Fund. The original agreement was for \$18.8 million with the first payment made during fiscal year 2014. The State has a remaining liability for \$3 million. Payments will be made during fiscal year 2019.

USHHS, Administration for Children and Families, By a letter of determination dated June 15, 2016, the U.S. Department of Health and Human Services, Administration for Children and Families (USHHS) requested the return of the federal share of cash charged to the Kansas Department for Children and Families during Fiscal Years 2003 – 2010, by the Kansas Department of Administration for debt setoff collection assistance fees. The USHHS made the request under a determination related to an audit report issued by the USHHS in April 2013. The USHHS determined that state governments are not allowed to generate a profit on federally funded awards as A-87 states in 225.20, "Provision for profit or other increment above cost is outside the scope of this part." The State submitted a notice of appeal regarding this issue July 14, 2016, and filed its most recent reply to USHHS January 13, 2017. The State received an unfavorable decision from the USHHS appeals council and timely filed an action in U.S. District Court for the District of Kansas seeking judicial review of the USHHS action on March 29, 2018. Settlement discussions followed resulting in a tentative settlement between USHSS and Department of Administration which is currently pending approval by the U.S. Department of Justice. The likelihood of settlement appears probable. If approved, the proposed settlement would require the Department of Administration to pay USHHS an agreed amount in equal payments over five years. The State has recorded a liability of \$14.4 million consisting of the federal share in the amount of \$10.6 million plus \$3.8 million in imputed interest calculated to June 2018.

Amerigroup Kansas Inc. – KanCare, The State of Kansas, through the Department of Administration (DOA) issued a request for proposals on November 2, 2017 to contract with managed care organizations to provide for the KanCare Program, the State of Kansas' managed care program. Six bidders submitted proposals for consideration by the State. The unsuccessful bidders filed bid protests and requests for a stay of the agency action or in the alternative for temporary injunction. On October 12, 2018, the court ruled in the State's favor. The deadline to appeal is November 13, 2018.

Kansas Department of Health and Environment, Children's Health Insurance Program. The U.S. Department of Health and Human Services, Office of Inspector General reported in a Report in Brief dated November 2017, that Kansas overstated its fiscal years 2009 through 2013 current enrollment in its bonus requests to Centers for Medicare and Medicaid Services (CMS), resulting in an overpayment by CMS to Kansas for bonus payments. CMS issued a letter dated June 14, 2018, requesting the state return \$17,798,598 in federal share. The state plans to appeal. It is unknown if or how much the state will be required to return, depending on the outcome. The State has recorded a liability of \$17.8 million for this potential repayment to CMS.

Unclaimed Property

Unclaimed property is remitted to the General Fund where it can be used by the State until it is claimed. The State Treasurer has the authority to take possession of specified types of abandoned personal property and become custodian in perpetuity which preserves the right of the original owner or other persons to claim the property. The Unclaimed Property Division of the Kansas State Treasurer's office seeks to return various forms of unclaimed

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property to the rightful owner or heirs. In the current year, a liability in the amount of \$179.5 million has been recorded for estimated claims.

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.

Other Accrued Liabilities

The 2017 Kansas Legislature passed Senate Substitute for Substitute for House Bill 2052 which authorized a decrease of \$64.1 million of the amount appropriated for the fiscal year ended June 30, 2017, for payment of the employer contribution for eligible employers in Section 37 of the bill. Section 43 of House Bill 2052 directs payment of the delayed employer contribution to be made in level annual amounts of \$6.4 million over 20 years beginning in fiscal year 2018. 2017 HB 2002, Section 107, provides the appropriation to the Kansas Department of Education for payment of the fiscal year 2018 amount and Section 108, provides for the payment due in fiscal year 2019. As of June 30, 2018, the unpaid balance is \$62.7 million.

D. 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. 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 2018 pollution remediation liability is estimated at \$58.65 million. No recoveries for these well pluggings are expected.

Superfund Program Obligations

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

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

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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 estimated \$17.86 million in liabilities for the Superfund Program over the next 10 years for known pending remedial action and O&M. The State currently does not have any current state match liabilities associated with existing contracts for expenses incurred prior to state fiscal year 2019.

State Water Plan Orphan Sites Program

KDHE also operates an orphan sites program to perform remedial activities at sites where a responsible party cannot be identified and other State or Federal programs are not available to fund those remedial activities. There are approximately 100 contaminated sites across the State included in this orphan sites program. Due to limited funding, KDHE has prioritized the sites that pose the greatest threat to the public health and/or the environment. Historically, the State Water Plan (SWP) – Contamination Remediation fund was the primary source of funding allocated to address environmental contamination issues at these orphaned sites. Kansas passed legislation in 2015 that created the Environmental Stewardship Fund (ESF). The ESF will also be used to address sites in the Orphan Sites Program. 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 and Environmental Stewardship Fund will be the primary source of funding to provide the 10 percent State cost share and perform O&M requirements for NPL sites as well as to address environmental contamination issues identified at orphan sites. The annual budget for the SWP fund contains funding for both agency costs, payments to EPA for state cost share and contractual cost. It is difficult to predict what the future costs for the State Water Plan will be, however, the State has recorded a liability for \$0.69 million which is the amount known to be budgeted in fiscal year 2019 for this program.

State Fee Funded Programs

KDHE obtains State and Federal funds for 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 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.

To date, 2,246 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.

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 underground petroleum storage tank and to permit 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.

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The annual budget for the UST fund contains funding for both agency costs and contractual cost which include funding for reimbursements of applicants and the direct payment of contractors who perform both emergency response activities and corrective actions at the sites. The exact amount of future costs is unknown. The State has recorded a liability of \$12.49 million for UST fund activities which represents the amount budgeted for fiscal year 2019. A similar reimbursement fund has been created for Aboveground Petroleum Storage Tanks (AST). To date, 200 sites have been approved to receive reimbursement of approved costs under the AST fund identified in K.S.A. 65-34,129.

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 above ground petroleum storage tank and to permit 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 annual budget for the AST fund contains funding for both agency costs and contractual cost which include funding for reimbursements of applicants and the direct payment of contractors who perform both emergency response activities and corrective actions at the sites. The exact amount of future costs is unknown. The State has recorded a liability of \$1.51 million for AST fund activities which represents the amount budgeted for fiscal year 2019.

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 (KDTF) is a State-led corrective action program to provide funding for implementation of the Kansas Drycleaner Environmental Response Act. Money in the KDTF is expended for direct costs for administration and enforcement of the Kansas Drycleaner Environmental Response Act and corrective action at contaminated retail dry cleaning facilities.

There are currently 177 sites approved for corrective action under the KDTF. The corrective action at these sites is performed based on a site prioritization system and the agency 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. The annual budget for the KDTF contains funding for agency and contractual cost. An estimate of future costs is unknown, however, the State has recorded a liability of \$0.65 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

A chemical waste landfill was created with approval of the U.S. Atomic Energy Commission and utilized from the mid-1960's to 1987 as a burying ground for tritium, carbon-14 and other short-lived radioactive elements. The university also disposed of some chemicals at the site from 1979 to 1983. The Kansas Board of Regents approved the plan to clean up the site, which commenced in FY2011 and was completed as of July 2012. Monitoring groundwater, sampling and reporting will continue as mandated by KDHE.

Kansas State University – Ashland Bottoms

Seven monitoring wells have been installed and a quarterly sampling schedule is in effect related to the removal of diesel and gasoline underground storage tanks at the Ashland Bottoms Agronomy farm in Riley County. All remediation costs are covered by the State through the KDHE Petroleum Storage Tank Trust Fund, less a \$4,000 deductible which has been paid by the University.

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E. Other Post-Employment Benefits

Plan Description. The State participates in an agent multiple-employer defined benefit other post-employment benefit (OPEB) plan which is administered by KPERS. The Plan provides long-term disability benefits and life insurance benefit for disabled members to KPERS members, as provided by K.S.A. 74-4927. The plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. Because the trust's assets are used to pay employee benefits other than OPEB, no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. There is no stand-alone financial report for the plan.

Benefits provided:

Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60 percent (prior to January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver premium provision.

Long-term disability benefit: Monthly benefit is 60 percent of the member's monthly compensation, with a minimum of \$100 and maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability occurs after age 60, benefits are payable while disability continues, for a period of 5 years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the term of the disability or 24 months per lifetime, whichever is less. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of living increase.

Group life waiver of premium benefit: Upon the death of an employee who is receiving monthly disability benefits, the plan will pay a lump-sum benefit to eligible beneficiaries. The benefit amount will be 150 percent of the greater of the member's previous 12 months of compensation at the time of the last date on payroll. If the member has been disabled for 5 or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100 percent of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual life insurance plan.

Members covered by benefit terms. At June 30, 2018, the following members were covered by the benefit terms:

	Primary Government		Component Units
	Employer	Nonemployer	
Inactive employees or beneficiaries currently receiving benefit payments	484	100	12,767
Active employees	17,959	12,093	4,001
	<u>18,443</u>	<u>12,193</u>	<u>16,768</u>

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Total OPEB Liability

At June 30, 2018, the State reported a total OPEB liability as follows (in thousands):

	<u>Primary Government</u>		<u>Component Units</u>
	<u>Employer</u>	<u>Nonemployer</u>	
Total OPEB liability	\$ 43,755	\$ 11,956	\$ 33,476

The total OPEB liability was measured as of June 30, 2017, and was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017.

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all period included in the measurement, unless otherwise noted:

Price inflation	2.75 percent
Payroll growth	3.00 percent
Salary increases, including inflation	3.50 to 10 percent, including price inflation
Discount rate	3.58 percent
Healthcare cost trend rates	Not applicable for the coverage in this plan
Retiree share of benefit cost	Not applicable for the coverage in this plan

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Mortality rates were based on the RP-2014 Mortality tables, as appropriate, with adjustment for mortality improvements based on Scale MP-2017.

The actuarial assumptions used in the June 30, 2017 valuation were based on actuarial experience study for the period July 1, 2014 – June 30, 2016. Other demographic assumptions are set to be consistent with the actuarial assumptions reflected in the December 31, 2016 KPERS pension valuation.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>		
	<u>Primary Government</u>		<u>Component Units</u>
	<u>Employer</u>	<u>Nonemployer</u>	
Balance at fiscal year-end 6/30/17	<u>\$ 44,380</u>	<u>\$ 12,222</u>	<u>\$ 29,793</u>
Changes for the year:			
Service cost	3,971	1,102	6,525
Interest	1,313	360	994
Effect of assumptions changes or inputs	(1,299)	(353)	(848)
Benefit payments	(4,610)	(1,375)	(2,988)
Net changes	<u>(625)</u>	<u>(266)</u>	<u>3,683</u>
Balance at fiscal year-end 6/30/18	<u>\$ 43,755</u>	<u>\$ 11,956</u>	<u>\$ 33,476</u>

Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate increased from 2.85 percent on June 30, 2016 to 3.58 percent on June 30, 2017.

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Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the State, as well as what the State's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58 percent) or 1-percentage-point higher (4.58 percent) than the current discount rate:

	1% Decrease (2.58%)		Current Discount Rate (3.58%)		1% Increase (4.58%)
Primary Government:					
Employer's total OPEB liability	\$ 45,506	\$	43,755	\$	42,007
Nonemployer's total OPEB liability	\$ 12,433	\$	11,956	\$	11,486
Component Unit:					
Component Unit's total OPEB liability	\$ 34,583	\$	33,476	\$	32,241

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The healthcare trend rates do not affect the liabilities related to the long-term disability benefits sponsored by KPERS. Therefore, there is no sensitivity to a change in healthcare trend rates.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the State recognized OPEB expense as follows (in thousands):

	<u>Primary Government</u>		<u>Component Units</u>
	<u>Employer</u>	<u>Nonemployer</u>	
OPEB expense	\$ 5,150	\$ 1,426	\$ 7,430

At June 30, 2018, the State reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (in thousands):

	Primary Government					
	Employer		Nonemployer		Component Units	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 0	\$ 1,164	\$ 0	\$ 317	\$ 0	\$ 761
Benefit payments subsequent to the measurement date	4,888	0	1,375	0	2,989	0
Total	\$ 4,888	\$ 1,164	\$ 1,375	\$ 317	\$ 2,989	\$ 761

The deferred outflow of resources related to the benefit payments subsequent to the measurement date totaling \$9,252 consist of payments made to KPERS for benefits and administrative costs, and will be recognized as a reduction in the total OPEB liability during the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Year ended June 30:	Primary Government		Component Units
	Employer	Nonemployer	
2019	\$ (135)	\$ (36)	\$ (88)
2020	(135)	(36)	(88)
2021	(135)	(36)	(88)
2022	(135)	(36)	(88)
2023	(135)	(36)	(88)
Thereafter	(489)	(137)	(321)
	<u>\$ (1,164)</u>	<u>\$ (317)</u>	<u>\$ (761)</u>

Summary of Component Unit OPEB Plans

Certain component units have their own individual OPEB plans. Details on these plans can be found in their separately issued financial statements by contact information located in Note I. As of June 30, 2018, the combined component unit OPEB plans total OPEB liability, deferred outflows of resources, deferred inflows of resources and OPEB expense associated with these plans are summarized below:

	2018
Total OPEB liability	\$ 40,002
Deferred outflows of resources	3,291
Deferred inflows of resources	761
OPEB expense	7,712

Prior period adjustment. The implementation of GASB 75 resulted in an \$5,538 increase to deferred outflows of resources, a \$56,602 increase to the total OPEB liability and a \$50,617 decrease to net position for the Primary Government as of July 1, 2017. The implementation of GASB 75 resulted in an \$2,989 increase to deferred outflows of resources, a \$36,322 increase to the total OPEB liability and a \$33,333 decrease to net position for the Component Units as of July 1, 2017.

F. Employee Retirement Systems and Pension Plans

Special Funding Situation

The employer contributions for non-public school district schools, as defined in K.S.A. 74-4931 (2) and (3), are funded by the State on behalf of these employers. Therefore these employers, area vocational-technical schools and community junior colleges, are considered to be in a special funding situation as defined by GASB 68. The State is treated as a nonemployer contributing entity in the Kansas Public Employees Retirement system (KPERS). As a result, the State reports a liability, deferred outflows of resources and deferred inflows of resources, and expenses as a result of its statutory requirement to contribute to KPERS. Amounts disclosed below for “Nonemployer” are associated with this special funding situation.

General Information about the Pension Plan

Plan description: The State participates in KPERS, a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a

IV. Other Information

publicly available financial report that includes financial statements and required supplementary information. KPERS' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at <http://www.kpers.org/annualreport2017.pdf> or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Benefits provided. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees (except Police and Firemen) with ten or more years of credited service, may retire as early as age 55 (Police and Firemen may be age 50 with 20 years of credited service), with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 "points" (Police and Firemen's normal retirement ages are age 60 with 15 years of credited service, age 55 with 20 years, age 50 with 25 years, or any age with 36 years of service).

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump-sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

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

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

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6 percent of covered salary for KPERS 1, KPERS 2 and KPERS 3 members. K.S.A. 74-4975 establishes the Police and Firemen (KP&F) member-employee contribution rate at 7.15 percent of covered salary. Member contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates for KPERS 1, KPERS 2, KPERS 3 and KP&F be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 1.00 percent contribution rate for the Death and Disability Program) and the statutory contribution rates for Fiscal Year 2017 are as follows:

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	<u>Actuarial employer rate</u>	<u>Statutory employer capped rate</u>
State employees	10.77%	10.81%
School employees	16.03	10.81
State/School employees (combined rate)	14.85	10.81
Local government employees	8.46	8.46
Police and Firemen	19.03	19.03
Judges	21.36	21.36

The actuarially determined employer contribution rate (not including the 1.00 percent contribution rate for the Death and Disability Program) and the statutory contribution rates for Fiscal Year 2018 are as follows:

	<u>Actuarial employer rate</u>	<u>Statutory employer capped rate</u>
State employees	9.62%	12.01%
School employees	16.38	12.01
State/School employees (combined rate)	14.89	12.01
Local government employees	8.39	8.39
Police and Firemen	20.09	20.09
Judges	15.89	15.89

Contributions to the pension plan from the State were as follows (in thousands):

	<u>Primary Government</u>		<u>Component</u>
Year Ended June 30:	<u>Employer</u>	<u>Nonemployer</u>	<u>Units</u>
2018	\$ 109,001	\$ 60,231	\$ 19,466
2017	103,241	52,748	18,861

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the State reported a liability for its proportionate share of the KPERS' collective net pension liability as follows (in thousands):

	<u>Primary Government</u>		<u>Component</u>
	<u>Employer</u>	<u>Nonemployer</u>	<u>Units</u>
Net pension liability	\$ 1,313,129	\$ 714,775	\$ 246,569

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The collective net pension liability was measured by KPERS as of June 30, 2017, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The State's proportion of the collective net pension liability was based on the ratio of the State's actual contributions to KPERS, relative to the total employer and nonemployer contributions of the respective subgroup within KPERS for the fiscal year ended June 30, 2017. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2017, the State's proportion and increase (decrease) from its proportion measured as of June 30, 2016 were as follows:

	<u>Proportion as of June 30, 2017</u>	<u>Increase (decrease) in proportion from June 30, 2016</u>
Primary Government		
Employer:		
State/School group	17.976%	(0.409%)
KP&F	8.745	0.940
Judges	100.000	0.000
Nonemployer	10.638	(0.130)
Component Units		
State/School group	3.218	(0.107)
KP&F	1.568	0.134
Local group	1.079	(0.003)

For the year ended June 30, 2018, the State recognized pension expense as follows (in thousands):

	<u>Primary Government</u>		<u>Component</u>
	<u>Employer</u>	<u>Nonemployer</u>	<u>Units</u>
Pension expense	\$ 122,266	\$ 73,820	\$ 19,568

At June 30, 2018, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Primary Government</u>					
	<u>Employer</u>		<u>Nonemployer</u>		<u>Component Units</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 3,964	\$ 65,204	\$ 0	\$ 35,548	\$ 787	\$ 11,403
Net difference between projected and actual earnings on pension plan investments	31,610	0	15,329	0	5,672	0
Changes in proportionate share	20,989	51,621	23,127	8,872	7,770	22,163
Changes in assumptions	70,794	3,548	33,749	946	12,074	461
Contributions subsequent to measurement date	109,001	0	60,231	0	19,466	0
Total	<u>\$ 236,358</u>	<u>\$ 120,373</u>	<u>\$ 132,436</u>	<u>\$ 45,366</u>	<u>\$ 45,769</u>	<u>\$ 34,027</u>

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The \$188,698 reported as deferred outflows of resources related to pensions resulting from the State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Primary Government		Component
	Employer	Nonemployer	Units
2019	\$ (18,407)	\$ (1,391)	\$ (5,717)
2020	24,008	19,644	2,163
2021	14,689	12,964	976
2022	(16,845)	(5,905)	(5,086)
2023	3,539	1,527	(60)
	<u>\$ 6,984</u>	<u>\$ 26,839</u>	<u>\$ (7,724)</u>

Actuarial assumptions. The total pension liability for KPERS in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	3.00 percent
Wage inflation	3.50 percent
Salary increases, including wage increases	3.50 to 12.00 percent, including inflation
Long-term rate of return net of investment expense, and including price inflation	7.75 percent

Mortality rates were based on the RP 2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study conducted for the three year period beginning January 1, 2013.

The actuarial assumptions changes adopted by the Pension Plan for all groups based on the experience study were as follows:

- Price inflation assumption lowered from 3.00 percent to 2.75 percent
- Investment return assumption was lowered from 8.00 percent to 7.75 percent
- General wage growth assumption was lowered from 4.00 to 3.5 percent
- Payroll growth assumption was lowered from 4.00 percent to 3.00 percent

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2017 are summarized in the following table:

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

Discount rate. The discount rate used by KPERS to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate. The State/School employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' Board of Trustees for this group may not increase by more than the statutory cap. The statutory cap for the State fiscal year 2017 was 1.2 percent. The expected KPERS employer statutory contribution was modeled for future years, assuming all actuarial assumptions are met in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the State's proportionate share of the collective net pension liability to changes in the discount rate. The following presents the State's proportionate share of the collective net pension liability calculated using the discount rate of 7.75 percent, as well as what the State's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Primary Government:			
Employer's proportionate share of the collective net pension liability	\$ 1,767,279	\$ 1,313,129	\$ 929,752
Nonemployer's proportionate share of the collective net pension liability	952,955	714,775	513,796
Component Unit:			
Component Unit's proportionate share of the collective net pension liability	331,660	246,569	174,814

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

Subsequent events. 2017 Senate Bill 19, Section 2, included the state general fund appropriation for the Kansas Department of Education that was reduced by \$194,022,683 for the fiscal year 2019 KPERS School employer contributions. Senate Substitute for House Bill 2002, Section 232, stipulates that repayment of the reduced contributions are to be amortized over twenty years at a level dollar amount commencing in fiscal year 2020. The level dollar amount was computed to be \$19.4 million per year.

IV. Other Information

Other Retirement Plans

Faculty and other eligible unclassified professional 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 2018, employees contributed approximately \$49.35 million. During fiscal year 2018, the 8.5 percent employer contribution totaled approximately \$76.63 million, representing covered wages of approximately \$907 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. All employees, as well as student employees, also may 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 retirement savings.

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 6 percent for Tier I, Tier II and III members. The employer rate is 12.01 percent.

G. Related Party Transactions

The Kansas Legislature annually appropriates state general fund dollars to the Regent Institutions comprising the State University System (University of Kansas, including the University of Kansas Medical School, Kansas State University, Wichita State University, Emporia State University, Pittsburg State University, and Fort Hays State University). During FY 2018 expenditures from these appropriations amounted to \$755.7 million and are recorded within the General fund in the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.

These expenditures, along with a corresponding recognition of revenue, are also reported within the State University System in order to accurately reflect all financial activity of the Combining Statement of Activities - Component Units.

H. Subsequent Events

Bonds and Notes

Short-term Debt

Certificate of Indebtedness – On July 1, 2018, the Pooled Money Investment Board (PMIB) issued a \$600 million Certificate of Indebtedness per K.S.A. 75-3725a. See Note III, Section H, Short-term Obligations, for additional information on issuance of a Certificate of Indebtedness.

Accrued Receivables for Children's Initiatives Fund – In July 2018, receivables were posted to the State Treasurer's receivables for the Children's Initiatives Fund in the amount of \$29.3 million per Senate Substitute for House Bill No. 2002, Section 66, Session of 2017. See Note III, Section H, Short-term Obligations, for additional information.

IV. Other Information

Accrued Receivables for Economic Development Initiatives Fund – In July 2018, receivables were posted to the State Treasurer's receivables for the Economic Development Initiatives Fund in the amount of \$31.9 million per House Substitute for Senate Bill No. 109, Section 51, Session 2018. See Note III, Section H, Short-term Obligations, for additional information.

Accrued Receivables for Correctional Institutions' Building Fund – In July 2018, receivables were posted to the State Treasurer's receivables for the Correctional Institutions' Building Fund in the amount of \$4.0 million per Senate Substitute for House Bill No. 2002, Section 66, Session 2017. See Note III, Section H, Short-term Obligations, for additional information.

Accrued Receivables for Kansas Endowment for Youth Fund – In July 2018, receivables were posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund in the amount of \$0.19 million per Senate Substitute for House Bill No. 2002, Section 66, Session 2017. See Note III, Section H, Short-term Obligations for more information.

Accrued Receivables for Expanded Lottery Act Revenues Fund – In July 2018, receivables were posted to the State Treasurer's receivables for the Expanded Lottery Act Revenues Fund in the amount of \$86.7 million per Senate Substitute for House Bill No. 2002, Section 66, Session 2017. See Note III, Section H, Short-term Obligations for more information.

Accrued Receivables for Ad Valorem Taxes – In July 2018, receivables were posted to the State Treasurer's receivables in the amount of \$32.9 million for the Kansas Educational Building Fund and \$16.5 million for the State Institutions Building Fund per K.S.A. 76-6b11. See Note III Section H, Short-term Obligations, for additional information.

Revenue Bonds – In October 2018, the Kansas Department of Transportation issued \$173.0 million in highway revenue bonds, Series 2018A, for the purpose of paying a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. In addition, proceeds of the Series 2018A bonds will be used to pay the costs associated with the issuance of the bonds.

I. Economic Condition

The Consensus Estimating Group met on November 9, 2018 to revise the State General Fund revenue estimates for fiscal year 2019 and make initial estimates for fiscal year 2020 and 2021.

For fiscal year 2019, the estimate was increased by \$306.4 million, or 4.4 percent, above the previous estimate made in April and subsequently adjusted for legislation enacted during the 2018 Legislative Session.

For fiscal year 2020, it was estimated that revenues would decrease by \$38.4 million, or 0.5 percent, below the fiscal year 2019 estimate. The Consensus Estimating Group estimated that revenues for fiscal year 2021 would decrease by \$36.5 million or 0.5 percent over the fiscal year 2020 estimate.

***The tool used by both the Governor and the Legislature to determine State General Fund revenue is the "consensus revenue estimate" prepared by the Consensus Revenue Estimating Group. This group is composed of representatives of the Division of the Budget, Department of Revenue, Legislative Research Department, and one consulting economist each from the University of Kansas, Kansas State University, and Wichita State University. This group meets each spring and fall. Before December 4th, the group makes its initial estimate for the budget year and revises the estimate for the current year. By April 20th, the fall estimate is reviewed, along with any additional data. A revised estimate is published, which the Legislature may use in adjusting expenditures, if necessary.

**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 of even-numbered years, agencies are required to submit biennial budget estimates for the next two fiscal years 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 21st 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 encumbrances in excess of appropriations or limitations and prevent expenditures in excess of 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.

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**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues and other financing sources:				
Property tax	\$ 12,000	\$ 12,400	\$ 20	\$ (12,380)
Income and inheritance tax	3,243,000	3,517,000	3,812,387	295,387
State sales tax	2,282,317	2,330,000	2,341,693	11,693
Consumer's and retailer's compensating use tax	385,000	397,000	406,514	9,514
Tobacco and liquor taxes	240,500	235,000	236,598	1,598
Severance taxes	36,400	41,200	41,401	201
Insurance premiums taxes	177,500	171,000	171,100	100
Other taxes	8,300	9,400	13,694	4,294
Operating grants	0	0	0	0
Investment earnings	200	18,500	14,045	(4,455)
Transfers	269,380	254,100	(1,863)	(255,963)
Charges for services, other revenues and financing sources	50,900	45,300	53,438	8,138
Total revenues and other financing sources	<u>6,705,497</u>	<u>7,030,900</u>	<u>7,089,027</u>	<u>58,127</u>
Expenditures and other financing uses:				
Current:				
General government	362,207	370,712	363,182	(7,530)
Human resources	1,087,135	1,086,231	1,074,644	(11,587)
Education	4,208,968	4,220,217	4,214,915	(5,302)
Public safety	395,623	413,469	390,837	(22,632)
Agriculture and natural resources	10,986	11,078	11,077	(1)
Health and environment	601,345	671,840	670,189	(1,651)
Total expenditures and other financing uses	<u>6,666,264</u>	<u>6,773,547</u>	<u>6,724,844</u>	<u>(48,703)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>39,233</u>	<u>257,353</u>	<u>364,183</u>	<u>\$ 106,830</u>
Fund balances, beginning of year	(21,037)	67,223	(593,532)	
Fund balances, end of year	<u>\$ 18,196</u>	<u>\$ 324,576</u>	<u>\$ (229,349)</u>	

State of Kansas
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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, 2018**
(expressed in thousands)

Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ 364,183
Current year encumbrances are reported as expenditures for budgetary reporting purposes	30,271
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(23,142)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	81,746
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>125,560</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 578,618</u></u>

State of Kansas
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**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
Social Services
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues and other financing sources:				
Tobacco and liquor taxes	\$ 3,260	\$ 3,260	\$ 3,440	\$ 180
Operating grants	441,602	441,602	667,908	226,306
Investment earnings	68	68	162	94
Transfers	763,079	833,601	817,712	(15,889)
Charges for services, other revenues and financing sources	100,697	118,884	144,403	25,519
Total revenues and other financing sources	<u>1,308,706</u>	<u>1,397,415</u>	<u>1,633,625</u>	<u>236,210</u>
Expenditures and other financing uses:				
Current:				
Human resources	<u>1,216,023</u>	<u>1,631,434</u>	<u>1,631,434</u>	<u>0</u>
Total expenditures and other financing uses	<u>1,216,023</u>	<u>1,631,434</u>	<u>1,631,434</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 92,683</u>	<u>\$ (234,019)</u>	<u>\$ 2,191</u>	<u>\$ 236,210</u>

State of Kansas
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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
Social Services
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)**

Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ 2,191
Current year encumbrances are reported as expenditures for budgetary reporting purposes	41,439
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(26,542)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(21,593)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>17,522</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 13,017</u></u>

State of Kansas
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June 30, 2018

**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
Health and Environment
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues and Other Financing Sources:				
Insurance premiums taxes	\$ 870	\$ 226,923	\$ 213,016	\$ (13,907)
Other taxes	0	0	1,475	1,475
Operating grants	1,378,862	1,378,862	2,198,814	819,952
Investment earnings	5	605	462	(143)
Transfers	11,748	8,251	(809,815)	(818,066)
Charges for services, other revenues & financing sources	608,931	404,708	380,616	(24,092)
Total revenues and other financing sources	<u>2,000,416</u>	<u>2,019,349</u>	<u>1,984,568</u>	<u>(34,781)</u>
Expenditures and Other Financing Uses:				
Current:				
Health and environment	<u>1,786,644</u>	<u>2,001,144</u>	<u>2,001,144</u>	<u>0</u>
Total expenditures and other financing uses	<u>1,786,644</u>	<u>2,001,144</u>	<u>2,001,144</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 213,772</u>	<u>\$ 18,205</u>	<u>\$ (16,576)</u>	<u>\$ (34,781)</u>

State of Kansas
Required Supplementary Information
June 30, 2018

**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 *Health and Environment*
For the Fiscal Year Ended June 30, 2018**
(expressed in thousands)

Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ (16,576)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	88,144
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(49,663)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(74,958)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>55,106</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 2,053</u></u>

State of Kansas
Required Supplementary Information
June 30, 2018

**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
Education**
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues and Other Financing Sources:				
Property tax	\$ 635,256	\$ 642,456	\$ 640,862	\$ (1,594)
Severance taxes	9,960	7,197	7,197	0
Operating grants	503,432	503,432	474,014	(29,418)
Investment earnings	1	1	3	2
Transfers	309,063	303,363	300,926	(2,437)
Charges for services, other revenues & financing sources	58,100	62,857	63,349	492
Total revenues and other financing sources	<u>1,515,812</u>	<u>1,519,306</u>	<u>1,486,351</u>	<u>(32,955)</u>
Expenditures and Other Financing Uses:				
Current:				
Education	<u>1,473,085</u>	<u>1,490,418</u>	<u>1,490,418</u>	<u>0</u>
Total expenditures and other financing uses	<u>1,473,085</u>	<u>1,490,418</u>	<u>1,490,418</u>	<u>0</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ 42,727</u>	<u>\$ 28,888</u>	<u>\$ (4,067)</u>	<u>\$ (32,955)</u>

State of Kansas
Required Supplementary Information
June 30, 2018

**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 *Education***
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ (4,067)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	9,656
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	(7,673)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(2,785)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>2,532</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ (2,337)</u></u>

State of Kansas
Required Supplementary Information
June 30, 2018

**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
Transportation Fund
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)**

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues:				
Motor fuel taxes	\$ 298,104	\$ 301,650	\$ 303,900	\$ 2,250
Vehicle registrations and permits	214,802	219,237	219,234	(3)
Intergovernmental	415,121	346,769	401,303	54,534
Sales and use taxes	514,541	525,520	529,997	4,477
Investment earnings	662	986	3,499	2,513
Other	5,927	6,047	25,634	19,587
Transfers from other state funds	1,279	1,158	1,101	(57)
Total revenues	<u>1,450,436</u>	<u>1,401,367</u>	<u>1,484,668</u>	<u>83,301</u>
Expenditures, with legal limits:				
Current operating:				
Maintenance	139,017	139,862	129,991	(9,871)
Construction	61,983	61,150	53,734	(7,416)
Local support	1,622	1,724	1,559	(165)
Transportation planning and modal support	13,230	12,876	10,601	(2,275)
Administration	49,370	49,610	38,316	(11,294)
Expenditures with legal limits	<u>265,222</u>	<u>265,222</u>	<u>234,201</u>	<u>(31,021)</u>
Expenditures, without legal limits:				
Current operating:				
Maintenance	450	450	881	431
Construction	219,858	348,204	224,040	(124,164)
Local support	30,000	30,000	18,061	(11,939)
Transportation planning and modal support	24,385	24,385	17,763	(6,622)
Administration	985	985	389	(596)
Transfers to other state funds	527,062	529,957	530,715	758
Expenditures without legal limits	<u>802,740</u>	<u>933,981</u>	<u>791,849</u>	<u>(142,132)</u>
Total expenditures	<u>1,067,962</u>	<u>1,199,203</u>	<u>1,026,050</u>	<u>(173,153)</u>
Excess of revenues over expenditures	<u>382,474</u>	<u>202,164</u>	<u>458,618</u>	<u>256,454</u>
Other financing sources (uses):				
Transfers-in	0	219,800	284,236	64,436
Transfers-out	(216,957)	(226,108)	(225,135)	973
Total other financing sources (uses)	<u>(216,957)</u>	<u>(6,308)</u>	<u>59,101</u>	<u>65,409</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ 165,517</u>	<u>\$ 195,856</u>	<u>\$ 517,719</u>	<u>\$ 321,863</u>

State of Kansas
Required Supplementary Information
June 30, 2018

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, 2018
(expressed in thousands)

Excess of revenues and other financing sources over expenditures and other financing uses - budgetary basis	\$ 517,719
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	(17,693)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	41,604
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	<u>(288,673)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ 252,957</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 as Roadways. Changes at the Federal level in measurement, condition reporting and management prescribed in 23 CFR 490 and 23 CFR 515 have significantly impacted the way KDOT reports pavement condition. While KDOT is not required to use the Federal measures for all reports on pavement condition, KDOT elected to use the Federal pavement measures to avoid having multiple measures called the same name, but following different processes and producing very different results.

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), percent cracking (number of transverse cracked slabs per total slabs in concrete or percent of the wheelpath area with longitudinal or fatigue type cracking in asphalt surfaces), and faulting in concrete or rutting in asphalt. Each factor is converted to a Good, Fair, Poor (GFP) designation. For instance, the International Roughness Index values for each 0.1 mile are used to assign that mile's roughness GFP based on <95 in/mile, 95-170 in/mile or >170 in/mile. Federal criteria are also used to generate GFP for cracking, rutting, and faulting on each 0.1 mile of highway pavement. Using Federal rules, each 0.1 mile segment's ratings for the factors are combined by requiring that all three must be "Good" for an overall rating of "Good" or if any two are "Poor" the overall rating is "Poor". Every other combination becomes "Fair".

KDOT has targets 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 our pavement at levels above our minimum acceptable condition requires a pavement management strategy that accounts for life-cycle costs. KDOT has defined the minimum acceptable condition level as having at least 60 percent of the Interstate miles in "Good" and at least 50 percent of the Non-interstate miles in "Good". The table on the following page compares the minimum acceptable condition level with the actual condition for the current and prior years. Prior year Required Supplementary Information pages were calculated using KDOT's method for determining pavement condition at the time. This year's table contains the pavement condition and minimal acceptable condition levels based on the Federal methodology. Because KDOT has most of the data from prior years to apply the Federal methods for determining condition, the past values have been converted to show the historical changes as seen on the table on the next page. The timing for collecting and processing data has also changed. Data collected in Spring and Summer 2018 is still being processed to produce the Federal method's condition measures. It is consistent with Federal reporting regulations since data collected in calendar year 2018 is reported in April of the following year for Interstates and June for Non-interstates. Since 2018 data is not available and the table was updated to show what the Federal method conditions would have been in prior years, the 2015 row was retained to maintain three years in the series. KDOT anticipates that the 2018 numbers will continue to meet or exceed the minimum acceptable condition levels.

State of Kansas
Required Supplementary Information
June 30, 2018

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum Acceptable Condition Level*	Actual Condition Level*	Minimum Acceptable Condition Level*	Actual Condition Level*
2015**	≥ 60	71.0	≥ 50	67.0
2016**	≥ 60	72	≥ 50	67.2
2017**	≥ 60	70.9	≥ 50	66.4
2018	≥ 60	N/A	≥ 50	N/A

* Percent of miles in “Good”

KDOT’s goal is to continually maintain and improve the condition of the State Highway System. To achieve this target 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 \$87 million in fiscal year 2018. 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 \$253 million in fiscal year 2018. 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 project expenditures for preservation and some capacity and modernization costs that improve the roadway surface. The following table compares the estimated expenditures needed to maintain the system at a minimum acceptable condition level with actual amounts spent for the current and prior years (expressed in thousands).

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum Acceptable Condition Level	Actual Expenses	Minimum Acceptable Condition Level	Actual Expenses
2014	90,000	126,485	223,000	375,772
2015	93,000	144,777	231,000	423,375
2016	97,000	173,099	241,000	391,530
2017	83,000	137,753	242,000	332,824
2018	87,000	35,529	253,000	230,637

Bridges

Federal law (Title 23 CFR 650) requires that each bridge be inspected at least every 24 months. Each major structural bridge component (deck, superstructure, and substructure or the overall culvert) is evaluated during detailed bridge inspections. A condition rating value which ranges from 0 (failed) to 9 (excellent) is assigned to each component. All bridge condition data is compiled in the field by the inspectors, reviewed in the office, and then entered into a bridge management system.

The Performance Measures are the percent of state-owned bridge deck area in “Good” and “Poor” Condition, with the minimum condition rating of each bridge being defined as follows:

- Good Condition: 7, 8 or 9
- Fair Condition: 5 or 6
- Deteriorated Condition: 0, 1, 2, 3 or 4

State of Kansas
Required Supplementary Information
June 30, 2018

The following table below compares the actual percentage of state-owned bridge deck area in “Good” and “Poor” condition to KDOT’s Performance Measures for the current and prior years. KDOT’s Performance Measure targets are to have more than 70% of state-owned bridge deck area in “Good” condition and less than 3% of state-owned bridge deck area in “Poor” condition.

Prior State Bridge Performance Measures				
Fiscal Year	Minimum Acceptable Health Index	Actual Condition Level		
2016	85	87		
Current State Bridge Performance Measures				
Fiscal Year	Minimum Percentage of “Good” Deck Area	Actual Percentage of “Good” Deck Area	Minimum Percentage of “Poor” Deck Area	Actual Percentage of “Poor” Deck Area
2017	>70	76	<5	1
2018	>70	75	<3	1

Note: In February 2017, FHWA published the National Performance Management Measures Final Rule (Section 490 of Title 23, Code of Federal Regulations), which requires each state to submit performance measures data based on the calculated deck area of each bridge rather than the numbered count of bridges. This change in unit of measure makes the performance measure values and threshold prior to fiscal year 2017 not comparable to the performance measure values in fiscal year 2017 and in the future.

KDOT’s target is to continually improve the condition of the State’s bridge system. To achieve this target 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 better than the stated acceptable percentages of bridge deck area in “Good” and “Poor” condition, it is estimated that annual preservation and replacement expenditures must be approximately \$81 million for fiscal year 2018.

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).

Fiscal Year	Estimated Expenditures Needed to Maintain the System at the Minimum Acceptable Percentages	Actual Expenses
2014	\$78,000	\$92,372
2015	81,000	129,420
2016	85,000	124,954
2017	77,000	100,122
2018	81,000	56,463

Note: the estimates in this table are to maintain the bridges at the minimum percentage of “good” deck area.

State of Kansas
Required Supplementary Information
June 30, 2018

**Schedule of Changes in the State's
Death & Disability Total OPEB Liability and Related Ratios
Last Fiscal Year***

	2018 June 30, 2017
Measurement Date	
Primary Government: Employer	
Total OPEB liability	
Service cost	\$ 3,971
Interest	1,312
Effect of assumptions changes or inputs	(1,299)
Benefit payments	(4,609)
Net change in total OPEB liability	(625)
Total OPEB liability - beginning	44,380
Total OPEB liability - ending	\$ 43,755
Covered payroll	\$ 884,494

Total OPEB liability as a percentage of covered payroll 4.95%

Primary Government: Nonemployer	
Total OPEB liability	
Service cost	\$ 1,102
Interest	360
Effect of assumptions changes or inputs	(353)
Benefit payments	(1,375)
Net change in total OPEB liability	(266)
Total OPEB liability - beginning	12,222
Total OPEB liability - ending	\$ 11,956

Component Units	
Total OPEB liability	
Service cost	\$ 6,525
Interest	994
Effect of assumptions changes or inputs	(848)
Benefit payments	(2,988)
Net change in total OPEB liability	3,683
Total OPEB liability - beginning	29,793
Total OPEB liability - ending	\$ 33,476
Covered payroll	\$ 176,609

Total OPEB liability as a percentage of covered payroll 18.95%

* GASB 75 requires presentation of ten years. As of June 30, 2018, only one year of information is available

Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate decreased from 2.85% on June 30, 2016 to 3.58% on June 30, 2017.

State of Kansas
Required Supplementary Information
June 30, 2018

Schedule of the State's Proportionate Share of the Net Pension Liability
Kansas Pension Retirement Plan
Last 5 Years*

	2018	2017	2016	2015	2014
Measurement date	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2013
Primary Government: Employer					
Proportion of the net pension liability					
State/School employees	17.976%	18.384%	18.702%	18.323%	18.936%
Police and Firemen	8.745%	7.805%	7.446%	7.451%	7.90%
Judges	100%	100%	100%	100%	100%
Proportionate share of the collective net pension liability	\$ 1,313,129	\$ 1,329,325	\$ 1,364,406	\$ 1,234,936	\$ 1,469,597
Covered payroll	\$ 884,494	\$ 839,583	\$ 858,466	\$ 859,799	\$ 876,152
Proportionate share of the collective net pension liability as a percentage of its covered payroll	148.46%	158.33%	158.94%	143.63%	167.73%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%	66.60%	59.94%
Primary Government: Nonemployer					
State's proportion of the net pension liability of the special funding group	96.545%	96.710%	96.390%	100.000%	100.000%
State's proportionate share of the collective net pension liability	\$ 714,775	\$ 723,745	\$ 720,205	\$ 676,508	\$ 774,047
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%	66.60%	59.94%
Component Units					
Proportion of the net pension liability					
State/School employees	3.218%	3.410%	3.516%	3.407%	3.587%
Police and Firemen	1.568%	1.434%	1.345%	1.215%	1.775%
Local	1.079%	1.082%	1.123%	1.169%	1.279%
Proportionate share of the collective net pension liability	\$ 246,569	\$ 259,191	\$ 268,020	\$ 240,024	\$ 288,521
Covered payroll	\$ 176,609	\$ 174,256	\$ 199,807	\$ 153,190	\$ 187,276
Proportionate share of the collective net pension liability as a percentage of its covered payroll	139.61%	148.74%	134.14%	156.68%	154.06%
Plan fiduciary net position as a percentage of the total pension liability	67.12%	65.10%	64.95%	66.60%	59.94%

* GASB 68 requires a presentation of 10 years. As of June 30, 2018 only five years of information is available

Note: Information on this schedule is measured as of the measurement date.

State of Kansas
Required Supplementary Information
June 30, 2018

Schedule of State Contributions
Kansas Pension Retirement Plan
Last 5 Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Primary Government: Employer					
Contractually required contribution	\$ 109,001	\$ 103,241	\$ 102,593	\$ 94,083	\$ 84,107
Contributions in relation to the contractually required contribution	<u>(109,001)</u>	<u>(103,241)</u>	<u>(222,790)</u>	<u>(94,083)</u>	<u>(84,107)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (120,197)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 871,681	\$ 884,494	\$ 839,583	\$ 858,466	\$ 859,799
Contributions as a percentage of covered payroll	12.50%	11.67%	12.22%	10.96%	9.78%
Primary Government: Nonemployer					
Contractually required contribution	\$ 60,231	\$ 52,748	\$ 50,323	\$ 45,182	\$ 47,738
Contributions in relation to the contractually required contribution	<u>(60,231)</u>	<u>(52,748)</u>	<u>(165,443)</u>	<u>(45,182)</u>	<u>(47,738)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (115,120)</u>	<u>\$ -</u>	<u>\$ -</u>
Component Units					
Contractually required contribution	\$ 19,466	\$ 18,861	\$ 19,062	\$ 18,256	\$ 17,974
Contributions in relation to the contractually required contribution	<u>(19,466)</u>	<u>(18,861)</u>	<u>(19,062)</u>	<u>(18,256)</u>	<u>(17,974)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 167,017	\$ 176,609	\$ 174,256	\$ 199,807	\$ 153,190
Contributions as a percentage of covered payroll	11.66%	10.68%	10.94%	9.14%	11.73%

* GASB 68 requires a presentation of 10 years. As of June 30, 2018 only five years of information is available

Note: Covered payroll is measured as of the fiscal year end, the most recent of which is June 30, 2018

State of Kansas
Required Supplementary Information
June 30, 2018

Changes in benefit terms for KPERS. In the state fiscal year 2014, the KP&F group had a change in benefit terms. The Legislature increased this group's employee contributions to 7.15 percent and eliminated the reduction of employee contributions to 2.0 percent after 32 years of service. In addition, the maximum retirement benefit increased to 90 percent of final average salary (reached at 36 years of service). Before this change the maximum retirement benefit was limited to 80 percent of final average salary (reached at 32 years of service).

Effective January 1, 2014, KPERS 1 member's employee contribution rate increased to 5.0 percent and then on January 1, 2015, increase to 6.0 percent, with an increase in benefit multiplier to 1.85 percent for future years of service. For KPERS 2 members retired after July 1, 2012, the cost of living adjustment (COLA) is eliminated, but members will receive a 1.85 percent multiplier for all years of service.

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

For the state fiscal year 2017, the KP&F group had a change in benefit terms. The Legislature changed the duty-related death benefit for KP&F members to the greater of 50% of Final Average Salary and member's accrued retirement benefit under the 100% joint and survivor option, payable to the member's spouse. Including any benefits that may be due to child beneficiaries, the total monthly benefits may not exceed 90% of the member's Final Average Salary. Prior to this bill, the duty-related spousal death benefit for KP&F member was 50% of the Final Average Salary, and the maximum available to the family was 75% of the member's Final Average Salary.

For the state fiscal year 2017, the Legislature changed the working after retirement rules for members who retire on or after January 1, 2018. The key changes to the working after retirement rules were to lengthen the waiting period for KPERS members to return to work from 60 days to 180 days for members who retire before attaining age 62, remove the earnings limitation for all retirees and establish a single-employer contribution schedule for all retirees.

Changes in assumptions for KPERS. As a result of the experience study completed in November 2016, there were several changes made to the actuarial assumptions and methods since the prior valuation. The changes that impact all groups were effective December 31, 2016 and include:

- The price inflation assumption was lowered from 3.00% to 2.75%.
- The investment return assumption was lowered from 8.00% to 7.75%.
- The general wage growth assumption was lowered from 4.00% to 3.50%.
- The payroll growth assumption was lowered from 4.00% to 3.00%.

Changes from the November 2016 experience study that impacted individual groups are listed below:

KPERS:

- The post-retirement healthy mortality assumption was changed to the RP-2014 Mortality Table, with adjustments to better fit the observed experience for the various KPERS groups. The most recent mortality improvement scale, MP-2016, is used to anticipate future mortality improvements in the valuation process through the next experience study.
- The active member mortality assumption was modified to also be based on the RP-2014 Employee Mortality Table with adjustments.
- The retirement rates for the select period (when first eligible for unreduced benefits under Rule of 85) were increased, but all other retirement rates were decreased.
- Disability rates were decreased for all three groups
- The termination of employment assumption was increased for all three groups
- The interest crediting rate assumption for KPERS 3 members was lowered from 6.50% to 6.25%.

State of Kansas
Required Supplementary Information
June 30, 2018

KP&F:

- The post-retirement healthy mortality assumption was changed to the RP-2014 Mortality Table with 1-year age set forward and the MP-2016, is used to anticipate future mortality improvements.
- The mortality assumption for disabled members was changed to the RP-2014 Disabled Lives Table (generational using MP-2016) with a 1-year age set forward.
- The active member mortality assumption was modified to the RP-2014 Employee Mortality Table with a 1-year age set forward with a 90% scaling factor.
- The retirement rates for Tier 1 were lowered and the ultimate assumed retirement age was changed from 63 to 65 for Tier 2.
- The termination of employment rates for Tier 2 were increased to better match the observed experience.

**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
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:

Transportation - Capital Projects
State Buildings (Appropriated)
Capitol Complex Buildings

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
Highway Patrol
Labor
Bond and Interest
Highway Debt Service

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2018
(expressed in thousands)

	Special Revenue Funds			
	State Regulatory Boards and Commissions	Correctional Facilities	Tobacco Settlement for Children's Initiative	Adjutant General
ASSETS				
Cash and cash equivalents	\$ 48,661	\$ 13,575	\$ 13,585	\$ 0
Investments	13,860	0	0	0
Receivables, net	13,170	936	0	7,308
Due from other funds	4,870	1,225	1,129	0
Inventories	55	1,355	0	0
Advances to other funds	18,355	5,417	5,646	0
Restricted cash and cash equivalents	0	0	0	0
Restricted investments	0	0	0	0
Total assets	\$ 98,971	\$ 22,508	\$ 20,360	\$ 7,308
LIABILITIES				
Accounts payable and other liabilities	\$ 11,622	\$ 1,255	\$ 2,041	\$ 2,967
Due to other funds	0	0	0	2,645
Advances from other funds	0	0	0	0
Unearned revenue	1,635	0	0	0
Total liabilities	13,257	1,255	2,041	5,612
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - taxes	0	0	0	0
Total deferred inflows of resources	0	0	0	0
FUND BALANCES				
Nonspendable:				
Inventories	55	1,355	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	58,662	0	0	0
Human Resources	3,936	0	18,319	0
Education	4	0	0	0
Public Safety	16,482	19,898	0	1,696
Agriculture and natural resources	6,575	0	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	0	0
Total fund balance	85,714	21,253	18,319	1,696
Total liabilities, deferred inflows of resources, and fund balance	\$ 98,971	\$ 22,508	\$ 20,360	\$ 7,308

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2018
(expressed in thousands)

	Special Revenue Funds			
	Agriculture	Attorney General	Administration	Highway Patrol
ASSETS				
Cash and cash equivalents	\$ 11,200	\$ 21,224	\$ 7,996	\$ 24,331
Investments	0	0	0	0
Receivables, net	1,809	89	0	90
Due from other funds	667	1,326	83	1,334
Inventories	0	0	2,503	296
Advances to other funds	3,333	6,634	417	6,666
Restricted cash and cash equivalents	0	0	8	0
Restricted investments	0	0	0	0
Total assets	<u>\$ 17,009</u>	<u>\$ 29,273</u>	<u>\$ 11,007</u>	<u>\$ 32,717</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 2,449	\$ 2,006	\$ 4,034	\$ 4,887
Due to other funds	232	0	0	0
Advances from other funds	359	0	0	0
Bonds payable on demand	0	0	0	0
Total liabilities	<u>3,040</u>	<u>2,006</u>	<u>4,034</u>	<u>4,887</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - taxes	0	0	0	0
Total deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Nonspendable:				
Inventories	0	0	2,503	296
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	0	22,125	4,470	0
Human Resources	0	0	0	0
Education	0	0	0	0
Public Safety	0	5,142	0	27,534
Agriculture and natural resources	13,969	0	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	0	0
Total fund balance	<u>13,969</u>	<u>27,267</u>	<u>6,973</u>	<u>27,830</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 17,009</u>	<u>\$ 29,273</u>	<u>\$ 11,007</u>	<u>\$ 32,717</u>

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2018
(expressed in thousands)

	Special Revenue Funds			
	Historical Society	Labor	Commerce	Insurance
ASSETS				
Cash and cash equivalents	\$ 5,732	\$ 16,146	\$ 36,744	\$ 3,136
Investments	0	0	8,040	0
Receivables, net	143	109	317	36
Due from other funds	0	3,333	7,206	1,750
Inventories	0	0	72	0
Advances to other funds	0	16,667	23,921	8,750
Restricted cash and cash equivalents	0	0	0	0
Restricted investments	0	0	16,276	0
Total assets	<u>\$ 5,875</u>	<u>\$ 36,255</u>	<u>\$ 92,576</u>	<u>\$ 13,672</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 215	\$ 1,896	\$ 4,599	\$ 430
Due to other funds	0	0	0	0
Advances from other funds	0	0	0	0
Bonds payable on demand	0	0	0	0
Total liabilities	<u>215</u>	<u>1,896</u>	<u>4,599</u>	<u>430</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - taxes	0	0	0	0
Total deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Nonspendable:				
Inventories	0	0	72	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	0	0	87,905	13,242
Human Resources	0	34,359	0	0
Education	5,660	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
Unassigned	0	0	0	0
Total fund balance	<u>5,660</u>	<u>34,359</u>	<u>87,977</u>	<u>13,242</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 5,875</u>	<u>\$ 36,255</u>	<u>\$ 92,576</u>	<u>\$ 13,672</u>

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2018
(expressed in thousands)

	Special Revenue Funds			
	Judicial	State Library	Revenue	Secretary of State
ASSETS				
Cash and cash equivalents	\$ 7,614	\$ 965	\$ 10,437	\$ 5,973
Investments	0	0	0	0
Receivables, net	221	0	125	1
Due from other funds	3,500	0	917	88
Inventories	0	0	0	0
Advances to other funds	17,500	0	4,583	441
Restricted cash and cash equivalents	0	0	0	0
Restricted investments	0	0	0	0
Total assets	\$ 28,835	\$ 965	\$ 16,062	\$ 6,503
LIABILITIES				
Accounts payable and other liabilities	\$ 1,830	\$ 34	\$ 3,292	\$ 129
Due to other funds	0	0	0	0
Advances from other funds	0	0	0	0
Bonds payable on demand	0	0	0	0
Total liabilities	1,830	34	3,292	129
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - taxes	0	0	0	0
Total deferred inflows of resources	0	0	0	0
FUND BALANCES				
Nonspendable:				
Inventories	0	0	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	27,005	0	12,770	6,374
Human Resources	0	0	0	0
Education	0	931	0	0
Public Safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	0	0
Total fund balance	27,005	931	12,770	6,374
Total liabilities, deferred inflows of resources, and fund balance	\$ 28,835	\$ 965	\$ 16,062	\$ 6,503

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2018
(expressed in thousands)

	Special Revenue Funds			
	State Treasurer	Wildlife, Parks and Tourism	Executive	Legislative
ASSETS				
Cash and cash equivalents	\$ 2,966	\$ 34,568	\$ 556	\$ 105
Investments	0	0	0	0
Receivables, net	4	3,264	0	0
Due from other funds	25,318	3,333	0	0
Inventories	0	0	0	0
Advances to other funds	153,967	16,667	0	0
Restricted cash and cash equivalents	0	0	0	0
Restricted investments	0	0	0	0
Total assets	<u>\$ 182,255</u>	<u>\$ 57,832</u>	<u>\$ 556</u>	<u>\$ 105</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 179,460	\$ 6,140	\$ 24	\$ 0
Due to other funds	0	0	0	0
Advances from other funds	0	0	0	0
Bonds payable on demand	0	0	0	0
Total liabilities	<u>179,460</u>	<u>6,140</u>	<u>24</u>	<u>0</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - taxes	0	0	0	0
Total deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Nonspendable:				
Inventories	0	0	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	2,795	0	532	105
Human Resources	0	0	0	0
Education	0	0	0	0
Public Safety	0	0	0	0
Agriculture and natural resources	0	51,692	0	0
Highways and other transportation	0	0	0	0
Unassigned	0	0	0	0
Total fund balance	<u>2,795</u>	<u>51,692</u>	<u>532</u>	<u>105</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 182,255</u>	<u>\$ 57,832</u>	<u>\$ 556</u>	<u>\$ 105</u>

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2018
(expressed in thousands)

	Special Revenue Funds			Capital Projects Funds
	Transportation- Special Revenue	State Water Plan	Peace Officer Training	Transportation-Capital Projects
ASSETS				
Cash and cash equivalents	\$ 53,072	\$ 506	\$ 1,180	\$ 0
Investments	0	0	0	0
Receivables, net	4,601	1,759	0	0
Due from other funds	0	955	0	0
Inventories	0	0	0	0
Advances to other funds	0	4,774	0	0
Restricted cash and cash equivalents	0	0	0	0
Restricted investments	0	0	0	0
Total assets	<u>\$ 57,673</u>	<u>\$ 7,994</u>	<u>\$ 1,180</u>	<u>\$ 0</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 2,456	\$ 921	\$ 22	\$ 0
Due to other funds	0	0	0	0
Advances from other funds	0	0	0	0
Bonds payable on demand	0	0	0	0
Total liabilities	<u>2,456</u>	<u>921</u>	<u>22</u>	<u>0</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - taxes	0	177	0	0
Total deferred inflows of resources	<u>0</u>	<u>177</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Nonspendable:				
Inventories	0	0	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	0	0	0	0
General government	0	0	0	0
Human Resources	0	0	0	0
Education	0	0	0	0
Public Safety	0	0	1,158	0
Agriculture and natural resources	0	6,896	0	0
Highways and other transportation	55,217	0	0	0
Unassigned	0	0	0	0
Total fund balance	<u>55,217</u>	<u>6,896</u>	<u>1,158</u>	<u>0</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 57,673</u>	<u>\$ 7,994</u>	<u>\$ 1,180</u>	<u>\$ 0</u>

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2018
(expressed in thousands)

	Capital Projects Funds		Debt Service Funds
	State Buildings (Appropriated)	Capitol Complex Buildings	Master Lease Program
ASSETS			
Cash and cash equivalents	\$ 14,889	\$ 338	\$ 2,828
Investments	0	0	0
Receivables, net	0	0	9,880
Due from other funds	6,946	0	805
Inventories	0	0	0
Advances to other funds	33,305	0	830
Restricted cash and cash equivalents	0	31	0
Restricted investments	0	0	0
Total assets	<u>\$ 55,140</u>	<u>\$ 369</u>	<u>\$ 14,343</u>
LIABILITIES			
Accounts payable and other liabilities	\$ 1,070	\$ 0	\$ 3
Due to other funds	155	0	0
Advances from other funds	77	0	0
Bonds payable on demand	0	0	0
Total liabilities	<u>1,302</u>	<u>0</u>	<u>3</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - taxes	0	0	0
Total deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES			
Nonspendable:			
Inventories	0	0	0
Restricted for:			
Capital Projects	53,838	369	0
Debt Service	0	0	14,340
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
Unassigned	0	0	0
Total fund balance	<u>53,838</u>	<u>369</u>	<u>14,340</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 55,140</u>	<u>\$ 369</u>	<u>\$ 14,343</u>

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2018
(expressed in thousands)

	Debt Service Funds			
	Corrections	Pooled Funds	Armories	Highway Patrol
ASSETS				
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 0
Investments	0	0	0	0
Receivables, net	0	0	0	0
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	7	0	41	0
Restricted investments	0	0	0	0
Total assets	<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ 41</u>	<u>\$ 0</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 0	\$ 0	\$ 0	\$ 0
Due to other funds	0	0	0	0
Advances from other funds	0	0	0	0
Bonds payable on demand	0	0	0	0
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - taxes	0	0	0	0
Total deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Nonspendable:				
Inventories	0	0	0	0
Restricted for:				
Capital Projects	0	0	0	0
Debt Service	7	0	41	0
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
Unassigned	0	0	0	0
Total fund balance	<u>7</u>	<u>0</u>	<u>41</u>	<u>0</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ 41</u>	<u>\$ 0</u>

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Balance Sheet - Nonmajor Governmental Funds - Concluded
June 30, 2018
(expressed in thousands)

	Debt Service Funds			
	Labor	Bond and Interest	Highway Debt Service	Total Nonmajor Governmental
ASSETS				
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 338,327
Investments	0	0	0	21,900
Receivables, net	0	0	439	44,301
Due from other funds	0	0	0	64,785
Inventories	0	0	0	4,281
Advances to other funds	0	0	0	327,873
Restricted cash and cash equivalents	0	2,926	109,802	112,815
Restricted investments	0	0	0	16,276
Total assets	<u>\$ 0</u>	<u>\$ 2,926</u>	<u>\$ 110,241</u>	<u>\$ 930,558</u>
LIABILITIES				
Accounts payable and other liabilities	\$ 0	\$ 154	\$ 0	\$ 233,936
Due to other funds	0	0	0	3,032
Advances from other funds	0	0	0	436
Bonds payable on demand	0	0	0	1,635
Total liabilities	<u>0</u>	<u>154</u>	<u>0</u>	<u>239,039</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - taxes	0	0	0	177
Total deferred inflows of resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>177</u>
FUND BALANCES				
Nonspendable:				
Inventories	0	0	0	4,281
Restricted for:				
Capital Projects	0	0	0	54,207
Debt Service	0	2,772	110,241	127,401
General government	0	0	0	235,985
Human Resources	0	0	0	56,614
Education	0	0	0	6,595
Public Safety	0	0	0	71,910
Agriculture and natural resources	0	0	0	79,132
Highways and other transportation	0	0	0	55,217
Unassigned	0	0	0	0
Total fund balance	<u>0</u>	<u>2,772</u>	<u>110,241</u>	<u>691,342</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 0</u>	<u>\$ 2,926</u>	<u>\$ 110,241</u>	<u>\$ 930,558</u>

State of Kansas
Other Supplementary Information
June 30, 2018

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2018**
(expressed in thousands)

	Special Revenue Funds			
	State Regulatory Boards and Commission	Correctional Facilities	Tobacco Settlement for Children's Initiative	Adjutant General
Revenues:				
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	7,068	0	0	0
Charges for services	152,184	17,157	57,588	1
Operating grants	3,918	539	0	45,624
Capital grants	152	0	0	0
Investment earnings	253	38	91	2
Other revenues	4,742	2,005	2	0
Total revenues	<u>168,317</u>	<u>19,739</u>	<u>57,681</u>	<u>45,627</u>
Expenditures:				
Current:				
General government	101,412	0	0	0
Human resources	17,968	0	11,160	0
Education	0	0	23,652	0
Public safety	34,785	22,185	0	49,965
Agriculture and natural resources	8,223	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	7,065	0
Debt service:				
Principal	1,810	40	0	0
Interest	551	49	0	0
Total expenditures	<u>164,749</u>	<u>22,274</u>	<u>41,877</u>	<u>49,965</u>
Excess of revenues over (under) expenditures	<u>3,568</u>	<u>(2,535)</u>	<u>15,804</u>	<u>(4,338)</u>
Other financing sources (uses):				
Issuance of bonds	0	0	0	0
Issuance of capital leases	0	514	0	0
Premium on issuance of debt	0	0	0	0
Transfers, net	(3,559)	4,694	(2,153)	(965)
Total other financing sources (uses)	<u>(3,559)</u>	<u>5,208</u>	<u>(2,153)</u>	<u>(965)</u>
Net change in fund balances	<u>9</u>	<u>2,673</u>	<u>13,651</u>	<u>(5,303)</u>
Fund balances, beginning of year	<u>85,705</u>	<u>18,580</u>	<u>4,668</u>	<u>6,999</u>
Fund balances, end of year	<u>\$ 85,714</u>	<u>\$ 21,253</u>	<u>\$ 18,319</u>	<u>\$ 1,696</u>

State of Kansas
Other Supplementary Information
June 30, 2018

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Special Revenue Funds			
	Agriculture	Attorney General	Administration	Highway Patrol
Revenues:				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	1,000	0	3,001
Gross receipts tax	0	0	0	0
Charges for services	22,140	14,996	2,988	18,331
Operating grants	12,549	6,913	411	10,381
Capital grants	0	0	0	0
Investment earnings	4	27	31	15
Other revenues	1,481	3,428	20,708	591
Total revenues	<u>36,174</u>	<u>26,364</u>	<u>24,138</u>	<u>32,319</u>
Expenditures:				
Current:				
General government	0	16,077	21,084	0
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	15,846	0	87,764
Agriculture and natural resources	34,788	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	319	0	35,105	0
Interest	418	0	65,021	0
Total expenditures	<u>35,525</u>	<u>31,923</u>	<u>121,210</u>	<u>87,764</u>
Excess of revenues over (under) expenditures	<u>649</u>	<u>(5,559)</u>	<u>(97,072)</u>	<u>(55,445)</u>
Other financing sources (uses):				
Issuance of bonds	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Transfers, net	1,244	3,573	100,613	56,273
Total other financing sources (uses)	<u>1,244</u>	<u>3,573</u>	<u>100,613</u>	<u>56,273</u>
Net change in fund balances	<u>1,893</u>	<u>(1,986)</u>	<u>3,541</u>	<u>828</u>
Fund balances, beginning of year	<u>12,076</u>	<u>29,253</u>	<u>3,432</u>	<u>27,002</u>
Fund balances, end of year	<u>\$ 13,969</u>	<u>\$ 27,267</u>	<u>\$ 6,973</u>	<u>\$ 27,830</u>

State of Kansas
Other Supplementary Information
June 30, 2018

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Special Revenue Funds			
	Historical Society	Labor	Commerce	Insurance
Revenues:				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	27,881	0
Sales and excise tax	883	0	0	0
Gross receipts tax	0	0	28	15,229
Charges for services	289	6,348	518	33,345
Operating grants	890	21,718	36,291	0
Capital grants	0	0	0	0
Investment earnings	17	1	372	0
Other revenues	10	10,743	4,406	19
Total revenues	<u>2,089</u>	<u>38,810</u>	<u>69,496</u>	<u>48,593</u>
Expenditures:				
Current:				
General government	0	0	66,729	24,464
Human resources	0	37,021	0	0
Education	2,594	0	4,061	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	19,624	0
Interest	0	0	5,406	0
Total expenditures	<u>2,594</u>	<u>37,021</u>	<u>95,820</u>	<u>24,464</u>
Excess of revenues over (under) expenditures	<u>(505)</u>	<u>1,789</u>	<u>(26,324)</u>	<u>24,129</u>
Other financing sources (uses):				
Issuance of bonds	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Transfers, net	21	76	24,463	(21,823)
Total other financing sources (uses)	<u>21</u>	<u>76</u>	<u>24,463</u>	<u>(21,823)</u>
Net change in fund balances	<u>(484)</u>	<u>1,865</u>	<u>(1,861)</u>	<u>2,306</u>
Fund balances, beginning of year	<u>6,144</u>	<u>32,494</u>	<u>89,838</u>	<u>10,936</u>
Fund balances, end of year	<u>\$ 5,660</u>	<u>\$ 34,359</u>	<u>\$ 87,977</u>	<u>\$ 13,242</u>

State of Kansas
Other Supplementary Information
June 30, 2018

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Special Revenue Funds			
	Judicial	State Library	Revenue	Secretary of State
Revenues:				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	0	8,018	0
Gross receipts tax	0	0	305	0
Charges for services	35,383	0	24,259	4,095
Operating grants	448	1,438	0	0
Capital grants	0	0	0	0
Investment earnings	29	0	0	25
Other revenues	1,172	66	401	0
Total revenues	37,032	1,504	32,983	4,120
Expenditures:				
Current:				
General government	33,476	0	85,384	3,821
Human resources	0	0	0	0
Education	0	1,531	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	0	296	0
Interest	0	0	762	0
Total expenditures	33,476	1,531	86,442	3,821
Excess of revenues over (under) expenditures	3,556	(27)	(53,459)	299
Other financing sources (uses):				
Issuance of bonds	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Transfers, net	206	0	56,296	0
Total other financing sources (uses)	206	0	56,296	0
Net change in fund balances	3,762	(27)	2,837	299
Fund balances, beginning of year	23,243	958	9,933	6,075
Fund balances, end of year	\$ 27,005	\$ 931	\$ 12,770	\$ 6,374

State of Kansas
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June 30, 2018

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Special Revenue Funds			
	State Treasurer	Wildlife, Parks and Tourism	Executive	Legislative
Revenues:				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	1,174	0	0
Gross receipts tax	0	0	0	0
Charges for services	626	49,840	0	31
Operating grants	0	27,535	17,339	0
Capital grants	0	0	0	0
Investment earnings	3,551	157	6	0
Other revenues	28,684	233	90	0
Total revenues	<u>32,861</u>	<u>78,939</u>	<u>17,435</u>	<u>31</u>
Expenditures:				
Current:				
General government	30,262	0	18,138	1
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	81,386	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	70	0	0
Interest	0	69	0	0
Total expenditures	<u>30,262</u>	<u>81,525</u>	<u>18,138</u>	<u>1</u>
Excess of revenues over (under) expenditures	<u>2,599</u>	<u>(2,586)</u>	<u>(703)</u>	<u>30</u>
Other financing sources (uses):				
Issuance of bonds	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Transfers, net	(2,875)	10,667	(539)	0
Total other financing sources (uses)	<u>(2,875)</u>	<u>10,667</u>	<u>(539)</u>	<u>0</u>
Net change in fund balances	<u>(276)</u>	<u>8,081</u>	<u>(1,242)</u>	<u>30</u>
Fund balances, beginning of year	<u>3,071</u>	<u>43,611</u>	<u>1,774</u>	<u>75</u>
Fund balances, end of year	<u>\$ 2,795</u>	<u>\$ 51,692</u>	<u>\$ 532</u>	<u>\$ 105</u>

State of Kansas
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June 30, 2018

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Special Revenue Funds			Capital Projects Funds
	Transportation- Special Revenue	State Water Plan	Peace Officer Training	Transportation-Capital Projects
Revenues:				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	2,701	0	0
Gross receipts tax	0	0	0	0
Charges for services	0	5,136	894	0
Operating grants	4,381	0	0	0
Capital grants	0	0	0	0
Investment earnings	236	0	0	5
Other revenues	3,878	4,181	175	0
Total revenues	<u>8,495</u>	<u>12,018</u>	<u>1,069</u>	<u>5</u>
Expenditures:				
Current:				
General government	0	0	0	0
Human resources	0	0	0	0
Education	0	26	0	0
Public safety	0	0	743	0
Agriculture and natural resources	0	9,864	0	0
Highways and other transportation	23,152	0	0	0
Health and environment	0	1,711	0	0
Debt service:				
Principal	0	0	0	0
Interest	0	0	0	0
Total expenditures	<u>23,152</u>	<u>11,601</u>	<u>743</u>	<u>0</u>
Excess of revenues over (under) expenditures	<u>(14,657)</u>	<u>417</u>	<u>326</u>	<u>5</u>
Other financing sources (uses):				
Issuance of bonds	0	0	0	200,000
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	42,212
Transfers, net	21,000	147	0	(242,217)
Total other financing sources (uses)	<u>21,000</u>	<u>147</u>	<u>0</u>	<u>(5)</u>
Net change in fund balances	<u>6,343</u>	<u>564</u>	<u>326</u>	<u>0</u>
Fund balances, beginning of year	<u>48,874</u>	<u>6,332</u>	<u>832</u>	<u>0</u>
Fund balances, end of year	<u>\$ 55,217</u>	<u>\$ 6,896</u>	<u>\$ 1,158</u>	<u>\$ 0</u>

State of Kansas
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June 30, 2018

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Capital Projects Funds		Debt Service Funds
	State Buildings (Appropriated)	Capitol Complex Buildings	Master Lease Program
Revenues:			
Property tax	\$ 57,507	\$ 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	2	0	0
Operating grants	0	0	0
Capital grants	0	0	0
Investment earnings	0	1	18
Other revenues	270	0	0
Total revenues	<u>57,779</u>	<u>1</u>	<u>18</u>
Expenditures:			
Current:			
General government	319	0	318
Human resources	6,072	0	0
Education	29,401	0	0
Public safety	4,024	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	7,145	4,025
Interest	0	3,445	456
Total expenditures	<u>39,816</u>	<u>10,590</u>	<u>4,799</u>
Excess of revenues over (under) expenditures	<u>17,963</u>	<u>(10,589)</u>	<u>(4,781)</u>
Other financing sources (uses):			
Issuance of bonds	0	0	0
Issuance of capital leases	0	0	1,692
Premium on issuance of debt	0	0	0
Transfers, net	(6,423)	10,590	0
Total other financing sources (uses)	<u>(6,423)</u>	<u>10,590</u>	<u>1,692</u>
Net change in fund balances	<u>11,540</u>	<u>1</u>	<u>(3,089)</u>
Fund balances, beginning of year	<u>42,298</u>	<u>368</u>	<u>17,429</u>
Fund balances, end of year	<u>\$ 53,838</u>	<u>\$ 369</u>	<u>\$ 14,340</u>

State of Kansas
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June 30, 2018

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2018
(expressed in thousands)

	Debt Service Funds			
	Corrections	Pooled Funds	Armories	Highway Patrol
Revenues:				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	0	0	0
Gross receipts tax	0	0	0	0
Charges for services	0	0	0	0
Operating grants	0	0	0	0
Capital grants	0	0	0	0
Investment earnings	0	0	0	0
Other revenues	0	0	0	0
Total revenues	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expenditures:				
Current:				
General government	0	0	0	0
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	360
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	4,486	8,825	860	0
Interest	655	6,357	205	9
Total expenditures	<u>5,141</u>	<u>15,182</u>	<u>1,065</u>	<u>369</u>
Excess of revenues over (under) expenditures	<u>(5,141)</u>	<u>(15,182)</u>	<u>(1,065)</u>	<u>(369)</u>
Other financing sources (uses):				
Issuance of bonds	0	0	0	0
Issuance of capital leases	0	0	0	0
Premium on issuance of debt	0	0	0	0
Transfers, net	5,141	15,182	1,065	369
Total other financing sources (uses)	<u>5,141</u>	<u>15,182</u>	<u>1,065</u>	<u>369</u>
Net change in fund balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances, beginning of year	<u>7</u>	<u>0</u>	<u>41</u>	<u>0</u>
Fund balances, end of year	<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ 41</u>	<u>\$ 0</u>

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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, 2018
(expressed in thousands)

	Debt Service Funds			
	Labor	Bond and Interest	Highway Debt Service	Total Nonmajor Governmental
Revenues:				
Property tax	\$ 0	\$ 0	\$ 0	\$ 57,507
Income and inheritance tax	0	0	0	27,881
Sales and excise tax	0	0	0	16,777
Gross receipts tax	0	0	0	22,630
Charges for services	0	0	0	446,151
Operating grants	0	0	0	190,375
Capital grants	0	0	0	152
Investment earnings	0	32	619	5,530
Other revenues	0	6	0	87,291
Total revenues	<u>0</u>	<u>38</u>	<u>619</u>	<u>854,294</u>
Expenditures:				
Current:				
General government	0	0	0	401,485
Human resources	225	0	0	72,446
Education	0	0	0	61,265
Public safety	0	0	0	215,672
Agriculture and natural resources	0	1,226	0	135,487
Highways and other transportation	0	0	0	23,152
Health and environment	0	0	0	8,776
Debt service:				
Principal	0	22,595	118,515	223,715
Interest	55	27,955	89,359	200,772
Total expenditures	<u>280</u>	<u>51,776</u>	<u>207,874</u>	<u>1,342,770</u>
Excess of revenues over (under) expenditures	<u>(280)</u>	<u>(51,738)</u>	<u>(207,255)</u>	<u>(488,476)</u>
Other financing sources (uses):				
Issuance of bonds	0	0	0	200,000
Issuance of capital leases	0	0	0	2,206
Premium on issuance of debt	0	0	0	42,212
Transfers, net	280	50,522	213,590	295,458
Total other financing sources (uses)	<u>280</u>	<u>50,522</u>	<u>213,590</u>	<u>539,876</u>
Net change in fund balances	<u>0</u>	<u>(1,216)</u>	<u>6,335</u>	<u>51,400</u>
Fund balances, beginning of year	<u>0</u>	<u>3,988</u>	<u>103,906</u>	<u>639,942</u>
Fund balances, end of year	<u>\$ 0</u>	<u>\$ 2,772</u>	<u>\$ 110,241</u>	<u>\$ 691,342</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
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June 30, 2018

Combining Statement of Net Position - Nonmajor Proprietary Funds

June 30, 2018

(expressed in thousands)

	Business-Type Activities					
	Workers Compensation	Lottery	Intergovern- mental Transfer Program	Transporta- tion Revolving Fund	Communication Systems Revolving Fund	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 10,910	\$ 5,243	\$ 102	\$ 425	\$ 3,348	\$ 20,028
Restricted cash and cash equivalents	0	0	0	0	0	0
Receivables,net	33	10,778	0	2,663	310	13,784
Inventories	0	2,533	0	0	0	2,533
Total current assets	10,943	18,554	102	3,088	3,658	36,345
Noncurrent assets:						
Investments	0	0	0	0	0	0
Receivables, net	0	0	0	16,799	571	17,370
Capital assets (net of accumulated depreciation)	0	521	2	0	0	523
Total noncurrent assets	0	521	2	16,799	571	17,893
Total assets	10,943	19,075	104	19,887	4,229	54,238
DEFERRED OUTFLOWS OF RESOURCES						
Deferred outflows - pensions	0	1,385	0	0	0	1,385
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	\$ 9	\$ 18,409	\$ 0	\$ 0	\$ 4	\$ 18,422
Due to other funds	0	4,128	0	0	0	4,128
Short-term compensated absences	8	0	0	0	0	8
Short-term portion of long-term liabilities	7,618	0	0	0	127	7,745
Total current liabilities	7,635	22,537	0	0	131	30,303
Noncurrent liabilities:						
Compensated absences	1	0	0	0	0	1
Claims and judgments	28,060	0	0	0	0	28,060
Bonds, notes and loans payable	0	0	0	0	212	212
Unearned lease revenue	0	0	0	0	509	509
Arbitrage rebate payable	0	0	0	56	0	56
Net pension liability	0	6,460	0	0	0	6,460
Total OPEB liability	0	73	0	0	0	73
Total noncurrent liabilities	28,061	6,533	0	56	721	35,371
Total liabilities	35,696	29,070	0	56	852	65,674
DEFERRED INFLOWS OF RESOURCES						
Deferred inflows - pensions	0	459	0	0	0	459
NET POSITION						
Net investment in capital assets	0	521	2	0	0	523
Unrestricted	(24,753)	(9,590)	102	19,831	3,377	(11,033)
Total net position	\$ (24,753)	\$ (9,069)	\$ 104	\$ 19,831	\$ 3,377	\$ (10,510)

State of Kansas
Other Supplementary Information
June 30, 2018

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Position - Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2018**
(expressed in thousands)

	Business-Type Activities					Total
	Workers Compensa- tion	Lottery	Intergovern- mental Transfer Program	Transporta- tion Revolving Fund	Communica- tion Systems Revolving Fund	
Operating revenues:						
Charges for services	\$ 2,583	\$ 673,457	\$ 0	\$ 50	\$ 224	\$ 676,314
Other revenue	176	4,723	50	721	0	5,670
Total operating revenues	<u>2,759</u>	<u>678,180</u>	<u>50</u>	<u>771</u>	<u>224</u>	<u>681,984</u>
Operating expenses:						
Personal services	201	6,413	0	0	0	6,614
Supplies and services	817	319,798	0	15	22	320,652
Lottery prize awards	0	157,891	0	0	0	157,891
Depreciation	0	347	3	0	0	350
Insurance claims and expenses	1,403	0	0	0	0	1,403
Other expenses	3,081	11,616	0	0	0	14,697
Total operating expenses	<u>5,502</u>	<u>496,065</u>	<u>3</u>	<u>15</u>	<u>22</u>	<u>501,607</u>
Operating income (loss)	<u>(2,743)</u>	<u>182,115</u>	<u>47</u>	<u>756</u>	<u>202</u>	<u>180,377</u>
Nonoperating revenues (expenses):						
Investment earnings	0	0	36	188	26	250
Interest expense	0	0	0	(201)	(25)	(226)
Other revenues (expenses)	0	(12,124)	0	0	0	(12,124)
Total nonoperating revenues (expenses)	<u>0</u>	<u>(12,124)</u>	<u>36</u>	<u>(13)</u>	<u>1</u>	<u>(12,100)</u>
Net income (loss)	<u>(2,743)</u>	<u>169,991</u>	<u>83</u>	<u>743</u>	<u>203</u>	<u>168,277</u>
Transfers in	2,355	0	0	0	0	2,355
Transfers out	0	(171,925)	0	(41,039)	0	(212,964)
Change in net position	<u>(388)</u>	<u>(1,934)</u>	<u>83</u>	<u>(40,296)</u>	<u>203</u>	<u>(42,332)</u>
Net position - beginning	(24,365)	(7,079)	21	60,127	3,174	31,878
Revisions to beginning net position	0	(56)	0	0	0	(56)
Net position - beginning (restated)	<u>(24,365)</u>	<u>(7,135)</u>	<u>21</u>	<u>60,127</u>	<u>3,174</u>	<u>31,822</u>
Net position - ending	<u>\$ (24,753)</u>	<u>\$ (9,069)</u>	<u>\$ 104</u>	<u>\$ 19,831</u>	<u>\$ 3,377</u>	<u>\$ (10,510)</u>

Listing of Internal Service Funds

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
Wildlife
Personnel Services
GIS Services

State of Kansas
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June 30, 2018

Combining Statement of Net Position - Internal Service Funds

June 30, 2018

(expressed in thousands)

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance	Architectural Services
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 2,700	\$ 11,960	\$ 773	\$ 12,074	\$ 49	\$ 10,728	\$ 2,460
Cash and cash equivalents, restricted	0	27,627	0	0	0	0	0
Receivables, net	157	9	0	1,359	0	0	0
Inventories	0	0	1,068	5,095	0	0	0
Total current assets	<u>2,857</u>	<u>39,596</u>	<u>1,841</u>	<u>18,528</u>	<u>49</u>	<u>10,728</u>	<u>2,460</u>
Noncurrent assets:							
Capital assets not being depreciated	0	0	0	0	0	5,646	0
Capital assets (net of accumulated depreciation)	1,314	2,537	272	4,527	0	49,093	290
Total noncurrent assets	<u>1,314</u>	<u>2,537</u>	<u>272</u>	<u>4,527</u>	<u>0</u>	<u>54,739</u>	<u>290</u>
Total assets	<u>4,171</u>	<u>42,133</u>	<u>2,113</u>	<u>23,055</u>	<u>49</u>	<u>65,467</u>	<u>2,750</u>
LIABILITIES							
Current liabilities:							
Accounts payable and other liabilities	148	298	153	945	28	721	94
Due to other funds	0	0	0	283	0	0	0
Short-term compensated absences	116	313	0	344	0	304	74
Short-term portion of long-term liabilities	0	28,425	0	0	0	2,114	0
Total current liabilities	<u>264</u>	<u>29,036</u>	<u>153</u>	<u>1,572</u>	<u>28</u>	<u>3,139</u>	<u>168</u>
Noncurrent liabilities:							
Compensated absences	22	60	0	66	0	58	14
Claims and judgments	0	298	0	0	0	0	0
Bonds, notes and loans payable	0	0	0	0	0	34,506	0
Advances from other funds	0	0	0	330	0	0	0
Total noncurrent liabilities	<u>22</u>	<u>358</u>	<u>0</u>	<u>396</u>	<u>0</u>	<u>34,564</u>	<u>14</u>
Total liabilities	<u>286</u>	<u>29,394</u>	<u>153</u>	<u>1,968</u>	<u>28</u>	<u>37,703</u>	<u>182</u>
NET POSITION							
Net investment in capital assets	1,314	2,537	272	4,527	0	18,119	290
Unrestricted	2,571	10,202	1,688	16,560	21	9,645	2,278
Total net position	<u>\$ 3,885</u>	<u>\$ 12,739</u>	<u>\$ 1,960</u>	<u>\$ 21,087</u>	<u>\$ 21</u>	<u>\$ 27,764</u>	<u>\$ 2,568</u>

State of Kansas
Other Supplementary Information
June 30, 2018

Combining Statement of Net Position - Internal Service Funds - Concluded

June 30, 2018

(expressed in thousands)

	State Workers Compensation	Capitol Security	Wildlife	Personnel Services	GIS Services	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 22,480	\$ 962	\$ 151	\$ 42	\$ 1,645	\$ 66,024
Cash and cash equivalents, restricted	0	0	0	0	0	27,627
Receivables, net	0	0	0	0	3	1,528
Inventories	0	0	0	0	0	6,163
Total current assets	22,480	962	151	42	1,648	101,342
Noncurrent assets:						
Infrastructure	0	0	0	0	0	5,646
Capital assets (net of accumulated depreciation)	0	0	8	0	0	58,041
Total noncurrent assets	0	0	8	0	0	63,687
Total assets	22,480	962	159	42	1,648	165,029
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	94	32	0	0	85	2,598
Due to other funds	0	0	0	0	0	283
Short-term compensated absences	53	6	0	0	0	1,210
Short-term portion of long-term liabilities	10,532	0	0	0	0	41,071
Total current liabilities	10,679	38	0	0	85	45,162
Noncurrent liabilities:						
Compensated absences	10	1	0	0	0	231
Claims and judgements	51,992	0	0	0	0	52,290
Bonds, notes and loans payable	0	0	0	0	0	34,506
Advances from other funds	0	0	0	0	0	330
Total noncurrent liabilities	52,002	1	0	0	0	87,357
Total liabilities	62,681	39	0	0	85	132,519
NET POSITION						
Net investment in capital assets	0	0	8	0	0	27,067
Unrestricted	(40,201)	923	151	42	1,563	5,443
Total net position	\$ (40,201)	\$ 923	\$ 159	\$ 42	\$ 1,563	\$ 32,510

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June 30, 2018

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Position - Internal Service Funds
For the Fiscal Year Ended June 30, 2018**
(expressed in thousands)

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance	Architectural Services
Operating revenues:							
Charges for services	\$ 9,902	\$ 13,099	\$ 291	\$ 42,281	\$ 98	\$ 22,791	\$ 2,160
Other revenue	0	0	1,618	0	0	219	0
Total operating revenues	<u>9,902</u>	<u>13,099</u>	<u>1,909</u>	<u>42,281</u>	<u>98</u>	<u>23,010</u>	<u>2,160</u>
Operating expenses:							
Salaries and wages	2,253	5,219	0	6,374	0	7,274	1,414
Supplies and services	6,231	5,485	756	29,907	96	6,445	553
Depreciation	159	5,073	0	1,880	0	2,612	35
Insurance claims and expenses	0	0	0	0	0	0	0
Other expenses	4	5,386	0	46	0	0	0
Total operating expenses	<u>8,647</u>	<u>21,163</u>	<u>756</u>	<u>38,207</u>	<u>96</u>	<u>16,331</u>	<u>2,002</u>
Operating income (loss)	<u>1,255</u>	<u>(8,064)</u>	<u>1,153</u>	<u>4,074</u>	<u>2</u>	<u>6,679</u>	<u>158</u>
Nonoperating revenues (expenses):							
Investment earnings	0	0	0	0	0	0	0
Interest expense	0	0	0	0	0	(1,719)	0
Other expenses	0	0	0	0	0	(2)	0
Total nonoperating revenues (expenses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,721)</u>	<u>0</u>
Net income (loss)	<u>1,255</u>	<u>(8,064)</u>	<u>1,153</u>	<u>4,074</u>	<u>2</u>	<u>4,958</u>	<u>158</u>
Transfers in	0	1,098	0	0	0	0	0
Transfers out	(152)	(77)	(1,100)	(379)	0	(4,173)	(71)
Change in net position	<u>1,103</u>	<u>(7,043)</u>	<u>53</u>	<u>3,695</u>	<u>2</u>	<u>785</u>	<u>87</u>
Net position - beginning	2,782	19,782	1,907	17,392	19	26,979	2,481
Net position - ending	<u>\$ 3,885</u>	<u>\$ 12,739</u>	<u>\$ 1,960</u>	<u>\$ 21,087</u>	<u>\$ 21</u>	<u>\$ 27,764</u>	<u>\$ 2,568</u>

State of Kansas
Other Supplementary Information
June 30, 2018

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Position - Internal Service Funds - Concluded
For the Fiscal Year Ended June 30, 2018**
(expressed in thousands)

	State Workers Compensation	Capitol Security	Wildlife	Personnel Services	GIS Services	Total
Operating revenues:						
Charges for services	\$ 0	\$ 678	\$ 70	\$ 16	\$ 540	\$ 91,926
Other revenue	26,709	0	0	0	500	29,046
Total operating revenues	26,709	678	70	16	1,040	120,972
Operating expenses:						
Salaries and wages	1,229	375	0	12	0	24,150
Supplies and services	1,640	55	6	0	399	51,573
Depreciation	0	0	1	0	0	9,760
Insurance claims and expenses	14,555	0	0	0	0	14,555
Other expenses	0	0	0	0	0	5,436
Total operating expenses	17,424	430	7	12	399	105,474
Operating income (loss)	9,285	248	63	4	641	15,498
Nonoperating revenues (expenses):						
Investment earnings	136	0	0	0	0	136
Interest expense	0	0	0	0	0	(1,719)
Other expenses	(331)	0	0	0	(85)	(418)
Total nonoperating revenues (expenses)	(195)	0	0	0	(85)	(2,001)
Net income (loss)	9,090	248	63	4	556	13,497
Transfers in	0	0	0	0	0	1,098
Transfers out	0	0	0	0	(46)	(5,998)
Change in net position	9,090	248	63	4	510	8,597
Net position - beginning	(49,291)	675	96	38	1,053	23,913
Net position - ending	\$ (40,201)	\$ 923	\$ 159	\$ 42	\$ 1,563	\$ 32,510

**STATISTICAL
SECTION**

State of Kansas
Statistical Section
June 30, 2018

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These schedules contain trend information to help the reader understand how the State's financial performance and well-being have changed over time.	
Revenue Capacity	165
These schedules contain information to help the reader assess the state's most significant revenue source, the income and sales taxes.	
Debt Capacity	166
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.	
Demographic and Economic Information	167
These schedules offer demographic and economic indicators to help the reader understand the environment within which the State's financial activities take place.	
Operating Information	169
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.

State of Kansas
Statistical Section
June 30, 2018

Financial Trends
Net Position by Fund Type
Last Ten Fiscal Years
(expressed in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities										
Net investment in capital assets	\$ 9,509,615	\$ 9,601,110	\$ 9,219,935	\$ 9,279,477	\$ 9,323,734	\$ 9,791,994	\$ 9,664,367	\$ 9,683,734	\$ 10,103,755	\$ 10,188,970
Restricted	143,946	209,443	869,678	920,031	1,162,509	1,238,216	1,110,905	1,123,007	952,208	1,269,556
Unrestricted	105,512	155,995	122,947	286,900	512,524	(45,468)	(2,041,601)	(3,127,429)	(3,205,914)	(2,617,412)
Total governmental activities net position	<u>\$ 9,759,073</u>	<u>\$ 9,966,548</u>	<u>\$ 10,212,560</u>	<u>\$ 10,486,408</u>	<u>\$ 10,998,767</u>	<u>\$ 10,984,742</u>	<u>\$ 8,733,671</u>	<u>\$ 7,679,312</u>	<u>\$ 7,850,049</u>	<u>\$ 8,841,114</u>
Business-type activities										
Net investment in capital assets	\$ 478	\$ 8,351	\$ 6,194	\$ 54,273	\$ 43,844	\$ 299	\$ 320	\$ 675	\$ 580	\$ 528
Restricted	779,479	433,809	466,317	474,957	496,714	536,957	1,021,260	1,168,392	1,264,332	1,395,748
Unrestricted	(6,394)	118,772	90,826	171,381	215,568	331,144	(6,523)	(8,024)	(8,839)	(11,033)
Total business-type activities net position	<u>\$ 773,563</u>	<u>\$ 560,932</u>	<u>\$ 563,337</u>	<u>\$ 700,611</u>	<u>\$ 756,126</u>	<u>\$ 868,400</u>	<u>\$ 1,015,057</u>	<u>\$ 1,161,043</u>	<u>\$ 1,256,073</u>	<u>\$ 1,385,243</u>
Primary government										
Net investment in capital assets	\$ 9,510,093	\$ 9,609,461	\$ 9,226,129	\$ 9,333,750	\$ 9,367,578	\$ 9,792,293	\$ 9,664,687	\$ 9,684,409	\$ 10,104,335	\$ 10,189,498
Restricted	923,425	643,252	1,335,995	1,394,988	1,659,223	1,775,173	2,132,165	2,291,399	2,216,540	2,665,304
Unrestricted	99,118	274,767	213,773	458,281	728,092	285,676	(2,048,124)	(3,135,453)	(3,214,753)	(2,628,445)
Total primary government net position	<u>\$ 10,532,636</u>	<u>\$ 10,527,480</u>	<u>\$ 10,775,897</u>	<u>\$ 11,187,019</u>	<u>\$ 11,754,893</u>	<u>\$ 11,853,142</u>	<u>\$ 9,748,728</u>	<u>\$ 8,840,355</u>	<u>\$ 9,106,122</u>	<u>\$ 10,226,357</u>

State of Kansas
Statistical Section
June 30, 2018

Financial Trends
Changes in Net Position Last Ten Fiscal Years
(expressed in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Expenses										
Governmental activities:										
General government	\$ 955,701	\$ 851,373	\$ 1,084,268	\$ 1,199,474	\$ 822,456	\$ 778,620	\$ 898,782	\$ 729,837	\$ 678,024	\$ 799,293
Human resources	3,691,535	3,785,792	4,053,711	2,736,768	2,702,954	2,614,673	2,660,656	2,648,404	2,683,036	2,800,874
Education	5,183,287	5,028,780	5,091,475	5,014,709	5,130,332	5,209,211	5,364,450	6,095,595	5,410,778	5,754,793
Public safety	754,869	786,682	711,734	589,676	610,878	589,939	576,079	582,235	573,067	608,472
Agriculture and natural resources	126,940	109,672	105,710	120,242	124,244	122,995	119,297	131,105	133,706	144,841
Highways and other transportation	437,099	516,629	885,153	1,006,995	928,140	863,577	887,297	824,742	729,852	625,195
Health and environment	229,198	232,955	258,964	1,425,544	2,129,953	2,285,022	2,358,837	2,566,146	2,593,728	2,725,566
Economic development	0	0	0	0	0	0	0	0	0	0
Interest expense	151,702	144,125	144,443	152,361	139,500	138,718	123,273	146,939	179,304	172,560
Total governmental activities expenses	<u>11,530,331</u>	<u>11,456,008</u>	<u>12,335,458</u>	<u>12,245,769</u>	<u>12,588,457</u>	<u>12,602,755</u>	<u>12,988,671</u>	<u>13,725,003</u>	<u>12,981,495</u>	<u>13,631,594</u>
Business-type activities:										
Water pollution and safety	35,479	33,366	44,780	59,646	36,301	26,955	26,434	28,036	30,608	16,003
Health care stabilization	45,641	30,347	30,286	6,442	37,160	29,729	88,338	38,675	38,878	41,576
Employment security	735,844	1,381,286	971,158	736,736	527,345	369,720	292,794	239,649	194,032	163,254
Workers' compensation	4,511	4,540	5,217	4,718	3,723	6,734	6,946	3,725	3,710	5,502
Lottery	165,048	184,080	199,015	335,018	465,555	444,796	459,748	475,860	473,074	496,065
Intergovernmental transfer program	102	139	170	695	0	1,271	80	346	267	219
Transportation revolving loans	3,384	4,561	3,429	3,488	3,908	2,883	2,052	1,182	812	47
Total business-type activities expenses	<u>990,009</u>	<u>1,638,319</u>	<u>1,254,055</u>	<u>1,146,743</u>	<u>1,073,992</u>	<u>882,088</u>	<u>876,392</u>	<u>787,473</u>	<u>741,381</u>	<u>722,666</u>
Total primary government expenses	<u>\$ 12,520,340</u>	<u>\$ 13,094,327</u>	<u>\$ 13,589,513</u>	<u>\$ 13,392,512</u>	<u>\$ 13,662,449</u>	<u>\$ 13,484,843</u>	<u>\$ 13,865,063</u>	<u>\$ 14,512,476</u>	<u>\$ 13,722,876</u>	<u>\$ 14,354,260</u>
Program Revenues										
Governmental activities:										
General government	\$ 322,789	\$ 344,150	\$ 342,849	\$ 446,341	\$ 327,902	\$ 379,499	\$ 356,922	\$ 357,970	\$ 369,458	\$ 353,800
Human resources	2,609,468	2,839,446	2,988,161	983,660	1,003,914	933,347	829,528	847,019	837,023	839,476
Education	425,331	747,276	692,079	484,634	488,135	480,375	484,378	477,369	487,926	484,530
Public safety	266,768	350,512	312,685	175,242	173,663	142,821	115,526	127,485	128,689	133,543
Agriculture and natural resources	72,042	74,804	80,324	92,906	103,625	90,502	96,057	105,772	106,658	127,643
Highways and other transportation	579,323	690,597	850,859	672,116	639,443	730,609	618,334	574,560	643,674	622,867
Health and environment	138,245	159,009	190,052	1,939,093	1,911,061	2,115,889	2,135,875	2,258,274	2,299,910	2,347,914
Total governmental activities revenues	<u>4,413,966</u>	<u>5,205,794</u>	<u>5,457,009</u>	<u>4,793,992</u>	<u>4,647,743</u>	<u>4,873,042</u>	<u>4,636,620</u>	<u>4,748,449</u>	<u>4,873,338</u>	<u>4,909,773</u>
Business-type activities:										
Water pollution and safety	34,029	67,258	46,056	36,902	51,651	64,757	51,531	33,847	36,523	34,879
Health care stabilization	43,108	26,719	31,570	29,350	27,027	25,348	27,372	27,575	28,463	28,121
Employment security	220,886	310,145	401,477	435,729	422,553	409,368	426,989	345,567	262,321	283,318
Workers' compensation	4,049	3,148	9,004	4,932	1,779	5,016	7,613	3,647	3,756	2,583
Lottery	232,139	258,494	273,995	499,479	610,317	598,731	615,051	636,389	629,148	673,457
Intergovernmental transfer program	197	0	0	0	0	0	0	0	0	50
Transportation revolving fund	901	674	730	815	2,214	497	326	308	281	224
Total business-type activities revenues	<u>535,309</u>	<u>666,438</u>	<u>762,832</u>	<u>1,007,207</u>	<u>1,115,541</u>	<u>1,103,717</u>	<u>1,128,882</u>	<u>1,047,333</u>	<u>960,492</u>	<u>1,022,632</u>
Total primary government revenues	<u>\$ 4,949,275</u>	<u>\$ 5,872,232</u>	<u>\$ 6,219,841</u>	<u>\$ 5,801,199</u>	<u>\$ 5,763,284</u>	<u>\$ 5,976,759</u>	<u>\$ 5,765,502</u>	<u>\$ 5,795,782</u>	<u>\$ 5,833,830</u>	<u>\$ 5,932,405</u>
Net (Expense) Revenue										
Government activities	\$ (7,116,365)	\$ (6,250,214)	\$ (6,878,449)	\$ (7,451,777)	\$ (7,940,714)	\$ (7,729,713)	\$ (8,352,051)	\$ (8,976,554)	\$ (8,108,157)	\$ (8,721,821)
Business-type activities	(454,700)	(971,881)	(491,223)	(139,536)	41,549	221,629	252,490	259,860	219,111	299,966
Total primary net (expense) revenue	<u>\$ (7,571,065)</u>	<u>\$ (7,222,095)</u>	<u>\$ (7,369,672)</u>	<u>\$ (7,591,313)</u>	<u>\$ (7,899,165)</u>	<u>\$ (7,508,084)</u>	<u>\$ (8,099,561)</u>	<u>\$ (8,716,694)</u>	<u>\$ (7,889,046)</u>	<u>\$ (8,421,855)</u>

State of Kansas
Statistical Section
June 30, 2018

Financial Trends
Revenues and Other Changes in Net Position
Last Ten Fiscal Years
(Expressed in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Governmental activities:										
Taxes										
Property tax	\$ 631,800	\$ 625,862	\$ 610,463	\$ 626,121	\$ 641,553	\$ 623,983	\$ 644,964	\$ 646,985	\$ 669,275	\$ 698,404
Income and inheritance tax	2,997,595	2,562,404	3,033,559	3,203,760	3,382,048	2,610,490	2,864,790	2,633,381	2,719,177	3,996,581
Sales and excise tax	2,883,012	2,764,218	3,289,025	3,424,419	3,510,478	3,599,390	3,607,478	3,758,095	3,810,037	3,901,264
Gross receipts tax	138,532	139,813	161,280	163,862	177,215	198,479	215,145	299,421	311,858	407,329
Investment earnings	17,811	30,229	48,684	(19,548)	58,671	42,199	7,805	15,855	23,896	32,232
Other revenue	232,779	278,082	237,319	313,929	489,719	402,911	474,171	484,227	540,855	521,597
Transfers	78,177	81,784	69,530	122,855	165,514	171,891	164,266	169,929	160,358	206,487
Total governmental activities revenues	6,979,706	6,482,392	7,449,860	7,835,398	8,425,198	7,649,343	7,978,619	8,007,893	8,235,456	9,763,894
Business-type activities: ¹										
Investment earnings	37,890	32,033	39,149	21,265	6,298	12,681	14,731	29,373	14,769	17,862
Other revenue	182,920	809,001	524,020	378,400	188,955	96,708	49,973	26,682	21,508	17,885
Transfers	(78,177)	(81,784)	(69,530)	(122,855)	(165,514)	(171,891)	(164,266)	(169,929)	(160,358)	(206,487)
Total business-type activities revenues	142,633	759,250	493,639	276,810	29,739	(62,502)	(99,562)	(113,874)	(124,081)	(170,740)
Total primary government revenues	\$ 7,122,339	\$ 7,241,642	\$ 7,943,499	\$ 8,112,208	\$ 8,454,937	\$ 7,586,841	\$ 7,879,057	\$ 7,894,019	\$ 8,111,375	\$ 9,593,154
Change in Net Position										
Governmental activities	\$ (136,659)	\$ 232,178	\$ 571,411	\$ 383,621	\$ 484,484	\$ (80,370)	\$ (373,432)	\$ (968,661)	\$ 127,299	\$ 1,042,073
Business-type activities	(312,067)	(212,631)	2,416	137,274	71,288	159,127	152,928	145,986	95,030	129,226
Total primary government	\$ (448,726)	\$ 19,547	\$ 573,827	\$ 520,895	\$ 555,772	\$ 78,757	\$ (220,504)	\$ (822,675)	\$ 222,329	\$ 1,171,299

Financial Trends
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(expressed in thousands)

	<u>2009</u>	<u>2010</u>
General Fund		
Reserved	\$ 24,663	\$ 29,680
Unreserved	(201,007)	(278,000)
Total general fund	<u>\$ (176,344)</u>	<u>\$ (248,320)</u>
Transportation Fund		
Reserved	\$ 1,022,259	\$ 781,308
Unreserved	(562,388)	(524,154)
Total transportation fund	<u>\$ 459,871</u>	<u>\$ 257,154</u>
Transportation - Capital Projects Fund		
Reserved	\$ 0	\$ 0
Unreserved	(885,715)	(664,315)
Total transportation - capital projects fund	<u>\$ (885,715)</u>	<u>\$ (664,315)</u>
Health Policy Authority Fund		
Reserved	\$ 7,964	\$ 5,204
Unreserved	8,722	4,312
Total health policy authority fund	<u>\$ 16,686</u>	<u>\$ 9,516</u>
All Other Governmental Funds		
Reserved reported in:		
Reserved for debt service	\$ 165,598	\$ 209,443
Reserved for encumbrances	237,604	199,753
Reserved for advances to other funds	78,717	73,581
Unreserved	251,858	326,572
Total all other governmental funds	<u>\$ 733,777</u>	<u>\$ 809,349</u>

In FY 2011, the State implemented GASB Statement No. 54; presentation is not comparable to prior years.

State of Kansas
Statistical Section
June 30, 2018

Financial Trends

Fund Balances, Governmental Funds

Last Ten Fiscal Years

(expressed in thousands)

	2011	2012	2013	2014	2015	2016	2017	2018
General Fund								
Nonspendable:								
Inventory	\$ 6,620	\$ 7,593	\$ 7,446	\$ 7,851	\$ 5,308	\$ 4,754	\$ 4,154	\$ 4,958
Unassigned	(182,683)	207,530	390,890	(5,376)	(285,048)	(509,152)	(518,746)	59,068
Total General Fund	<u>\$ (176,063)</u>	<u>\$ 215,123</u>	<u>\$ 398,336</u>	<u>\$ 2,475</u>	<u>\$ (279,740)</u>	<u>\$ (504,398)</u>	<u>\$ (514,592)</u>	<u>\$ 64,026</u>
Social Services Fund								
Nonspendable:								
Inventory	\$ 0	\$ 0	\$ 0	\$ 23	\$ 1,346	\$ 1,320	\$ 1,404	\$ 307
Restricted for:								
Human resources	56,200	56,773	61,041	58,794	22,029	55,090	50,526	64,640
Total Social Services Fund	<u>\$ 56,200</u>	<u>\$ 56,773</u>	<u>\$ 61,041</u>	<u>\$ 58,817</u>	<u>\$ 23,375</u>	<u>\$ 56,410</u>	<u>\$ 51,930</u>	<u>\$ 64,947</u>
Health and Environment Fund¹								
Restricted for:								
Health and Environment	\$ 0	\$ 101,844	\$ 138,777	\$ 187,268	\$ 198,181	\$ 186,382	\$ 102,385	\$ 104,438
Total Health and Environment Fund	<u>\$ 0</u>	<u>\$ 101,844</u>	<u>\$ 138,777</u>	<u>\$ 187,268</u>	<u>\$ 198,181</u>	<u>\$ 186,382</u>	<u>\$ 102,385</u>	<u>\$ 104,438</u>
Education Fund²								
Restricted for:								
Education	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,568	\$ 5,688	\$ 10,434	\$ 8,097
Total Education Fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,568</u>	<u>\$ 5,688</u>	<u>\$ 10,434</u>	<u>\$ 8,097</u>
Transportation Fund								
Nonspendable:								
Inventory	\$ 23,968	\$ 24,940	\$ 24,363	\$ 23,983	\$ 23,465	\$ 24,598	\$ 25,615	\$ 24,266
Long-term receivable	0	0	0	0	1,495	9,721	8,597	7,572
Prepaid Insurance	0	0	0	1,096	391	27	0	0
Restricted for:								
Highways and other transportation	248,808	102,629	292,903	432,854	387,128	423,250	203,607	457,590
Total Transportation Fund	<u>\$ 272,776</u>	<u>\$ 127,569</u>	<u>\$ 317,266</u>	<u>\$ 457,933</u>	<u>\$ 412,479</u>	<u>\$ 457,596</u>	<u>\$ 237,819</u>	<u>\$ 489,428</u>
Transportation-Capital Projects Fund³								
Unassigned	\$ (379,464)	\$ (504,312)	\$ (321,812)	\$ (383,215)	\$ 0	\$ 0	\$ 0	\$ 0
Total Transportation - Capital Projects Fund	<u>\$ (379,464)</u>	<u>\$ (504,312)</u>	<u>\$ (321,812)</u>	<u>\$ (383,215)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Health Policy Authority¹								
Unassigned	\$ (16,319)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Health Policy Authority Fund	<u>\$ (16,319)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
All Other Governmental Funds								
Nonspendable:								
Long-Term Receivables	\$ 0	\$ 6,275	\$ 4,487	\$ 4,153	\$ 4,085	\$ 4,493	\$ 0	\$ 0
Inventory	0	4	0	3,613	4,121	3,254	3,408	4,281
Restricted for:								
Capital projects	33,134	67,654	52,789	43,137	44,972	39,338	42,666	54,207
Debt Service	101,204	82,836	60,756	59,912	158,784	154,852	125,371	127,401
General government	243,636	350,578	355,907	309,541	221,805	190,921	227,228	235,985
Human resources	22,574	24,698	34,929	51,847	51,649	35,123	40,078	56,614
Education	8,959	15,669	17,837	16,255	7,531	7,032	7,106	6,595
Public safety	40,305	44,056	61,931	68,200	67,616	69,307	77,103	71,910
Agriculture and natural resources	47,663	53,988	56,521	41,306	62,678	67,970	68,108	79,132
Highways and other transportation	25,902	19,306	19,348	29,014	35,748	42,906	48,874	55,217
Health and environment	41,293	0	0	0	0	0	0	0
Assigned to:								
Debt Service	106,038	113,867	109,231	121,317	0	0	0	0
Unassigned	0	0	0	0	(147,000)	(147,004)	0	0
Total All Other Governmental Funds	<u>\$ 670,708</u>	<u>\$ 778,931</u>	<u>\$ 773,736</u>	<u>\$ 748,295</u>	<u>\$ 511,989</u>	<u>\$ 468,192</u>	<u>\$ 639,942</u>	<u>\$ 691,342</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.

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

² This fund is a major fund starting in fiscal year 2015, all prior years is included in All Other Government Funds.

³ This fund is not a major fund starting in fiscal year 2015, starting in 2015 included in All Other Governmental Funds.

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Financial Trends

Changes in Fund Balances, Governmental Funds

Last Ten Fiscal Years

(expressed in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenues										
Taxes	\$ 6,625,408	\$ 6,207,094	\$ 7,032,605	\$ 7,474,894	\$ 7,637,721	\$ 7,144,913	\$ 7,269,247	\$ 7,373,018	\$ 7,518,125	\$ 8,904,737
Charges for services	845,364	704,012	752,092	758,369	871,562	922,162	829,508	871,358	892,647	921,792
Intergovernmental (operating and capital grants)	3,580,727	4,486,248	4,723,639	3,955,974	3,780,418	3,955,175	3,807,458	3,867,624	3,983,564	3,958,728
Investment earnings	17,821	29,636	42,170	9,394	31,200	47,697	8,689	19,127	20,207	29,588
Other revenues (includes extraordinary items)	240,323	260,349	213,449	319,926	435,276	382,441	464,638	432,119	520,482	507,340
Total revenues	11,309,643	11,687,339	12,763,955	12,518,557	12,756,177	12,452,388	12,379,540	12,563,246	12,935,025	14,322,185
Expenditures										
General government	1,082,627	991,136	1,052,688	1,120,050	668,180	743,637	895,287	961,724	656,778	682,412
Human resources	3,697,593	3,777,533	4,040,706	2,741,155	2,697,933	2,632,279	2,678,419	2,657,162	2,689,000	2,786,742
Education	5,185,294	5,026,615	5,090,986	5,015,177	5,132,786	5,207,568	5,363,336	6,097,651	5,409,503	5,755,270
Public safety	755,762	779,411	720,548	614,237	631,164	635,851	583,720	642,870	573,356	598,532
Agriculture and natural resources	126,182	108,018	114,677	124,041	130,156	128,294	131,411	132,893	136,421	145,712
Highways and other transportation	1,010,200	988,028	1,022,332	1,101,841	1,042,855	1,026,126	1,158,149	1,123,268	1,002,043	765,556
Health and environment	227,159	233,173	259,139	1,426,387	2,134,837	2,286,017	2,359,955	2,565,616	2,587,752	2,723,561
Debt service:										
Principal	134,367	190,938	187,832	204,455	238,498	222,209	170,094	199,563	211,470	226,792
Interest	146,375	141,200	153,293	146,679	140,544	139,887	135,803	183,145	206,814	203,537
Total expenditures	12,365,559	12,236,052	12,642,201	12,494,022	12,816,953	13,021,868	13,476,174	14,563,892	13,473,137	13,888,114
Excess of revenues over (under) expenditures	(1,055,916)	(548,713)	121,754	24,535	(60,776)	(569,480)	(1,096,634)	(2,000,646)	(538,112)	434,071
Other Financing Sources (Uses)										
Issuance of bonds	117,248	561,972	370,053	178,448	554,016	59,963	705,645	1,421,780	147,000	200,000
Issuance of notes payable	0	0	0	0	0	0	3,858	0	0	0
Issuance of capital leases	0	0	0	0	0	11,777	12,550	66,961	9,944	8,038
Premium on issuance of debt	0	0	0	0	0	5,644	83,565	122,880	51,500	42,212
Issuance of refunding bonds	0	0	0	0	0	58,550	191,290	190,875	5,890	0
Premium on issuance of refunding debt	0	0	0	0	0	7,909	32,882	0	0	0
Payment to refunded bonds escrow agent	0	0	0	0	0	(53,095)	(223,238)	(223,778)	(30,298)	0
Transfers, net	84,246	86,169	75,071	129,104	170,825	177,054	161,739	181,453	166,526	211,387
Other financing sources (uses)	0	0	0	0	(100,489)	0	0	0	0	0
Extraordinary items	0	(87,359)	0	0	0	0	0	0	0	0
Total other financing sources (uses)	201,494	560,782	445,124	307,552	624,352	267,802	968,291	1,760,171	350,562	461,637
Net change in fund balances	\$ (854,422)	\$ 12,069	\$ 566,878	\$ 332,087	\$ 563,576	\$ (301,678)	\$ (128,343)	\$ (240,475)	\$ (187,550)	\$ 895,708
Debt service as a percentage of noncapital expenditures	2.27%	2.71%	2.70%	2.81%	3.02%	2.85%	2.35%	2.71%	3.19%	3.18%

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Revenue Capacity
Personal Income by Industry, Last Ten Calendar Years
(expressed in thousands)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Private Earning										
Agricultural, Forestry, Fishing and Hunting	\$ 285,723	\$ 304,439	\$ 317,562	\$ 476,468	\$ 424,247	\$ 509,533	\$ 566,214	\$ 704,803	\$ 459,943	\$ 427,448
Mining	1,288,477	1,549,581	1,119,291	1,312,659	2,450,391	2,363,628	2,250,743	2,367,335	1,969,502	1,227,827
Utilities	795,278	865,694	880,301	1,019,849	1,072,857	1,038,267	1,035,120	963,811	892,628	854,969
Construction	4,413,807	3,988,070	4,192,919	4,295,913	4,584,441	4,927,057	5,155,475	5,316,772	5,386,163	5,667,795
Manufacturing	12,736,605	11,899,007	11,217,913	12,245,199	12,858,450	12,975,820	12,586,349	12,716,447	12,139,158	12,460,616
Wholesale trade	4,657,163	4,436,794	4,549,753	4,622,713	4,804,592	4,893,810	5,129,704	5,111,042	5,075,305	5,092,875
Retail trade	4,920,439	4,540,800	4,893,380	5,070,180	5,137,811	5,276,719	5,306,422	5,511,376	5,584,989	5,492,437
Transportation and warehousing	2,970,686	2,850,770	2,824,582	3,035,855	3,383,190	3,471,380	3,527,677	3,628,316	4,304,914	4,951,775
Information	3,479,790	3,102,540	2,362,177	2,282,041	2,393,542	2,442,177	2,579,813	1,669,187	1,951,470	2,836,196
Finance and insurance	4,361,995	4,232,883	4,512,022	4,847,908	5,012,431	5,362,230	5,520,793	5,747,020	5,749,575	6,259,213
Real estate and rental and leasing	911,215	874,085	976,563	965,612	1,040,947	1,244,046	1,258,576	1,368,350	3,075,124	3,281,897
Professional, scientific, and technical services	5,215,212	5,252,448	5,294,398	5,437,098	5,606,490	5,966,214	6,190,944	6,638,906	7,255,278	7,446,156
Management of companies and enterprises	1,325,278	1,182,450	1,503,770	1,384,309	1,474,957	1,624,865	1,979,648	3,373,787	2,842,291	2,472,038
Administrative and waste management services	3,098,871	2,925,202	3,163,367	3,511,110	3,702,063	3,939,882	4,002,036	3,937,420	3,835,490	4,072,608
Educational services	617,913	658,248	684,460	720,020	761,842	785,353	823,275	860,898	839,841	882,978
Health care and social assistance	8,139,847	8,503,526	8,893,444	9,226,828	9,466,219	9,667,124	9,832,906	10,244,837	10,706,593	11,180,382
Arts, entertainment, and recreation	326,814	318,636	338,025	356,520	424,011	461,991	481,064	489,989	486,506	581,530
Accommodation and food services	2,102,920	2,018,859	2,114,290	2,158,100	2,318,669	2,364,565	2,496,760	2,659,544	2,776,777	2,718,521
Other services, except public administration	3,084,342	2,905,835	2,986,984	3,151,597	3,199,920	3,377,835	3,464,098	3,536,207	3,411,910	3,807,073
Government										
Federal, civilian	2,197,668	2,321,229	2,560,832	2,628,836	2,344,005	2,250,015	2,275,401	2,368,551	2,382,658	2,435,334
Military	2,844,514	3,143,234	3,490,732	3,739,591	2,886,228	2,761,891	2,712,249	2,609,762	2,510,669	2,484,301
State and local	10,333,042	10,770,093	10,799,866	10,961,004	11,282,155	11,309,364	11,633,575	11,695,808	12,278,513	12,416,135

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

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Debt Capacity

Long Term Obligations

Last Ten Fiscal Years

(Expressed in thousands)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Government Activities										
Revenue bonds payable (includes demand bonds)	\$ 2,744,828	\$ 2,861,825	\$ 3,077,604	\$ 3,066,913	\$ 2,726,723	\$ 2,681,470	\$ 3,292,111	\$ 4,603,952	\$ 4,554,120	\$ 4,543,721
Sales tax limited obligation	156,196	208,425	225,548	192,045	139,662	105,033	0	0	0	0
Note payable	26,655	25,843	20,031	18,399	63,100	15,350	18,093	17,047	13,722	11,932
Capital leases payable	130,533	138,821	129,089	114,926	97,515	91,027	80,809	137,708	138,422	136,728
Arbitrage rebate payable	385	400	827	136	136	190	184	237	23	23
Claims and judgements	85,920	87,216	88,797	88,501	102,385	154,457	148,976	119,145	117,482	110,980
Special assessment payable	0	0	0	0	0	0	0	0	2,342	2,341
Compensated absences	134,386	129,921	126,241	120,131	118,656	120,831	113,015	112,219	109,073	109,249
Other post employment benefits	26,626	36,270	47,188	51,998	55,079	58,631	59,504	4,266	0	55,638
Net pension liability	0	0	0	0	0	0	1,750,877	2,078,136	2,046,598	2,021,444
Pollution remediation	81,092	70,936	73,660	69,152	63,575	65,678	48,747	63,053	78,256	91,863
Total governmental activities	3,386,621	3,559,657	3,788,985	3,722,201	3,366,831	3,292,667	5,512,316	7,135,763	7,060,038	7,083,919
Business-Type Activities										
Revenue bonds payable	765,976	749,001	767,878	620,153	474,771	452,317	407,056	327,577	238,594	213,799
Note payable	0	0	0	0	0	0	0	0	0	0
Arbitrage rebate payable	2,885	1,254	173	176	196	190	237	340	295	56
Unemployment benefits loan	0	88,159	170,821	4,602	50,209	0	0	0	0	0
Claims and judgements	218,332	215,402	221,160	199,234	200,180	198,631	258,093	263,484	271,907	279,873
Compensated absences	72	68	73	68	75	89	92	92	95	105
Other post employment benefits	155	224	300	343	378	412	424	26	0	73
Net pension liability	0	0	0	0	0	0	5,520	6,475	6,472	6,459
Other	17,115	17,697	17,597	17,093	12,992	11,965	11,680	11,732	11,222	10,407
Total business-type activities	1,004,535	1,071,805	1,178,002	841,669	738,801	663,604	683,102	609,726	528,585	510,772
Component Units										
Revenue bonds payable	705,223	700,808	691,971	667,137	619,256	809,260	825,775	941,839	939,823	930,425
Note payable	146,517	0	0	0	0	0	0	0	0	0
Other component units of university system	0	174,530	217,034	263,592	262,421	333,000	406,927	790,803	750,454	752,267
Capital leases payable	14,147	14,568	13,616	11,761	11,991	9,380	7,752	6,500	7,125	70,145
Arbitrage rebate payable	123	98	51	46	49	51	404	29	39	20
Compensated absences	61,943	65,691	69,101	73,516	68,897	78,918	78,459	84,423	79,588	85,404
Other post employment benefits	20,068	30,404	41,794	48,078	56,415	64,993	71,015	1,816	508	40,023
Net pension liability	0	0	0	0	0	0	240,024	268,020	259,191	246,569
Pollution remediation	0	4,000	3,700	1,200	0	0	0	0	0	0
Other	111,701	110,928	61,395	54,711	48,676	252,759	221,062	208,246	184,423	170,567
Total component units	1,059,722	1,101,027	1,098,662	1,120,041	1,067,705	1,548,361	1,851,418	2,301,676	2,221,151	2,295,420
Total	\$ 5,450,878	\$ 5,732,489	\$ 6,065,649	\$ 5,683,911	\$ 5,173,337	\$ 5,504,632	\$ 8,046,836	\$ 10,047,165	\$ 9,809,774	\$ 9,890,111

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Demographic and Economic Information
Kansas Demographic Statistics
Last Ten Fiscal Years

Year	Population	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	K to 12 Public School Enrollment	Unemployment Rate
	(1)	(2)	(3)	(4)	(4)	(5)
2009	2,832,704	38,886	35.9	-	473,097	7.2%
2010	2,858,824	37,916	36.0	-	479,204	7.1%
2011	2,869,917	37,418	36.1	13.28	481,120	6.7%
2012	2,886,281	40,883	36.1	-	482,798	6.0%
2013	2,894,630	43,916	36.0	-	485,147	5.8%
2014	2,902,507	45,546	36.1	-	492,301	4.9%
2015	2,911,641	45,876	36.1	-	492,905	4.6%
2016	2,907,289	47,228	36.5	-	491,577	4.5%
2017	2,913,123	48,559	36.6	-	499,651	3.6%
2018	(6)	(6)	(6)	(6)	500,383	3.6%

Data Sources:

- (1) U.S. Department of Commerce, BEA Web Site:
<https://www.bea.gov/regional/bearfacts/action.cfm>
- (2) U.S. Department of Commerce, BEA Web Site:
<https://www.bea.gov/regional/bearfacts/action.cfm>
- (3) State Department of Health and Environment:
http://www.kdheks.gov/phi/AS_Tables/AS_2017_Tables_and_Figures/population/Table_B2.pdf
- (4) State Department of Education Web Site:
<http://www.ksde.org>
- (5) State Department of Labor, Kansas Labor Market Information Services Web Site:
<https://klic.dol.ks.gov/vosnet/analyzer/trend.aspx?session=labforce>
- (6) Information is not available at this time.

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June 30, 2018

Demographic and Economic Information

Principal Employers in Kansas

Current Year and Ten Years Ago

Employer	2018			2009		
	Local/Total Employees	Rank	Percentage of Total Kansas Employment	Local/Total Employees	Rank	Percentage of Total Kansas Employment
State Government (including Universities)	40,068 / 40,068	1	3.00%	22,375 / 22,375	1	1.57%
Wal-Mart Associates, Inc.	20,755 / 1,500,000	2	1.60%			
Spirit Aerosystems	11,500 / 15,500	3	0.90%	8,000 / 237,000	4	0.56%
University of Kansas Hospital Authority	9,500 / 9,500	4	0.70%	12,125 / 12,125	2	0.85%
Dillons Companies Inc.	9,500 / 431,000	5	0.70%			
Textron Aviation Inc.	9,000 / 35,000	6	0.70%			
USD 259 (Wichita Public Schools)	7,500 / 7,500	7	0.60%			
National Beef Packing Company	6,500 / 9,100	8	0.50%			
Sprint Corp.	6,500 / 30,000	9	0.50%	9,000 / 48,000	3	0.63%
USD 233 (Olathe Public Schools)	5,500 / 5,500	10	0.40%			
Embarq Corp.				5,000 / 22,500	5	0.35%
Via Christi Regional Medical Ctr.				4,000 / 11,000	7	0.28%
Hawker Beechcraft Corp.				3,000 / 8,000	8	0.21%
Royal Caribbean Cruises Ltd.				4,900 / 49,650	6	0.34%
Performance Contracting Inc.				2,900 / 4,000	9	0.20%
Stormont-Vail Healthcare Inc.				2,871 / 3,557	10	0.20%
Total	<u>126,493 / 2,083,338</u>		<u>9.60%</u>	<u>74,171 / 418,207</u>		<u>5.21%</u>

Source:

2018 from Kansas Department of Labor, Unemployment Insurance, ReferenceUSA.com, bloomberg.com, budget.ks.gov, and individual company websites.

2009 from State of Kansas, Comprehensive Annual Financial Report for Fiscal Year 2009

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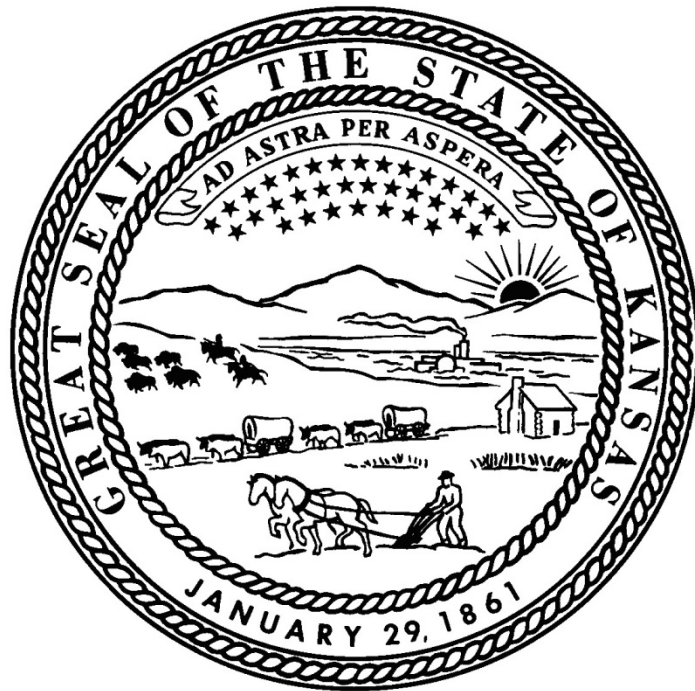
Operating Information

Full-time Equivalent State Government Employees by Function/Program

Last Ten Fiscal Years

Function/Program	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Government	5,849	5,835	5,846	5,490	5,275	5,287	5,275	5,433	5,468	4,798
Public Safety	5,710	5,573	5,520	5,415	5,445	5,400	5,426	5,253	5,225	4,706
Education	18,417	18,444	18,096	18,446	18,402	18,400	18,388	18,874	18,877	19,369
Transportation	3,160	3,165	3,164	2,968	2,880	2,737	2,737	2,516	2,516	1,846
Agriculture and Natural Resources	1,484	1,437	1,430	1,412	1,301	1,302	1,303	1,272	1,265	783
Human Resources	8,612	8,636	8,679	7,470	7,058	7,001	6,643	6,754	6,592	5,671
Total	43,232	43,090	42,735	41,201	40,361	40,127	39,772	40,102	39,943	37,173

Source: <http://www.kslegresearch.org/KLRD-web/Publications.html>



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**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated November 16, 2018. Our report includes a reference to other auditors who audited the financial statements of the various component units of the six state universities, the Kansas Development Finance Authority (KDFA), the Kansas Center for Entrepreneurship (KCE), the Kansas Turnpike Authority (KTA), the Information Network of Kansas, Inc. (INK), Kansas Lottery and the Kansas Universal Services Fund (reported within the State Regulatory Boards and Commission Fund) as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the various component units of the six state universities, KCE and INK were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying financial statement schedule of findings listed as 2018-001, 2018-002, 2018-003 and 2018-04 that we consider to be significant deficiencies.

Compliance and Other Matters

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

State of Kansas' Response to Findings

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Greenwood Village, Colorado
November 16, 2018

Section II – Financial Statement Findings

2018 – 001 – General Fund Passed Adjustment

Type of Finding:

- **Significant Deficiency in Internal Control over Financial Reporting**

Condition: In accordance with K.S.A. 75-3728, a DA-32 report is submitted by the Department for Children and Families to the DOA at the conclusion of each fiscal year. The DA-32 report outlines the beginning fiscal year receivable balance, current year activity, calculated ending balance and the estimated allowance for doubtful accounts related to federal grant programs.

Criteria or specific requirement: The State is required to report a receivable and related revenue due to its involvement in federal grant programs at the close of each fiscal year. Year-end financial reporting is the responsibility of the Financial Integrity Team within the Department of Administration (DOA). The State of Kansas utilizes a financial management system called the Statewide Management Accounting and Reporting Tool (SMART). When an agency (other than the DOA) utilizes the SMART system, the accounting clerk of that agency or another agency employee with specific rights in SMART, records and codes financial activity in SMART.

For the agencies that do not use SMART to record year-end financial activity such as accounts receivable, the Financial Integrity Team sends out a questionnaire at the end of each fiscal year to these agencies to collect all necessary financial information. The Financial Integrity Team inputs this information into SMART at a summary level for recording in the CAFR. Period end account reconciliations and accruals are made either by the Financial Integrity Team or by the underlying agency. Account reconciliations performed include the recording of accounts receivable and revenue. The Financial Integrity Team reviews back up documentation for agency calculated accruals.

Context: As of June 30, 2018, accounts receivable and revenue were overstated in the General Fund.

Effect: Accounts receivable and revenue could be materially misstated at the close of the fiscal year if journal entries are not properly recorded and approved.

Cause: The year-end journal entry made by the State to record the year-end accounts receivable and revenue included an amount, which is not eligible for reimbursement and should not have been recorded as accounts receivable and revenue. The result is \$3 million overstatement of the related accounts receivable and revenue within the General Fund. The State has elected to record as a passed adjustment as of June 30, 2018.

Recommendation: We recommend the State review, improve and document its procedures surrounding the year-end journal entry process, specifically, related to accounts receivable and related revenues.

Views of responsible officials and planned corrective actions:

Actions planned in response to finding: The State will be formulating and adopting a policy regarding accounts receivable in 2019. In conjunction with that, the related procedures in regard to the year-end journal entry process for accounts receivable will be reviewed, updated as necessary, and documented.

Section II – Financial Statement Findings

Responsible party: DeAnn Hill, Chief Financial Officer State of Kansas, Office of the Chief Financial Officer

Planned completion date for corrective action plan: June 30, 2019

Plan to monitor completion of corrective action plan: Ongoing; permanent part of process

2018 – 002 – Grant Accounts Receivable, Deferred Inflows of Resources and Revenue

Type of Finding:

- **Significant Deficiency in Internal Control over Financial Reporting**

Condition: In accordance with K.S.A. 75-3728, a DA-32 report is submitted by the Kansas Department of Aging and Disability Services to the DOA at the conclusion of each fiscal year. The DA-32 report outlines the beginning fiscal year receivable balance, current year activity, calculated ending balance and the estimated allowance for doubtful accounts related to federal grant programs.

Criteria or specific requirement: The State is required to report a receivable and related revenue due to its involvement in federal grant programs at the close of each fiscal year. Year-end financial reporting is the responsibility of the Financial Integrity Team within the Department of Administration (DOA). The State of Kansas utilizes a financial management system called the Statewide Management Accounting and Reporting Tool (SMART). When an agency (other than the DOA) utilizes the SMART system, the accounting clerk of that agency or another agency employee with specific rights in SMART, records and codes financial activity in SMART.

For the agencies that do not use SMART to record year-end financial activity such as accounts receivable, the Financial Integrity Team sends out a questionnaire at the end of each fiscal year to these agencies to collect all necessary financial information. The Financial Integrity Team inputs this information into SMART at a summary level for recording in the CAFR. Period end account reconciliations and accruals are made either by the Financial Integrity Team or by the underlying agency. Account reconciliations performed include the recording of accounts receivable and revenue. The Financial Integrity Team reviews back up documentation for agency calculated accruals.

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.

Context: As of June 30, 2018, revenue is overstated and deferred inflows of resources is understated in the Social Services Fund.

Effect: Deferred inflows of resources and revenue could be materially misstated at the close of the fiscal year if journal entries are not properly recorded and approved.

Cause: A journal entry was incorrectly made to record accounts receivable and revenue related to federal grant activity in the Social Services Fund. It was noted that approximately \$2.1 million recorded as revenue was not received within the period of availability or sixty days within year end. The result is an overstatement of revenue as June 30, 2018 in the Social Services Fund. The State has elected to record as a passed adjustment as of June 30, 2018.

Section II – Financial Statement Findings

Recommendation: We recommend the State review, improve and document its procedures surrounding the year-end journal entry process, specifically, related to accounts receivable and related revenues.

Views of responsible officials and planned corrective actions:

Actions planned in response to finding: The State will be formulating and adopting a policy regarding accounts receivable in 2019. In conjunction with that, the related procedures in regard to the year-end journal entry process for accounts receivable will be reviewed, updated as necessary, and documented.

Responsible party: DeAnn Hill, Chief Financial Officer State of Kansas, Office of the Chief Financial Officer

Planned completion date for corrective action plan: June 30, 2019

Plan to monitor completion of corrective action plan: Ongoing; permanent part of process

2018 – 003 – Health & Environment Receivable, Deferred Inflows of Resources and Revenue

Type of Finding:

- **Significant Deficiency in Internal Control over Financial Reporting**

Condition: At year-end, the State records accounts receivable and revenue based on information provided by Kansas Department of Health & Environment (KDHE) related to the Medicaid Drug Rebate Program. KDHE bills drug manufacturers once per quarter. The fiscal agent provides a drug rebate aging report on a quarterly basis.

Criteria or specific requirement: The State is required to report a receivable and related revenue due to its involvement in the Medicaid Drug Rebate Program at the close of each fiscal year. Year-end financial reporting is the responsibility of the Financial Integrity Team within the Department of Administration (DOA). The State of Kansas utilizes a financial management system called the Statewide Management Accounting and Reporting Tool (SMART). When an agency (other than the DOA) utilizes the SMART system, the accounting clerk of that agency or another agency employee with specific rights in SMART, records and codes financial activity in SMART.

For the agencies that do not use SMART to record year-end financial activity such as accounts receivable, the Financial Integrity Team sends out a questionnaire at the end of each fiscal year to these agencies to collect all necessary financial information. The Financial Integrity Team inputs this information into SMART at a summary level for recording in the CAFR. Period end account reconciliations and accruals are made either by the Financial Integrity Team or by the underlying agency. Account reconciliations performed include the recording of accounts receivable and revenue. The Financial Integrity Team reviews back up documentation for agency calculated accruals.

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 ninety days thereafter for the Department of Health and Environment Medicaid Drug Rebate Program.

Section II – Financial Statement Findings

Context: As of June 30, 2018, revenue was overstated and deferred inflows of resources was understated in the Health & Environment Fund.

Effect: Accounts receivable, deferred inflows of resources and revenue can be materially misstated at the close of the fiscal year if journal entries are not properly recorded and approved.

Cause: During our audit, we identified the following issues related to the Health & Environment Fund:

- The Health & Environment Fund overstated revenue and understated deferred inflows of resources by approximately \$30 million due to the State not receiving cash receipts within the ninety day collection period used by the Department of Health and Environment Medicaid Drug Rebate Program.
- We noted approximately \$23 million of adjustments identified for the quarter ending September 30, 2018 relating to the period ending June 30, 2018 and prior that should have increased the accounts receivable balance as of June 30, 2018.
- The State understated the allowance for doubtful accounts and overstated revenue by approximately \$21 million due to a prior period claim recorded during the quarter ending June 30, 2018 that was deemed to be uncollectible subsequent to year-end.
- The State overstated accounts receivable and revenue by approximately \$14.3 million due to double counting certain drug rebate receipts within both the Medical Assistance and Medicaid Drug Rebate Program receivable balances.

Recommendation: We recommend the State review, improve and document its procedures surrounding the year-end journal entry process, specifically, related to accounts receivable and related revenues over the Medicaid Drug Rebate Program. In addition, we recommend KDHE document and improve its procedures surrounding year-end reporting of accounts receivable and related revenues over the Medicaid Drug Rebate Program, plus any resultant potential legal liabilities from this grant and otherwise.

Views of responsible officials and planned corrective actions:

Department of Administration response:

Actions planned in response to finding: The Financial Integrity Team will require the agency to provide complete and accurate documentation regarding the processes of the Medicaid Drug Rebate Program in support of the agency methodology for calculation of the accounts receivable balance reported. In addition, the State will be formulating and adopting a policy regarding accounts receivable in 2019. In conjunction with that, the related procedures in regard to the year-end journal entry process for accounts receivable will be reviewed, updated as necessary, and documented.

Responsible party: DeAnn Hill, Chief Financial Officer State of Kansas, Office of the Chief Financial Officer

Planned completion date for corrective action plan: June 30, 2019

Plan to monitor completion of corrective action plan: Ongoing; permanent part of process

Section II – Financial Statement Findings

Kansas Department of Health & Environment (KDHE) response:

Actions planned in response to finding: KDHE will provide complete and accurate documentation regarding the processes of the Medicaid Drug Rebate Program in support of the agency methodology for calculation of the accounts receivable balance reported. KDHE will also include any potential liabilities, for grants and otherwise, in their legal letter due to DOA in August following fiscal year end.

Responsible party: Adam Proffitt, Director of Program, Finance and Informatics, Division of Health Care Finance

Planned completion date for corrective action plan: March 31, 2019

Plan to monitor completion of corrective action plan: Ongoing; permanent part of process

2018 – 004 – Financial Statement Adjustments

Type of Finding:

- **Significant Deficiency in Internal Control over Financial Reporting**

The Kansas State University System (University System) comprises seven constituent universities. The University System, along with its respective foundations, are reflected as a discretely presented component unit in the State of Kansas Comprehensive Annual Financial Report (State CAFR). In order to ensure information is complete and accurate in the State CAFR, each university is responsible for submitting accurate consolidated trial balances up to the State's Financial Integrity Team.

Condition: During our audit, we identified the following adjustments related to the University System's financial statements:

- University of Kansas: Due to an error in the calculation of summer tuition to be deferred, the University of Kansas' unearned revenue was understated and related tuition revenue was overstated by \$6.1 million prior to adjustment. In addition, the University improperly calculated its net investment in capital assets. As such, an adjustment to increase its net investment in capital assets and to reduce its unrestricted net position of approximately \$6.7 million was recorded.
- University of Kansas Medical Center: Balances between current and noncurrent receivables and current and noncurrent compensated absences were misclassified. Specifically, our audit procedures identified that a reclassification entry was necessary to move approximately \$10.2 million of the receivable balance from the noncurrent portion of receivables to the current portion. Similarly, a reclassification entry was required to be made to move \$14.6 million of the compensated absence balance from noncurrent to current.
- Fort Hays State University: The University improperly calculated its net investment in capital assets. As a result, restricted and unrestricted net position were overstated. An audit adjustment was made to increase its net investment in capital assets by \$38.4 million and to decrease restricted net position by \$28.7 million and unrestricted net position by \$9.7 million. In addition, Fort Hays State University's financial statements were not available at the start of the audit fieldwork, nor were several account balance reconciliations. As a result, the trial balance required several client proposed adjustments during audit fieldwork.

Section II – Financial Statement Findings

Criteria or specific requirement: The seven Universities and their respective foundations are combined to create a discretely presented component unit within the State of Kansas CAFR. In order to report complete and accurate information in the CAFR for this many organizations, each University is required to implement financial reporting controls to ensure accurate financial information is reported up to the state's Financial Integrity Team.

Context:

- University of Kansas: After the \$6.1 million adjustment described above, ending unearned revenue for the University System was \$101.3 million and ending charges for services revenue was \$1,338.5 million. See bullet below for context surrounding net investment in plant and unrestricted net position.
- University of Kansas Medical Center: After the reclassifications discussed above, the University System's current balance of accounts receivable was \$408.4 million, the noncurrent balance of accounts receivable was \$222.6 million, the current balance of compensated absences was \$67.5 million, and the noncurrent balance of compensated absences was \$13.8 million.
- Fort Hays State University: After the adjustments discussed above for both Fort Hays University and for the University of Kansas, the University System's balance of net investment in capital assets was \$2,109.5 million, the balance for restricted net position \$2,104.7 million, and the balance for unrestricted net position was \$600.0 million.

Effect: Based upon the facts identified in the condition above, various balances within the University System had to be adjusted to reflect proper balances.

Cause: The following causes are provided for each of the above bullet points:

- University of Kansas: Due to a change in software, an improper report was run which did not include a full population of the summer credit hours used for the calculation of summer unearned revenue. For the errors in the net position reporting, unamortized bond premiums and discounts and deferred outflows related to refunding were erroneously omitted from the calculation of net investment in capital assets. The year-end review process at the University did not identify these errors.
- University of Kansas Medical Center: The current portions and noncurrent portions of both accounts receivable and compensated absences were flipped when recording the balances in the financial statement template. The year-end review process at the University did not identify these errors.
- Fort Hays State University: Net position was not properly reconciled to supporting documentation. This resulted in errors in the amounts reported in the financial statement template submitted to the Financial Integrity Team. Lastly, the implementation of a new accounting software created obstacles for management when attempting to reconcile balances from the general ledger to supporting information at year-end. Due to the implementation of the new system, reconciliations were not being performed on a timely basis during the year.

Section II – Financial Statement Findings

Recommendation: We recommend that the Universities implement and/or enhance processes and procedures to provide accurate financial statements to the Financial Integrity Team at year-end, including a year-end review process to detect errors. This year-end process should include a checklist where the reviewer is ensuring financial information is complete and accurate, including:

- The summer unearned revenue calculation is accurate and is based upon complete summer class reports.
- The calculation for net investment in capital is accurate and includes premiums, discounts, and deferred outflows for losses on refunding.
- Current versus noncurrent assets and liabilities are being properly reflected in the information being submitted to the Financial Integrity Team.
- Timely reconciliations for general ledger balances to supporting documentation have been performed.

Views of responsible officials and planned corrective actions:

Actions planned in response to finding:

- University of Kansas: To ensure deferred revenues are properly calculated and reflected in the financial statements, the University will provide additional analysis which includes but is not limited to: (1) comparing the credit hours for summer compared to prior year as a reasonableness check, (2) compare assessed amounts and calculated deferred amounts to the prior year to ensure reasonable fluctuation, and (3) perform a calculation of tuition per credit hour to ensure amounts are reasonable compared to tuition rates.
- To ensure the calculations for investment in capital assets, net of related debt includes all of the necessary components to the calculation, the University has already included the missing components into the calculations and will be reviewing the calculations to ensure all necessary components are included.
- University of Kansas Medical Center: The Medical Center will enhance year-end reporting procedures by implementing a checklist as recommended by the auditor.
- Fort Hays State University: Fiscal Year 2018 is the first year the University prepared the financial statements relying solely on the new ERP that went live April 2017. Reports to reconcile the general ledger balances were being modified as the financial statements were being prepared. The combination of the new software and a change in personnel created a delay which forced the University to submit some draft information to the state. As the information was reviewed, updated financial information was remitted to the state. The procedures necessary to provide financial information to the state were documented during the Fiscal Year 2018 preparation. The reports necessary to reconcile general ledger accounts will be fully functional for the Fiscal Year 2019 report.

The University expects to provide accurate financial statements to the Financial Integrity Team for the Fiscal Year ending 2019 and thereafter.

Responsible party: Jeffrey Hunter, Assistant Comptroller – Financial Reporting Services, University of Kansas; Katherine Girgis, Director of Accounting & Financial Reporting, University of Kansas Medical Center; Mike Drees, Controller, Fort Hays State University.

Planned completion date for corrective action plan: Ongoing.

Section III – Prior Year Financial Statement Findings

2017 – 001 – Capital Lease and Capital Asset Monitoring

Type of Finding:

- **Significant Deficiency in Internal Control over Financial Reporting**

Condition: Capital lease agreements entered into by the State of Kansas are collected by the Department of Administration's Financial Integrity Team to determine what should be included and reported in the fiscal year Comprehensive Annual Financial Report (CAFR). The State records a long-term liability and capital assets when the State determines whether a capital lease should be included within the CAFR. During fiscal year 2017, the Department of Administration performed a review of capital lease agreements entered into during prior years. Through this review, it was determined the capital asset value related to multiple capital leases entered into by the State were not properly valued based on the present value at the beginning of the lease term of minimum lease payments during the lease term. This resulted in an understatement of the acquisition cost of capital assets and the related accumulated depreciation for assets recorded under capital leases.

Recommendation: We recommend the State continue to review and improve the process and procedures used to account for capital leases entered into by the State. We also recommend when new capital leases are entered into, that the Department of Administration review the recording of the related capital asset to ensure the capital assets recorded equal the present value at the beginning of the lease term of minimum lease payments during the lease term.

Current Year Status: Through work performed during fiscal year 2018, prior year significant deficiency appears to be mitigated.

2017 – 002 – Deposits and Investments Reconciliation and Review

Type of Finding:

- **Significant Deficiency in Internal Control over Financial Reporting**

Condition: The Department of Administration is responsible for the preparation and fair presentation of the State of Kansas' financial statements in accordance with accounting principles generally accepted in the United States of America: this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. During the deposits and investments reconciliation and review process, it was determined that the State overstated the cash and cash equivalent balance by \$37.8 million.

Recommendation: We recommend the State implement a comprehensive review stage within the CAFR preparation process, specifically dedicated to the review of cash and investments reported within governmental activities, business-type activities, fiduciary funds and the notes to the financial statements.

Current Year Status: Through work performed during fiscal year 2018, prior year significant deficiency appears to be mitigated.