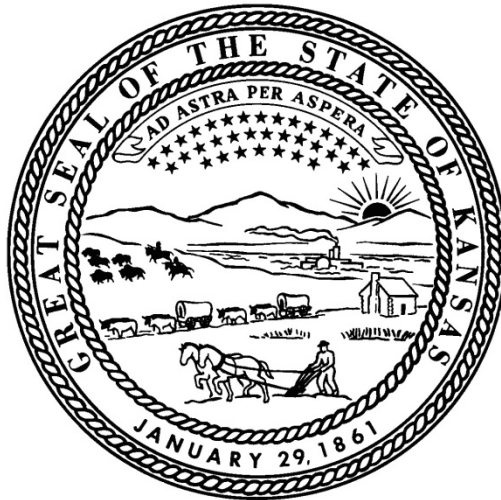


STATE OF KANSAS
Department of Administration
Division of Accounts and Reports



COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

July 1, 2009 to June 30, 2010

Carol Foreman, Acting Secretary
Kent E. Olson, Director



STATE OF KANSAS

Department of Administration

Carol Foreman

**Acting Secretary
of
Administration**

Kent E. Olson

**Director
of
Accounts and Reports**

State of Kansas
Fiscal Year 2010 Financial Report
June 30, 2010

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INTRODUCTION

December 31, 2010

The Honorable Mark Parkinson, 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 57th Annual Financial Report of the State of Kansas for the fiscal year ended June 30, 2010, as provided by Kansas Statutes Annotated (K.S.A.) 75-3735. This Comprehensive Annual Financial Report (CAFR) has been prepared in conformance with generally accepted accounting principles (GAAP). The objective of this is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements.

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

This report is prepared by the Department of Administration, Division of Accounts and Reports. 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 Allen, Gibbs & Houlik, L.C. and Berberich Trahan & Co., P. A., two firms of licensed Certified Public Accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the State of Kansas for the fiscal year ended June 30, 2010, are free of material misstatement. This independent audit was part of the federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards here also require the auditor to report on the State of Kansas' internal controls and compliance with legal requirements. A copy of the separately issued Single Audit Report can be obtained from the Legislative Division of Post Audit.

PROFILE OF THE GOVERNMENT

The State government is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court and the District Trial Courts. The State provides a full range of services including education, safety, social services, recreation and transportation. The annual budget serves as the

foundation of the State's financial planning and control. On or before October 1, agencies are required to submit annually or biennially budget estimates for the next fiscal year to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However, in the case of the regular legislative session immediately following the election of a governor, who was elected to the Office of Governor for the first time, that governor must submit the budget report to the Legislature on or before the 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 are compiled to prepare meaningful financial statements. Internal accounting controls have been implemented for reasonable, but not absolute, assurance for safeguarding assets and accurately recording financial transactions. "Reasonable assurance" is based upon the premise that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and judgments by management. As a recipient of federal financial assistance, the State is also responsible for implementing internal controls for compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the government.

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

CASH MANAGEMENT

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

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

RISK MANAGEMENT

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

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

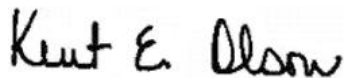
PENSION TRUST FUND OPERATIONS

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

ACKNOWLEDGEMENTS

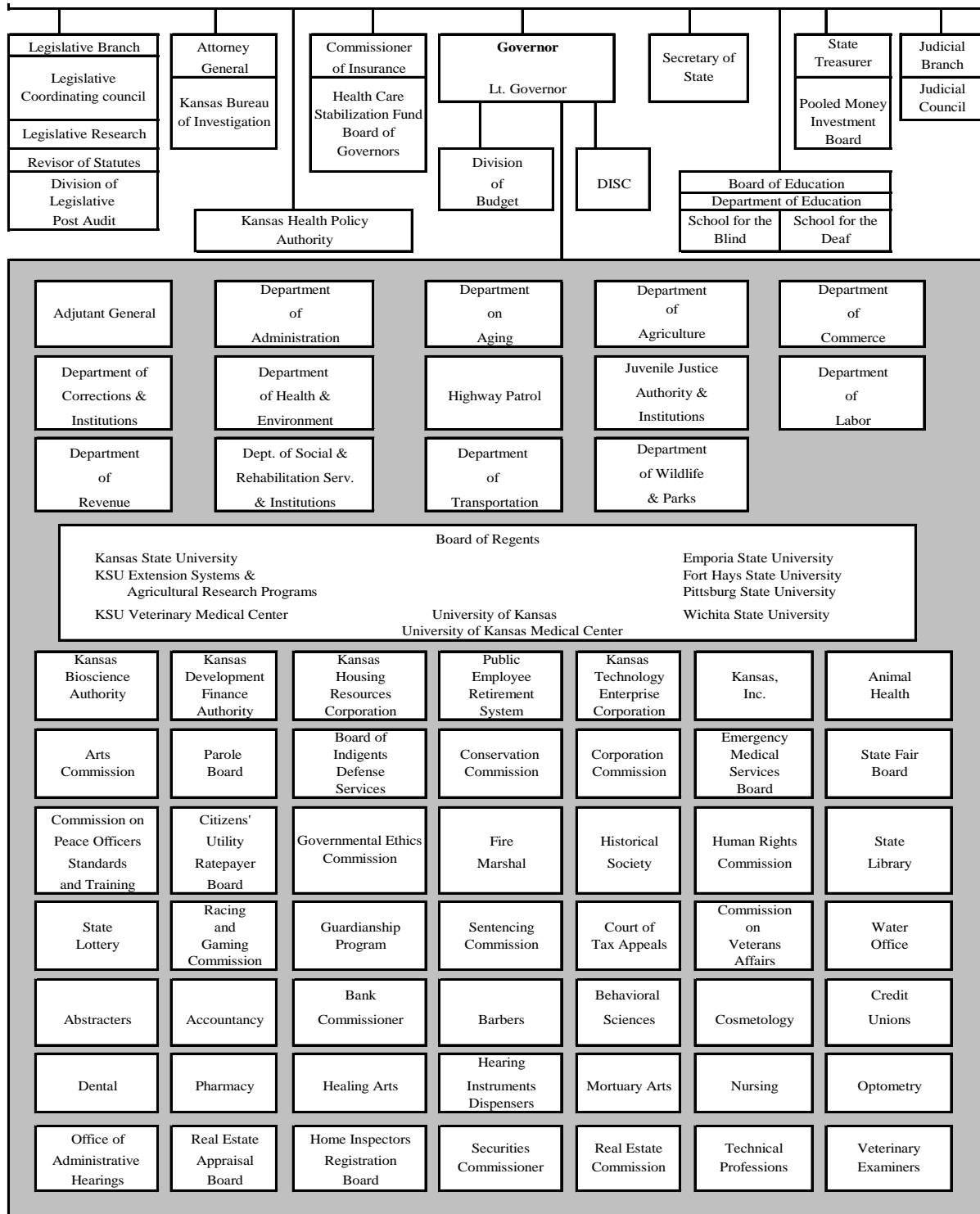
I wish to express my deepest appreciation and thanks to those on my staff responsible for the preparation of this report. It is through their dedicated effort that this report was made possible. I also wish to thank the many other individuals in the State agencies whose contributions made this report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

Sincerely,



Kent E. Olson, Director
Division of Accounts and Reports

State of Kansas
Organizational Chart
June 30, 2010



State of Kansas
List of Selected Officials
June 30, 2010

Executive Branch

Governor
Mark Parkinson

Lieutenant Governor
Troy Findley

Secretary of State
Chris Biggs

State Treasurer
Dennis McKinney

Attorney General
Stephen N. Six

*Commissioner of
Education*
Diane DeBacker

*Commissioner of
Insurance*
Sandy Praeger

Legislative Branch

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

*Speaker Pro Tempore of
the House of
Representatives*
Arlen Siegfried

President of the Senate
Stephen R. Morris

*Vice President of the
Senate*
John Vratil

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

Secretary of Senate
Pat Saville

*Legislative Coordinating
Council*
Stephen R. Morris

*Legislative Research
Director*
Alan D. Conroy

Judicial Branch

Supreme Court of Kansas
Chief Justice
Robert E. Davis

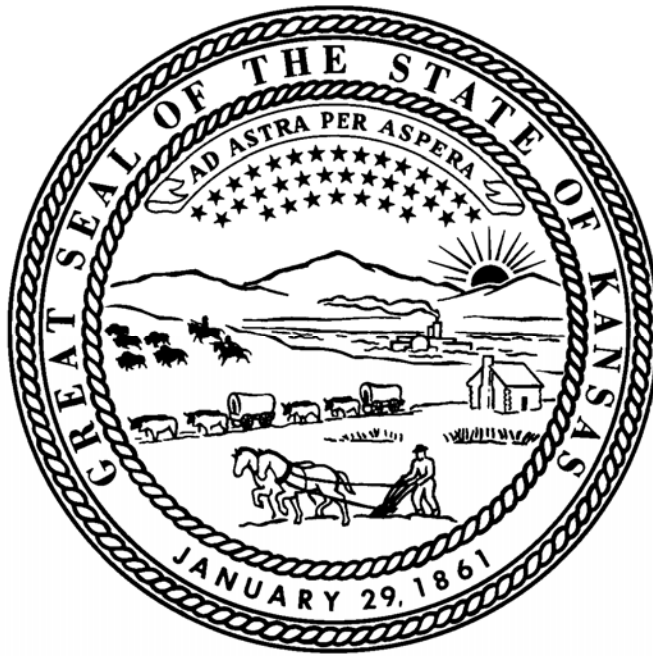
Justices
Lee A. Johnson
Carol A. Beier
Robert E. Davis
Eric S. Rosen
Marla J. Luckert
Lawton R. Nuss
Dan Biles

Court of Appeals
Chief Judge
Gary W. Rulon

Judicial Council
Executive Director
Randy M. Hearrell

Judicial Administrator
Howard P. Schwartz

FINANCIAL
SECTION



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INDEPENDENT AUDITOR'S REPORT

Legislative Post Audit Committee
Kansas State Legislature
State of Kansas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (State), as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the various component units of the six State universities, which represent 48 percent and 34 percent, respectively, of the assets and revenues of the discretely presented component units, the Kansas Technology Enterprise Corporation (KTEC) which represents less than 1 percent of the assets and revenues of the discretely presented component units, the Lottery which represents less than 1 percent and 2 percent, respectively, of the assets and revenues of the aggregate remaining fund information, the Kansas Public Employees Retirement System (KPERs) which represents 71 percent and 19 percent, respectively, of the assets and revenues of the aggregate remaining fund information, and the College Savings Program which represents 11 percent and 2 percent, respectively, of the assets 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 and the KTEC in the aggregate discretely presented component units, and the Lottery, KPERs and the College Savings Program in the aggregate remaining fund information, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the various component units of the six State universities and the College Savings Program, were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2011 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 17, the information needed to support the modified approach for infrastructure reporting on pages 120 through 121, and the other post employment benefits "schedule of funding progress" on page 121 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual nonmajor fund financial statements and other schedules, listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements and other schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

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

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

Berberich Trahan & CO., PA
CERTIFIED PUBLIC ACCOUNTANTS

January 7, 2011
Wichita, Kansas

MANAGEMENT'S DISCUSSION AND ANALYSIS

This narrative overview and analysis of the State of Kansas Comprehensive Annual Financial Report (CAFR) is provided for readers of the financial statements for the fiscal year ended June 30, 2010. This information is to be used in conjunction with the additional information furnished in the preceding letter of transmittal and with the financial statements that follow. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

FINANCIAL HIGHLIGHTS

Government-wide highlights:

- The assets of the State exceeded its liabilities at fiscal year ending June 30, 2010 by \$10.5 billion (presented as "net assets"). Of this amount, \$274.8 million was reported as unrestricted net assets, which represents the amount available to be used to meet ongoing obligations to citizens and creditors.
- Total net assets decreased by \$5.2 million (0.05 percent) in fiscal year 2010. Net assets of governmental activities increased by \$207.5 million (2.1 percent), and net assets of the business-type activities decreased \$212.6 million (27.5 percent).

Fund highlights:

- For fiscal year 2010, the governmental funds reported a combined ending fund balance of \$163.4 million, an increase of \$15.1 million in comparison with the prior year. Of the total amount, \$257.2 million represents the fund balance of the Transportation Fund. There is negative \$1.1 billion in the "unreserved fund balances". The reserved balance of \$1.3 billion includes the reserve for advances to other funds of \$73.6 million and the reserve for encumbrances of \$984.1 million.

Long-term debt:

- The State's total long-term debt obligation (including bonds payable on demand) showed a net increase of \$281.6 million (5.2 percent) during the current year. This increase was primarily due to a \$95.6 million increase in revenue bonds, a \$52.2 million increase in STAR bonds, \$88.2 million increase for unemployment benefits loan and a \$27.2 million increase in notes payable.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Basic Financial Statements

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

Government-wide Financial Statements

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

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

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 four 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 four governmental funds are – the General Fund, the Transportation Fund, the Transportation-Capital Projects Fund, and the Health Policy Authority Fund. The basic governmental funds financial statements can be found immediately following the government-wide statements.

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

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

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

Combining Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of the financial position of a government. The combined net assets of the State (government and business-type activities) totaled \$10.527 billion at the end of 2010, compared to \$10.533 billion at the end of the previous year, a decrease of 0.05 percent.

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

State of Kansas
Management's Discussion and Analysis
June 30, 2010

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 1,879,417	\$ 2,294,844	\$ 1,650,942	\$ 1,806,533	\$ 3,530,359	\$ 4,101,377
Capital assets	12,836,424	12,236,368	8,351	478	12,844,775	12,236,846
Total assets	14,715,841	14,531,212	1,659,293	1,807,011	16,375,134	16,338,223
Non-current liabilities	2,712,051	2,419,034	1,004,463	946,686	3,716,514	3,365,720
Other liabilities	2,037,242	2,353,105	93,898	86,762	2,131,140	2,439,867
Total liabilities	4,749,293	4,772,139	1,098,361	1,033,448	5,847,654	5,805,587
Invested in capital assets, net of related debt	9,601,110	9,509,615	8,351	478	9,609,461	9,510,093
Restricted	209,443	143,946	433,809	779,479	643,252	923,425
Unrestricted	155,995	105,512	118,772	(6,394)	274,767	99,118
Total net assets	\$ 9,966,548	\$ 9,759,073	\$ 560,932	\$ 773,563	\$ 10,527,480	\$ 10,532,636

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

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

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

	Component Units	
	2010	2009
Current and other assets	\$ 3,530,548	\$ 3,217,714
Capital assets	1,868,430	1,740,841
Total assets	5,398,978	4,958,555
Non-current liabilities	979,307	942,761
Other liabilities	572,483	581,597
Total liabilities	1,551,790	1,524,358
Invested in capital assets, net of related debt	1,202,589	1,176,607
Restricted	1,166,363	1,124,322
Unrestricted	1,478,236	1,133,268
Total net assets	\$ 3,847,188	\$ 3,434,197

State of Kansas
Management's Discussion and Analysis
June 30, 2010

Changes in Net Assets – Primary Government

Net assets decreased by \$5.2 million. Approximately 46.5 percent of the total revenue came from taxes, while 34.6 percent resulted from grants and contributions (including federal aid). Charges for various goods and services provided 10.2 percent of the total revenues. Expenses cover a range of services. The largest expenses of total expenses were for education (38.4 percent), human resources (28.9 percent), and employment security (10.5 percent).

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 712,466	\$ 836,550	\$ 625,107	\$ 525,856	\$ 1,337,573	\$ 1,362,406
Operating grants and contributions	4,190,596	3,381,408	26	570	4,190,622	3,381,978
Capital grants and contributions	302,732	196,008	41,305	8,883	344,037	204,891
General revenues:						
Taxes						
Property taxes	625,862	631,800	0	0	625,862	631,800
Income and inheritance taxes	2,562,404	2,997,595	0	0	2,562,404	2,997,595
Sales and excise taxes	2,764,218	2,883,012	0	0	2,764,218	2,883,012
Gross receipts taxes	139,813	138,532	0	0	139,813	138,532
Investment earnings	30,229	17,811	32,033	37,890	62,262	55,701
Other revenue	278,082	232,779	809,001	182,920	1,087,083	415,699
Total revenues	<u>11,606,402</u>	<u>11,315,495</u>	<u>1,507,472</u>	<u>756,119</u>	<u>13,113,874</u>	<u>12,071,614</u>
Expenses:						
General government	851,373	955,701	0	0	851,373	955,701
Human resources	3,785,792	3,691,535	0	0	3,785,792	3,691,535
Education	5,028,780	5,183,287	0	0	5,028,780	5,183,287
Public safety	786,682	754,869	0	0	786,682	754,869
Agriculture and natural resources	109,672	126,940	0	0	109,672	126,940
Highways and other transportation	516,629	437,099	0	0	516,629	437,099
Health and environment	232,955	229,198	0	0	232,955	229,198
Interest expense	144,125	151,702	0	0	144,125	151,702
Water pollution and safety	0	0	33,366	35,479	33,366	35,479
Health care stabilization	0	0	30,347	45,641	30,347	45,641
Employment security	0	0	1,381,286	735,844	1,381,286	735,844
Workers' compensation	0	0	4,540	4,511	4,540	4,511
Lottery	0	0	184,080	165,048	184,080	165,048
Intergovernmental transfer program	0	0	139	102	139	102
Transportation revolving fund	0	0	4,561	3,384	4,561	3,384
Total expenses	<u>11,456,008</u>	<u>11,530,331</u>	<u>1,638,319</u>	<u>990,009</u>	<u>13,094,327</u>	<u>12,520,340</u>
Increase (decrease) in net assets before transfers	150,394	(214,836)	(130,847)	(233,890)	19,547	(448,726)
Transfers	81,784	78,177	(81,784)	(78,177)	0	0
Change in net assets	232,178	(136,659)	(212,631)	(312,067)	19,547	(448,726)
Net assets, beginning of year	9,759,073	9,974,407	773,563	1,085,630	10,532,636	11,060,037
Revisions to beginning net assets	(24,703)	(78,675)	0	0	(24,703)	(78,675)
Net assets, beginning of year (restated)	<u>9,734,370</u>	<u>9,895,732</u>	<u>773,563</u>	<u>1,085,630</u>	<u>10,507,933</u>	<u>10,981,362</u>
Net assets, end of year	<u>\$ 9,966,548</u>	<u>\$ 9,759,073</u>	<u>\$ 560,932</u>	<u>\$ 773,563</u>	<u>\$ 10,527,480</u>	<u>\$ 10,532,636</u>

State of Kansas
Management's Discussion and Analysis
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Changes in Net Assets – Component Units

Component unit net assets increased by \$412.9 million or 12.0 percent. Charges for various goods and services provided 43.7 percent of the total revenues. Approximately 29.2 percent of the total revenue came from other revenue, while 18.7 percent resulted from grants and contributions (including federal aid). Expenses cover a range of services and are shown below by component unit below.

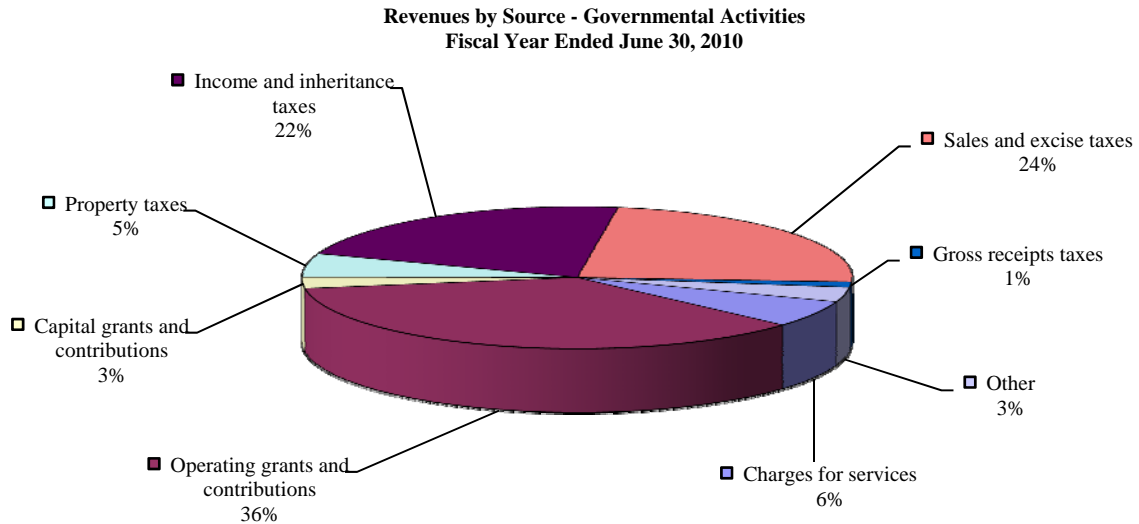
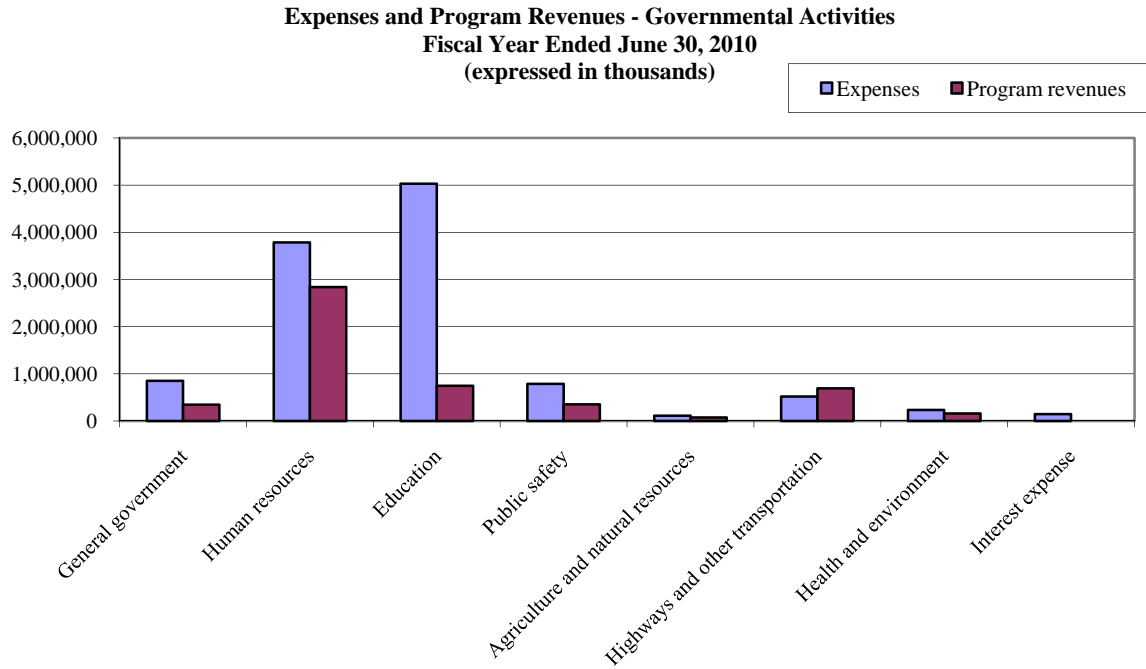
State of Kansas Changes in Net Assets – Component Unit
(expressed in thousands)

	Component Units	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 1,166,550	\$ 1,108,949
Operating grants and contributions	500,672	405,158
Capital grants and contributions	0	90
General revenues:		
Taxes		
Gross receipts taxes	882	1,158
Investment earnings	223,511	(354,971)
Other revenue	779,324	728,825
Total revenues	<u>2,670,939</u>	<u>1,889,209</u>
Expenses:		
Kansas Development Finance Authority	1,312	1,303
Kansas Technology Enterprise Corp.	12,032	16,275
Kansas Bioscience Authority	25,971	13,147
State University System	2,077,381	2,051,503
Kansas Housing Resources Corp.	144,213	88,436
Total expenses	<u>2,260,909</u>	<u>2,170,664</u>
Change in net assets	410,030	(281,455)
Net assets, beginning of year	3,434,197	3,717,528
Revisions to beginning net assets	<u>2,961</u>	<u>(1,876)</u>
Net assets, beginning of year (restated)	3,437,158	3,715,652
Net assets, end of year	<u>\$ 3,847,188</u>	<u>\$ 3,434,197</u>

State of Kansas
Management's Discussion and Analysis
June 30, 2010

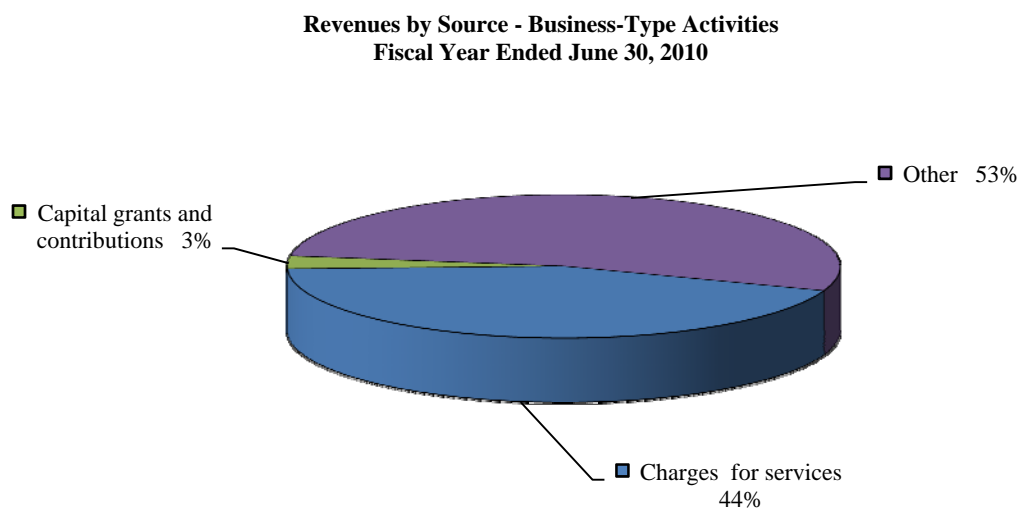
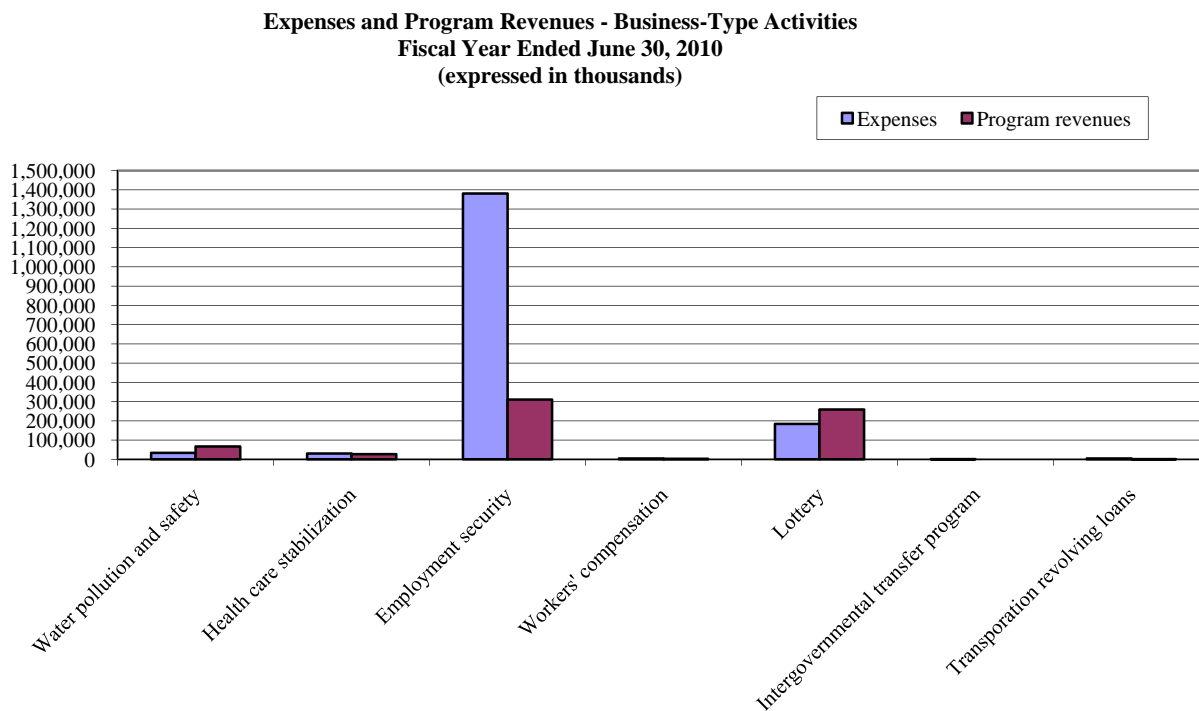
Governmental Activities

Governmental activities increased net assets by \$207.5 million in fiscal year 2010. 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:



Business-Type Activities

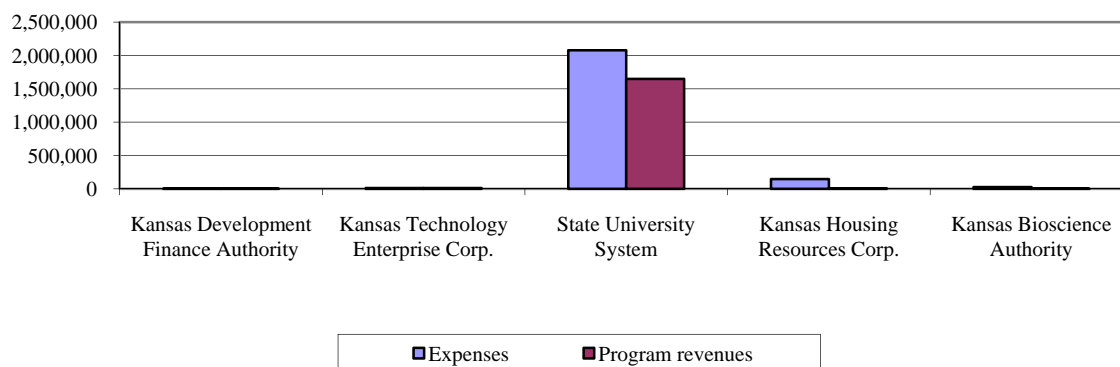
The State's business-type activities decreased the net assets of the State by \$212.6 million. For the State's business-type activities a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:



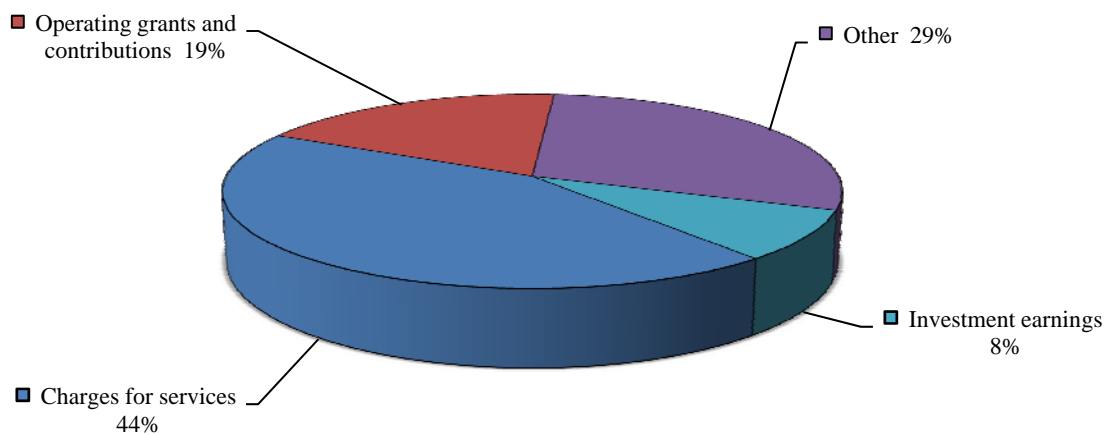
Component Units

The State's component units increased the net assets of the State by \$413 million. For the State's component units a comparison of the cost of services by function along with program revenues and a summary of revenues by source are shown below:

Expenses and Program Revenues - Component Units
Fiscal Year Ended June 30, 2010
(expressed in thousands)



Revenues by Source - Component Units
Fiscal Year Ended June 30, 2010



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. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

For fiscal year 2010, the governmental funds reported a combined ending fund balance of \$163.4 million, an increase of \$15.1 million in comparison with the prior year. Part of this fund balance is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior fiscal year in the amount of \$984.1 million and for advances in the amount of \$73.6 million.

The General Fund is the chief operating fund of the State. At the end of the current fiscal year, unreserved fund balance of the General Fund was a negative \$278 million, while the total fund balance reached a negative \$248.3 million. During fiscal year 2010 the State experienced a revenue decline in income and inheritance taxes and also in sales and excise taxes. As a result, the cash balance is approximately \$204.1 million lower in fiscal year 2010 than it was in fiscal year 2009. As a measure of liquidity of the General Fund, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents a negative 4.8 percent of total General Fund expenditures, while total fund balance represents a negative 4.3 percent of that same amount. The fund balance in the General Fund decreased by \$72.0 million during the current fiscal year.

Proprietary Funds

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

As discussed in the business-type activities above, the State's net assets decreased by \$212.6 million as a result of operations in the proprietary funds. This decrease resulted from the \$279.8 million decrease in net assets of the Unemployment Insurance Fund. As the economy slowed and unemployment increased, a greater demand was placed on the Fund during the fiscal year.

Component Unit Funds

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

The State's component unit net assets increased by \$413.0 million. Most of this increase resulted from the State University System with an increase of \$404.1 million, the Kansas Development Finance Authority with an increase of \$1.5 million and the Kansas Bioscience Authority with an increase of \$11.0 million in the net assets. The other two component units accounted for \$3.6 million decrease in net assets.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences existed between the original budget and the final budget. Revenue estimates were reduced by approximately \$89.7 million and expenditure estimates were reduced by approximately \$185.6 million. The original estimates provided for revenues less than expenditures of \$211.5 million. The final budget provided for \$115.6 million of revenues under expenditures. Subsequently, fiscal year 2010 was closed with revenues under expenditures of \$125.4 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

State investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$12.8 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 its governmental and business-type activities for the current fiscal year was 4.9 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 \$99.2 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 of Kansas 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 of Kansas. It was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

The total long-term bond debt obligations increased by \$369.2 million during the current fiscal year. The key factor in this increase was the issuance of new bonds during the year. Bonds issued during the year include \$73.0 for Public Water Supply Revolving Loan Fund, KDFA Series 2009DW-1 and 2, \$116.9 for projects as the State Capital Restoration Project, the School of Pharmacy Project, the Wildlife and Parks projects and debt restructuring, KDFA Series 2009M-1 and 2, \$52.8 million for the IMPACT Program, KDFA Series 2010C, \$102.6 million for debt refunding, debt restructuring and for the State's portion of National Bio and Agro Defense Facility, KDFA Series 2010E-1, 2 and F, and \$93.2 million in Sales Tax Limited Obligation Bonds.

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

ECONOMIC FACTORS

The Kansas economy continued to experience challenges in fiscal year 2010. According to the Kansas Department of Labor *Kansas Labor Market Information News Release* for July 2010, employment for nonfarm jobs in the State of Kansas for June 2010 is decreasing. Compared to June 2009, employment decreased by 10,100 jobs for a total of 1.34 million nonfarm jobs. The unemployment rate was 6.5 percent for June 2010, compared to 7.2 percent in June 2009. Further information regarding the State's economic condition can be found in Note IV of the notes to the financial statements of this report.

REQUESTS FOR INFORMATION

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

Kent E. Olson, Director of Accounts and Reports
900 S.W. Jackson, Room 351S
Landon State Office Building
Topeka, KS 66612-1248

Financial Statements

State of Kansas
Financial Statements
June 30, 2010

Government Wide - Statement of Net Assets

June 30, 2010

(expressed in thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
ASSETS				
Cash and cash equivalents	\$ 803,879	\$ 134,343	\$ 938,222	\$ 669,678
Investments	85,254	249,683	334,937	1,870,122
Receivables (net)	667,674	988,646	1,656,320	379,760
Due from primary government:				
Investment in direct financing leases, due within one year	0	0	0	13,445
Investment in direct financing leases, due in more than one year	0	0	0	90,160
Internal balances	3,624	(3,624)	0	0
Inventories	32,354	2,014	34,368	15,916
Other current assets	0	0	0	61,457
Restricted cash and cash equivalents	226,595	205,534	432,129	191,387
Restricted investments	0	56,102	56,102	107,689
Capital assets (net of accumulated depreciation)	2,826,914	8,351	2,835,265	1,868,430
Infrastructure	10,009,510	0	10,009,510	0
Other non-current assets	60,037	18,244	78,281	130,934
Total assets	14,715,841	1,659,293	16,375,134	5,398,978
LIABILITIES				
Accounts payable and other current liabilities	998,736	22,242	1,020,978	332,631
Due to component unit:				
Lease revenue bonds payable, due within one year	13,445	0	13,445	0
Lease revenue bonds payable, due in more than one year	90,160	0	90,160	0
Deferred revenue	26,368	4,314	30,682	118,132
Bonds payable on demand	664,315	0	664,315	0
Noncurrent liabilities:				
Due within one year	273,451	67,342	340,793	121,720
Due in more than one year	2,580,537	806,287	3,386,824	979,307
Derivative instruments	60,927	0	60,927	0
Claims and judgements	41,354	198,176	239,530	0
Total liabilities	4,749,293	1,098,361	5,847,654	1,551,790
NET ASSETS				
Invested in capital assets, net of related debt	9,601,110	8,351	9,609,461	1,202,589
Restricted for:				
Capital projects	0	0	0	78,863
Debt service	209,443	15,279	224,722	44,548
Other purposes	0	418,530	418,530	1,042,952
Unrestricted	155,995	118,772	274,767	1,478,236
Total net assets	\$ 9,966,548	\$ 560,932	\$ 10,527,480	\$ 3,847,188

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

State of Kansas
Financial Statements
June 30, 2010

Government Wide - Statement of Activities
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants	Capital Grants
1 Primary government:				
2 Governmental activities:				
3 General government	\$ 851,373	\$ 249,565	\$ 94,585	\$ 0
4 Human resources	3,785,792	156,306	2,683,140	0
5 Education	5,028,780	6,135	741,094	47
6 Public safety	786,682	34,459	316,053	0
7 Agriculture and natural resources	109,672	57,216	17,588	0
8 Highways and other transportation	516,629	175,389	212,523	302,685
9 Health and environment	232,955	33,396	125,613	0
10 Interest expense	144,125	0	0	0
11 Total governmental activities	<u>11,456,008</u>	<u>712,466</u>	<u>4,190,596</u>	<u>302,732</u>
12 Business-type activities:				
13 Water pollution and safety	33,366	25,953	0	41,305
14 Health care stabilization	30,347	26,719	0	0
15 Employment security	1,381,286	310,119	26	0
16 Workers' compensation	4,540	3,148	0	0
17 Lottery	184,080	258,494	0	0
18 Intergovernmental transfer program	139	0	0	0
19 Transportation revolving loans	4,561	674	0	0
20 Total business-type activities	<u>1,638,319</u>	<u>625,107</u>	<u>26</u>	<u>41,305</u>
21 Total primary government	<u><u>\$ 13,094,327</u></u>	<u><u>\$ 1,337,573</u></u>	<u><u>\$ 4,190,622</u></u>	<u><u>\$ 344,037</u></u>
22				
23 Component units:				
24 Kansas Development Finance Authority	\$ 1,312	\$ 2,451	\$ 0	\$ 0
25 Kansas Technology Enterprise Corporation	12,032	629	9,512	0
26 Kansas Bioscience Authority	25,971	549	0	0
27 State University System	2,077,381	1,159,450	488,676	0
28 Kansas Housing Resources Corporation	144,213	3,471	2,484	0
29 Total component units	<u><u>\$ 2,260,909</u></u>	<u><u>\$ 1,166,550</u></u>	<u><u>\$ 500,672</u></u>	<u><u>\$ 0</u></u>

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

State of Kansas
Financial Statements
June 30, 2010

Net (Expense) Revenue and Changes in Net Assets				
Primary Government				
Governmental Activities	Business-Type Activities	Total	Component Units	
				1
				2
\$ (507,223)	\$ 0	\$ (507,223)	\$ 0	3
(946,346)	0	(946,346)	0	4
(4,281,504)	0	(4,281,504)	0	5
(436,170)	0	(436,170)	0	6
(34,868)	0	(34,868)	0	7
173,968	0	173,968	0	8
(73,946)	0	(73,946)	0	9
(144,125)	0	(144,125)	0	10
<u>(6,250,214)</u>	<u>0</u>	<u>(6,250,214)</u>	<u>0</u>	11
				12
0	33,892	33,892	0	13
0	(3,628)	(3,628)	0	14
0	(1,071,141)	(1,071,141)	0	15
0	(1,392)	(1,392)	0	16
0	74,414	74,414	0	17
0	(139)	(139)	0	18
0	(3,887)	(3,887)	0	19
0	(971,881)	(971,881)	0	20
<u>\$ (6,250,214)</u>	<u>\$ (971,881)</u>	<u>\$ (7,222,095)</u>	<u>\$ 0</u>	21
				22
				23
\$ 0	\$ 0	\$ 0	\$ 1,139	24
0	0	0	(1,891)	25
0	0	0	(25,422)	26
0	0	0	(429,255)	27
0	0	0	(138,258)	28
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (593,687)</u>	29
General revenues:				
Taxes:				
Property tax	\$ 625,862	\$ 0	\$ 625,862	\$ 0
Income and inheritance tax	2,562,404	0	2,562,404	0
Sales and excise tax	2,764,218	0	2,764,218	0
Gross receipts tax	139,813	0	139,813	882
Investment earnings	30,229	32,033	62,262	223,511
Other revenue	278,082	809,001	1,087,083	779,324
Transfers	81,784	(81,784)	0	0
Total general revenues	<u>6,482,392</u>	<u>759,250</u>	<u>7,241,642</u>	<u>1,003,717</u>
Change in net assets	<u>232,178</u>	<u>(212,631)</u>	<u>19,547</u>	<u>410,030</u>
Net assets - beginning	9,759,073	773,563	10,532,636	3,434,197
Revisions to beginning net assets	(24,703)	0	(24,703)	2,961
Net assets - beginning (restated)	<u>9,734,370</u>	<u>773,563</u>	<u>10,507,933</u>	<u>3,437,158</u>
Net assets - ending	<u>\$ 9,966,548</u>	<u>\$ 560,932</u>	<u>\$10,527,480</u>	<u>\$ 3,847,188</u>

State of Kansas
Financial Statements
June 30, 2010

Balance Sheet - Governmental Funds
June 30, 2010
(expressed in thousands)

	General	Transporta- tion	Health Policy Authority	Transporta- tion-Capital Projects	Other Governmental Funds	Total Governmental
ASSETS						
Cash and cash equivalents	\$ 5,256	\$ 129,633	\$ 16,265	\$ 0	\$ 609,300	\$ 760,454
Investments	0	73,729	0	0	11,525	85,254
Receivables, net	241,022	92,270	131,193	0	201,281	665,766
Due from other funds	4,568	56	0	0	19,711	24,335
Inventories	7,139	24,728	0	0	0	31,867
Advances to other funds	0	0	0	0	70,051	70,051
Restricted cash and cash equivalents	12	14,900	0	0	211,684	226,596
Total assets	\$257,997	\$ 335,316	\$147,458	\$ 0	\$ 1,123,552	\$ 1,864,323
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and other current liabilities	\$500,348	\$ 29,600	\$137,942	\$ 0	\$ 309,183	\$ 977,073
Due to other funds	16,772	0	0	0	1,076	17,848
Deferred revenue	(77,628)	48,562	0	0	1,320	(27,746)
Advances from other funds	66,825	0	0	0	2,624	69,449
Bonds payable on demand	0	0	0	664,315	0	664,315
Total liabilities	506,317	78,162	137,942	664,315	314,203	1,700,939
Fund balances:						
Reserved for:						
Debt service	0	0	0	0	209,443	209,443
Inventory	7,139	24,728	0	0	0	31,867
Encumbrances	22,541	756,580	5,204	0	199,753	984,078
Advances to other funds	0	0	0	0	70,051	70,051
Unreserved, reported in:						
General Fund	(278,000)	0	0	0	0	(278,000)
Other Governmental	0	0	0	0	21,421	21,421
Transportation	0	(524,154)	0	0	0	(524,154)
Health Policy Authority	0	0	4,312	0	0	4,312
Transportation - Capital Projects	0	0	0	(664,315)	0	(664,315)
Special Revenue Funds	0	0	0	0	267,907	267,907
Capital Projects Funds	0	0	0	0	40,774	40,774
Total fund balance	(248,320)	257,154	9,516	(664,315)	809,349	163,384
Total liabilities and fund balance	\$257,997	\$ 335,316	\$147,458	\$ 0	\$ 1,123,552	\$ 1,864,323

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

(Continued)

State of Kansas
Financial Statements
June 30, 2010

Balance Sheet - Governmental Funds - Continued
June 30, 2010
(expressed in thousands)

	<u>Total Governmental</u>
Reconciliation to the Statement of Net Assets:	
Total fund balance from previous page	\$ 163,384
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds:	
Infrastructure	10,009,510
Capital assets	2,698,836
Other non-current assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:	
Noncurrent assets	60,037
Deferred revenue (not on statement of net assets)	(53,393)
Accounts payable	(18,080)
Other liabilities	3,694
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Long term debt	(2,517,142)
Compensated absences	(127,933)
Due to component unit (lease revenue bonds payable)	(103,605)
Derivative instruments	(60,927)
In the statement of activities, an expense is recorded for environmental remediation obligations when the expected outlay is reasonably estimatable. In governmental funds, an expense is recorded when paid.	(51,554)
In the statement of net assets, a long term liability is recorded for the unfunded portion of post employment benefits other than pensions, while in the governmental funds liabilities that do not require satisfaction with current resources are not recorded.	(36,270)
Internal Service Funds: the assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(9)
Net assets of governmental activities as reported on the Statement of Net Assets.	<u><u>\$ 9,966,548</u></u>

State of Kansas
Financial Statements
June 30, 2010

**Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds**
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	General	Transporta- tion	Health Policy Authority	Transporta- tion-Capital Projects	Other Governmental Funds	Total Governmental
Revenues:						
Property tax	\$ 574,290	\$ 0	\$ 0	\$ 0	\$ 49,752	\$ 624,042
Income and inheritance tax	2,673,774	0	0	0	(3,362)	2,670,412
Sales and excise tax	2,171,658	540,275	0	0	60,914	2,772,847
Gross receipts tax	121,698	0	0	0	18,095	139,793
Charges for services	45,900	175,291	37,268	0	445,553	704,012
Operating grants	0	193,465	1,831,502	0	2,156,677	4,181,644
Capital grants	0	304,557	0	0	47	304,604
Investment earnings	17,907	3,649	210	0	7,870	29,636
Other revenues	(44,199)	7,923	124,054	0	172,571	260,349
Total revenues	5,561,028	1,225,160	1,993,034	0	2,908,117	11,687,339
Expenditures:						
Current:						
General government	554,034	0	0	0	437,102	991,136
Human resources	753,518	0	1,111,026	0	1,912,989	3,777,533
Education	4,102,795	0	0	0	923,820	5,026,615
Public safety	357,705	0	0	0	421,706	779,411
Agriculture and natural resources	18,975	0	0	0	89,043	108,018
Highways and other transportation	0	964,275	0	0	23,753	988,028
Health and environment	30,501	0	0	0	202,672	233,173
Debt service:						
Principal	0	0	0	21,400	169,538	190,938
Interest	0	0	0	0	141,200	141,200
Total expenditures	5,817,528	964,275	1,111,026	21,400	4,321,823	12,236,052
Excess of revenues over (under) expenditures	(256,500)	260,885	882,008	(21,400)	(1,413,706)	(548,713)
Other financing sources (uses):						
Proceeds from sale of debt	0	0	0	201,132	360,840	561,972
Transfers, net	184,874	(466,885)	(889,178)	(179,732)	1,437,090	86,169
Other financing sources (uses)	0	0	0	221,400	(308,759)	(87,359)
Total other financing sources (uses)	184,874	(466,885)	(889,178)	242,800	1,489,171	560,782
Net change in fund balances	(71,626)	(206,000)	(7,170)	221,400	75,465	12,069
Fund balances, beginning of year	(176,344)	459,871	16,686	(885,715)	733,777	148,275
Revisions to beginning fund balances	0	0	0	0	107	107
Fund balances, beginning of year (restated)	(176,344)	459,871	16,686	(885,715)	733,884	148,382
Change in reserves for inventory	(350)	3,283	0	0	0	2,933
Fund balances, end of year	\$(248,320)	\$ 257,154	\$ 9,516	\$ (664,315)	\$ 809,349	\$ 163,384

(Continued)

State of Kansas
Financial Statements
June 30, 2010

**Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	<u>Total Governmental</u>
Reconciliation to the Statement of Activities:	
Total net change in fund balance from previous page	\$ 12,069
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds.	(151,038)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets:	
Revenue bond proceeds	(519,925)
Bond premiums and discounts	(39,438)
Loan proceeds	(2,609)
Repayment of bond principal is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.	190,939
Retirement of Bonds	(21,400)
Defeased debt is reported as an other financing use in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.	108,760
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital assets	700,545
Depreciation expense	(88,269)
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	4,310
Accrued Interest	(2,925)
Other expenses	4,653
OPEB	(6,932)
Gain (Loss) on asset disposal and other items	(3,009)
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.	46,447
Changes in Net Assets of Governmental Activities as reported on the Statement of Activities	<u><u>\$ 232,178</u></u>

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

State of Kansas
Financial Statements
June 30, 2010

Statement of Net Assets - Proprietary Funds

June 30, 2010

(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	\$ 115,069	\$ 1,337	\$ 3,057	\$ 14,880	\$ 134,343	\$ 43,424
Restricted cash and cash equivalents	1,041	143,796	0	1,361	146,198	0
Investments	0	0	29,023	0	29,023	0
Receivables, net	49,971	8,267	6,315	20,283	84,836	206
Inventories	0	0	0	2,014	2,014	486
Total current assets	<u>166,081</u>	<u>153,400</u>	<u>38,395</u>	<u>38,538</u>	<u>396,414</u>	<u>44,116</u>
Noncurrent assets:						
Investments	0	0	205,383	15,277	220,660	0
Receivables, net	806,113	0	0	97,697	903,810	1,703
Restricted cash and cash equivalents	59,336	0	0	0	59,336	0
Restricted investments	56,102	0	0	0	56,102	0
Advances to other funds	0	0	0	1,000	1,000	0
Capital assets (net of accumulated depreciation)	0	0	19	8,332	8,351	128,079
Other noncurrent assets	17,445	0	0	799	18,244	0
Total noncurrent assets	<u>938,996</u>	<u>0</u>	<u>205,402</u>	<u>123,105</u>	<u>1,267,503</u>	<u>129,782</u>
Total assets	<u>\$1,105,077</u>	<u>\$ 153,400</u>	<u>\$ 243,797</u>	<u>\$ 161,643</u>	<u>\$1,663,917</u>	<u>\$ 173,898</u>
LIABILITIES						
Current liabilities:						
Accounts payable and other current liabilities	\$ 7,390	\$ 5,087	\$ 469	\$ 9,296	\$ 22,242	\$ 4,299
Deferred revenue	0	0	0	4,314	4,314	0
Due to other funds	0	0	0	4,624	4,624	1,863
Short-term compensated absences	0	0	51	7	58	1,666
Short-term portion of long-term liabilities	42,836	0	12,349	12,099	67,284	48,065
Total current liabilities	<u>50,226</u>	<u>5,087</u>	<u>12,869</u>	<u>30,340</u>	<u>98,522</u>	<u>55,893</u>
Noncurrent liabilities:						
Compensated absences	0	0	10	1	11	318
Claims and judgements	0	0	171,621	26,555	198,176	41,354
Bonds, notes and loans payable	635,521	88,159	0	81,384	805,064	74,738
Arbitrage rebate payable	0	0	0	188	188	0
Advances from other funds	0	0	0	0	0	1,603
Other noncurrent liabilities	800	0	20	204	1,024	0
Total noncurrent liabilities	<u>636,321</u>	<u>88,159</u>	<u>171,651</u>	<u>108,332</u>	<u>1,004,463</u>	<u>118,013</u>
Total liabilities	<u>686,547</u>	<u>93,246</u>	<u>184,520</u>	<u>138,672</u>	<u>1,102,985</u>	<u>173,906</u>
NET ASSETS						
Invested in capital assets, net of related debt	0	0	19	8,332	8,351	87,492
Restricted for:						
Debt service	0	0	0	15,279	15,279	0
Other purposes	418,530	0	0	0	418,530	0
Unrestricted	0	60,154	59,258	(640)	118,772	(87,500)
Total net assets	<u>418,530</u>	<u>60,154</u>	<u>59,277</u>	<u>22,971</u>	<u>560,932</u>	<u>(8)</u>
Total liabilities and net assets	<u>\$1,105,077</u>	<u>\$ 153,400</u>	<u>\$ 243,797</u>	<u>\$ 161,643</u>	<u>\$1,663,917</u>	<u>\$ 173,898</u>

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

State of Kansas
Financial Statements
June 30, 2010

**Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Proprietary Funds
For the Fiscal Year Ended June 30, 2010**
(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	\$ 25,953	\$ 310,119	\$ 26,719	\$262,316	\$ 625,107	\$ 119,799
Other revenue	3,088	792,064	1,300	3,435	799,887	1,174
Total operating revenues	29,041	1,102,183	28,019	265,751	1,424,994	120,973
OPERATING EXPENSES						
Salaries and wages	0	0	1,101	5,111	6,212	31,881
Supplies and services	0	0	6,049	47,494	53,543	3,555
Lottery prize awards	0	0	0	132,610	132,610	0
Depreciation	0	0	3	1,349	1,352	9,616
Insurance claims and expenses	0	1,381,215	0	1,620	1,382,835	21,989
Program administration - Water Funds	2,499	0	0	0	2,499	0
Other expenses	(553)	72	22,394	1,323	23,236	24
Total operating expenses	1,946	1,381,287	29,547	189,507	1,602,287	67,065
Operating income (loss)	27,095	(279,104)	(1,528)	76,244	(177,293)	53,908
NONOPERATING REVENUES (EXPENSES)						
Operating grants	0	26	0	0	26	0
Capital grants	41,305	0	0	0	41,305	0
Investment earnings	5,532	7,109	18,291	1,100	32,032	60
Interest expense	(31,419)	0	0	(3,675)	(35,094)	(2,930)
Other expenses	0	0	(800)	(138)	(938)	(208)
Capital contributions	0	0	0	9,116	9,116	0
Total nonoperating revenues (expenses)	15,418	7,135	17,491	6,403	46,447	(3,078)
Net income (loss)	42,513	(271,969)	15,963	82,647	(130,846)	50,830
Transfers in	0	(7,354)	(206)	(73,737)	(81,297)	(492)
Transfers out	0	(482)	0	(6)	(488)	(3,891)
Net change in net assets	42,513	(279,805)	15,757	8,904	(212,631)	46,447
Total net assets - beginning	376,017	339,959	43,520	14,067	773,563	(39,116)
Revisions to beginning net assets	0	0	0	0	0	(7,339)
Net assets - beginning (restated)	376,017	339,959	43,520	14,067	773,563	(46,455)
Total net assets - ending	\$418,530	\$ 60,154	\$ 59,277	\$ 22,971	\$ 560,932	\$ (8)

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

State of Kansas
Financial Statements
June 30, 2010

Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended June 30, 2010

(expressed in thousands)

	Water Funds	Unemployment Insurance	Health Care Stabilization	Nonmajor Funds	Totals	Governmental Activities - Internal Service Funds
Cash flows from operating activities:						
Cash receipts from customers	\$ 24,620	\$ 1,097,301	\$ 27,962	\$ 247,752	\$ 1,397,635	\$ 121,155
Cash payments to suppliers for goods and services	(1,736)	(296)	(6,378)	(49,147)	(57,557)	(6,390)
Cash payments to employees for services	0	0	(1,091)	(5,053)	(6,144)	(31,831)
Cash payments for lottery prizes	0	0	0	(133,045)	(133,045)	0
Claims paid	0	(1,381,215)	(25,375)	(1,570)	(1,408,160)	(25,441)
Other operating revenues	63,374	0	0	0	63,374	0
Other operating expenses	(97,643)	0	0	0	(97,643)	0
Net cash provided (used) by operating activities	(11,385)	(284,210)	(4,882)	58,937	(241,540)	57,493
Cash flows from noncapital financing activities:						
Operating grants receipts	0	26	0	0	26	0
Other non-operating expenses	0	0	0	(158)	(158)	0
Net transfers to other funds	0	(7,748)	(206)	(73,899)	(81,853)	(5,503)
Other cash inflows from noncapital financing activities	114,258	0	0	0	114,258	0
Other cash outflows from noncapital financing activities	(114,869)	0	(800)	0	(115,669)	0
Net cash provided (used) by noncapital financing activities	(611)	(7,722)	(1,006)	(74,057)	(83,396)	(5,503)
Cash flows from capital and related financing activities:						
Proceeds from issuance of long-term debt	0	88,159	0	0	88,159	18,381
Repayment of long-term debt	0	0	0	(6,210)	(6,210)	(1,095)
Interest payments	0	0	0	(3,874)	(3,874)	(2,653)
Payments for purchase of fixed assets	0	0	(9)	(238)	(247)	(57,381)
Other cash inflows from capital and related financing activities	0	0	0	(112)	(112)	0
Net cash provided (used) by capital and related financing activities	0	88,159	(9)	(10,434)	77,716	(42,748)
Cash flows from investing activities:						
Proceeds from sale and maturities of investment securities	18,279	0	25,562	0	43,841	0
Purchase of investments	(1,097)	0	(29,308)	0	(30,405)	0
Interest and dividends	5,907	7,110	18,338	881	32,236	0
Unrealized (gain) loss on investments	0	0	(8,274)	0	(8,274)	0
Net cash provided (used) by investing activities	23,089	7,110	6,318	881	37,398	0
Net increase (decrease) in cash and cash equivalents	11,093	(196,663)	421	(24,673)	(209,822)	9,242
Cash and cash equivalents, beginning of year	164,353	341,796	2,636	40,914	549,699	34,182
Cash and cash equivalents, end of year	\$ 175,446	\$ 145,133	\$ 3,057	\$ 16,241	\$ 339,877	\$ 43,424
Reconciliation of operating income (loss) to net cash provided by operations:						
Operating income (loss)	\$ 27,095	\$ (279,104)	\$ (1,528)	\$ 76,244	\$ (177,293)	\$ 53,908
Adjustment to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	0	0	3	1,349	1,352	9,615
Changes in assets and liabilities:						
Receivables	(36,852)	(4,882)	(57)	(18,246)	(60,037)	182
Inventories	0	0	0	769	769	96
Other assets	0	0	0	118	118	0
Accounts payable	(1,628)	(224)	(329)	(1,217)	(3,398)	(2,907)
Payroll liabilities	0	0	10	58	68	51
Claims and judgements	0	0	(2,981)	50	(2,931)	(3,452)
Deferred revenue	0	0	0	247	247	0
Lottery prize liability	0	0	0	(435)	(435)	0
Total adjustments	(38,480)	(5,106)	(3,354)	(17,307)	(64,247)	3,585
Net cash provided (used) by operating activities	\$ (11,385)	\$ (284,210)	\$ (4,882)	\$ 58,937	\$ (241,540)	\$ 57,493

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

State of Kansas
Financial Statements
June 30, 2010

Statement of Fiduciary Net Assets
June 30, 2010
(expressed in thousands)

	Pension Trust	Investment Trust	College Savings Program	Agency
ASSETS				
Cash and cash equivalents	\$ 1,312	\$ 814,720	\$ 976	\$ 357,913
Investments	12,375,903	0	2,328,899	577,542
Receivables, net	3,153,675	0	3,812	784,257
Inventories	22	0	0	0
Capital assets	4,656	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	15,535,568	814,720	2,333,687	1,719,712
	<hr/>	<hr/>	<hr/>	<hr/>
LIABILITIES				
Accounts payable and other liabilities	4,165,831	0	3,045	\$1,719,712
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	4,165,831	0	3,045	\$1,719,712
	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS				
Net assets held in trust	\$11,369,737	\$ 814,720	\$2,330,642	
	<hr/>	<hr/>	<hr/>	

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

State of Kansas
Financial Statements
June 30, 2010

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Pension Trust	Investment Trust	College Savings Program Trust
ADDITIONS			
Contributions:			
Employer contributions	\$ 521,555	\$ 0	\$ 0
Employee contributions	289,616	0	0
College savings contributions	0	0	918,640
	<hr/>	<hr/>	<hr/>
Total contributions	811,171	0	918,640
Deposits:			
Net investment income	1,485,967	1,294	211,244
MIP deposits	0	3,951,744	0
Other deposits	102	0	0
	<hr/>	<hr/>	<hr/>
Total additions	2,297,240	3,953,038	1,129,884
	<hr/>	<hr/>	<hr/>
DEDUCTIONS			
Benefits and refunds:			
Monthly benefits and refunds	1,060,206	0	0
Refunds of contributions	43,363	0	0
Death benefits	8,959	0	0
Insurance premiums and disability benefits	50,782	0	0
Distributions	0	4,211,811	702,457
Total benefits and refunds	<hr/>	<hr/>	<hr/>
	1,163,310	4,211,811	702,457
Administrative expenses	<hr/>	<hr/>	<hr/>
	10,534	0	0
Total deductions	<hr/>	<hr/>	<hr/>
	1,173,844	4,211,811	702,457
Net increase (decrease)	1,123,396	(258,773)	427,427
Net assets - beginning of year	10,246,341	1,073,493	1,830,755
Revisions to net assets	0	0	72,460
	<hr/>	<hr/>	<hr/>
Net assets - end of year	\$ 11,369,737	\$ 814,720	\$ 2,330,642
	<hr/>	<hr/>	<hr/>

State of Kansas
Financial Statements
June 30, 2010

Combining Statement of Net Assets - Component Units

June 30, 2010

(expressed in thousands)

	Kansas Development Finance Authority	Kansas Technology Enterprise Corporation	Kansas Housing Resources Corporation	Kansas Bioscience Authority	State University System	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 168	\$ 746	\$ 3,644	\$ 89,579	\$ 575,541	\$ 669,678
Restricted cash and cash equivalents	0	774	34	0	170,669	171,477
Investments	10,464	0	3,638	2,077	1,789,788	1,805,967
Restricted investments	400	0	2,904	0	104,385	107,689
Receivables, net	301	557	1,526	9,808	272,122	284,314
Due from primary government	13,445	0	0	0	0	13,445
Inventories	0	0	0	0	15,916	15,916
Other assets	76	111	2,083	79	59,108	61,457
Total current assets	<u>24,854</u>	<u>2,188</u>	<u>13,829</u>	<u>101,543</u>	<u>2,987,529</u>	<u>3,129,943</u>
Noncurrent assets:						
Investments	0	8,737	0	16,099	39,319	64,155
Receivables, net	24	890	1,835	0	92,697	95,446
Restricted cash and cash equivalents	0	0	13	0	19,897	19,910
Due from primary government	90,160	0	0	0	0	90,160
Capital assets (net of accumulated depreciation)	17	85	395	5,087	1,862,846	1,868,430
Other noncurrent assets	0	0	7,366	8,310	115,258	130,934
Total noncurrent assets	<u>90,201</u>	<u>9,712</u>	<u>9,609</u>	<u>29,496</u>	<u>2,130,017</u>	<u>2,269,035</u>
Total assets	<u>\$ 115,055</u>	<u>\$ 11,900</u>	<u>\$ 23,438</u>	<u>\$ 131,039</u>	<u>\$5,117,546</u>	<u>\$ 5,398,978</u>
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	\$ 111	\$ 384	\$ 790	\$ 4,971	\$ 326,375	\$ 332,631
Deferred revenue	400	0	1,875	0	115,857	118,132
Short-term compensated absences	0	0	131	33	54,922	55,086
Short-term portion of long-term liabilities	13,445	0	0	173	53,016	66,634
Total current liabilities	<u>13,956</u>	<u>384</u>	<u>2,796</u>	<u>5,177</u>	<u>550,170</u>	<u>572,483</u>
Noncurrent liabilities:						
Compensated absences	0	0	0	0	10,605	10,605
Bonds, notes and loans payable	90,160	0	0	2,506	764,535	857,201
Other noncurrent liabilities	2,658	27	7,397	3,295	98,124	111,501
Total noncurrent liabilities	<u>92,818</u>	<u>27</u>	<u>7,397</u>	<u>5,801</u>	<u>873,264</u>	<u>979,307</u>
Total liabilities	<u>106,774</u>	<u>411</u>	<u>10,193</u>	<u>10,978</u>	<u>1,423,434</u>	<u>1,551,790</u>
NET ASSETS						
Invested in capital assets, net of related debt	17	85	395	2,415	1,199,677	1,202,589
Restricted for:						
Capital projects	0	0	0	0	78,863	78,863
Debt service	0	0	0	0	44,548	44,548
Other purposes	0	82	3,232	4,999	1,034,639	1,042,952
Unrestricted	8,264	11,322	9,618	112,647	1,336,385	1,478,236
Total net assets	<u>\$ 8,281</u>	<u>\$ 11,489</u>	<u>\$ 13,245</u>	<u>\$ 120,061</u>	<u>\$3,694,112</u>	<u>\$ 3,847,188</u>

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

State of Kansas
Financial Statements
June 30, 2010

Combining Statement of Activities - Component Units
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Kansas Development Finance Authority	Kansas Technology Enterprise Corporation	Kansas Housing Resources Corporation	Kansas Bioscience Authority	State University System	Total
EXPENSES						
Salaries and wages	\$ 943	\$ 4,244	\$ 3,298	\$ 1,891	\$1,100,997	\$1,111,373
Supplies and services	289	2,170	1,531	1,257	488,519	493,766
Depreciation	14	70	181	60	113,696	114,021
Interest expense	0	0	0	0	24,986	24,986
Other expenses	66	5,548	139,203	22,763	349,183	516,763
Total expenses	<u>1,312</u>	<u>12,032</u>	<u>144,213</u>	<u>25,971</u>	<u>2,077,381</u>	<u>2,260,909</u>
PROGRAM REVENUES						
Charges for services	2,451	629	3,471	549	1,159,450	1,166,550
Operating grants	0	9,512	2,484	0	488,676	500,672
Total program revenues	<u>2,451</u>	<u>10,141</u>	<u>5,955</u>	<u>549</u>	<u>1,648,126</u>	<u>1,667,222</u>
Net (Expense) Revenue	<u>1,139</u>	<u>(1,891)</u>	<u>(138,258)</u>	<u>(25,422)</u>	<u>(429,255)</u>	<u>(593,687)</u>
GENERAL REVENUES						
Taxes:						
Gross receipts tax	0	0	0	0	882	882
Investment earnings	302	(430)	376	386	222,877	223,511
Other revenues	11	996	135,528	36,074	606,715	779,324
Total general revenues	<u>313</u>	<u>566</u>	<u>135,904</u>	<u>36,460</u>	<u>830,474</u>	<u>1,003,717</u>
Change in net assets	<u>1,452</u>	<u>(1,325)</u>	<u>(2,354)</u>	<u>11,038</u>	<u>401,219</u>	<u>410,030</u>
Total net assets - beginning	6,829	12,760	15,599	109,023	3,289,986	3,434,197
Revisions to beginning net assets	0	54	0	0	2,907	2,961
Total net assets - beginning (restated)	<u>6,829</u>	<u>12,814</u>	<u>15,599</u>	<u>109,023</u>	<u>3,292,893</u>	<u>3,437,158</u>
Total net assets - ending	<u>\$ 8,281</u>	<u>\$ 11,489</u>	<u>\$ 13,245</u>	<u>\$ 120,061</u>	<u>\$3,694,112</u>	<u>\$3,847,188</u>

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 fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2010, 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, 2010

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

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 supplements. KDFA is a public body politic and

I. Summary of Significant Accounting Policies

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

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

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

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 financial statements which can be obtained from the respective university. The Kansas Board of Regents' administrative arm does not issue separate financial statements.

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

I. Summary of Significant Accounting Policies

bioscience, and to create jobs, foster economic growth, advance scientific knowledge and improve the quality of life for the citizens of the State.

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

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

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

B. Government-wide and Fund Financial Statements

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

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

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

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

I. Summary of Significant Accounting Policies

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

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

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

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

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

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

D. Fund Accounting

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

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

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.

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.

Health Policy Authority – This fund includes all health insurance purchasing by the State, as well as federally funded programs (Medicaid, State Children's Health Insurance Program and Medikan) and the State Employee Health Insurance Program.

Transportation Fund – This fund is the primary operating fund of the Department of Transportation. The Department of Transportation has the statutory responsibility to coordinate planning, development and operation of the various modes and systems of transportation in the State.

Transportation-Capital Projects Fund – This fund accounts for the financial resources to be used for construction of major capital facilities for the Department of Transportation.

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.

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

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

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

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

Fiduciary Funds:

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

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

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

Private Purpose Trust Fund - This fund accounts for the College Savings Program that allows participants to invest in a college savings account to cover tuition, fees, and the cost of room and board, books, supplies and equipment required for the enrollment or attendance of a beneficiary at an eligible educational institution.

I. Summary of Significant Accounting Policies

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

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

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

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

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

E. Assets, Liabilities, and Net Assets or Equity

Cash and Investments

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

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

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

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

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

I. Summary of Significant Accounting Policies

- 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.

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

Receivables and Payables

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

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

Receivables are shown net of an allowance for uncollectible.

Inventories

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

The governmental funds statements have a current financial resources focus. As a result, modified accrual adjustments to capitalize inventory at year-end, affect beginning fund balance rather than expenditures. The focus on current financial resources is better maintained by not adjusting the expenditures for the amount of inventory reclassified to the balance sheet. The government-wide statements, however, require the full accrual adjustment to expenditures to properly reflect the amount of inventory consumed during the fiscal year.

I. Summary of Significant Accounting Policies

Deferred Bond Issuance Costs

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

Restricted Assets

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

Capital Assets

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

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

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

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

Infrastructure

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

Compensated Absences

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

I. Summary of Significant Accounting Policies

the sick leave liability. The compensated absences liability will be liquidated by the State's governmental and internal service funds.

Bonds and Notes Payable

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

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

Other Long-term Obligations

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

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are reserved for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

F. Use of Estimates

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

G. New Governmental Accounting Standards Board Statements

The State implemented the following new pronouncements for fiscal year 2010:

GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets" provides guidance regarding how to identify, account for and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, patents and trademarks.

GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments" was issued June 2008. This statement requires government to measure most derivative instruments at fair value in their financial statement. The methods of evaluating the effectiveness of hedging derivative instruments are addressed. The recognition and disclosure of information regarding derivative instrument are also addressed in this statement.

I. Summary of Significant Accounting Policies

At June 30, 2010, the Governmental Accounting Standards Board (GASB) had issued several statements not yet implemented by the State. The State plans to implement the provisions of these statements on or before their effective dates. Management has not yet determined the impact these new statements will have on the State's financial statements. The State will implement the following new pronouncements for fiscal years ending after June 30, 2010.

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" was issued March 2009. The objective of this Statement is to improve the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The provisions of this statement are effective for periods beginning after June 15, 2010.

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

II. Stewardship, Compliance, Accountability

A. Excess of Expenditures Over Appropriations

For the year ended June 30, 2010, expenditures did not exceed appropriations or limitations.

B. Deficit Fund Equity

The Transportation – Capital Projects Fund had a deficit fund balance in fiscal year 2010 due to reporting requirements of demand bonds with no long-term financing agreement in place.

The State General Fund had a deficit fund balance in fiscal year 2010 because the State had less cash due to the decline in the economy.

State of Kansas
Notes to the Financial Statements
June 30, 2010

III. Detailed Notes On All Funds

A. Deposits and Investments

A summary of deposits and investments at June 30, 2010, is as follows (expressed in thousands):

	Govt and Business Type Activities	Pension Trust	Investment Trust	College Savings Program	Agency	Component Units	Total
Pooled Cash and Investments							
Cash	\$ 29,077	\$ 1,312	\$ 0	\$ 0	\$ 0	\$ 0	\$ 30,389
Investments	1,013,683	0	814,720	0	355,909	550,179	2,734,491
Cash deposits with financial institutions	(80,597)	0	0	0	0	0	(80,597)
Cash with U.S. Treasury	143,795	0	0	0	0	0	143,795
Unclaimed Property invested by KPERS	192,270	0	0	0	0	0	192,270
Imprest funds and agency bank accounts	1,114	0	0	0	0	130	1,244
Canteen, members' benefit, members' money in agency's custody	0	0	0	0	10,049	0	10,049
Kansas Public Employees Retirement (KPERS)	0	12,375,903	0	0	0	0	12,375,903
Investments owned by other funds	391,041	0	0	0	430,766	16,283	838,090
Learning Quest investments	0	0	0	2,329,875	0	0	2,329,875
Security deposits held by Kansas Insurance Dept.	0	0	0	0	146,775	0	146,775
Star Bonds	101,926	0	0	0	0	0	101,926
Miscellaneous cash and other adjustments	(30,919)	0	0	0	(8,045)	2,272,281	2,233,317
Total	<u>\$ 1,761,390</u>	<u>\$ 12,377,215</u>	<u>\$ 814,720</u>	<u>\$ 2,329,875</u>	<u>\$ 935,454</u>	<u>\$ 2,838,873</u>	<u>\$ 21,057,527</u>

State of Kansas
Notes to the Financial Statements
June 30, 2010

III. Detailed Notes On All Funds

A reconciliation of deposits and investments for the State to the financial statements at June 30, 2010, is as follows (expressed in thousands):

Disclosures Regarding Deposits and Investments:

Total investments and deposits	\$ 18,127,296
Carrying amount of deposits	2,930,231
Total	<u>\$ 21,057,527</u>

Statement of Net Assets

Governmental and Business-Type Activities

Cash and cash equivalents	\$ 938,222
Investments at fair market value	334,937
Restricted cash and cash equivalents	432,129
Restricted investments	56,102

Component Units

Cash and cash equivalents	669,678
Investments at fair market value	1,870,122
Restricted cash and cash equivalents	191,387
Restricted investments	107,689

Statement of Fiduciary Net Assets

Cash and cash equivalents	1,174,920
Investments at fair market value	15,282,341
Total	<u>\$ 21,057,527</u>

Investments Owned by Other Funds:

Investments Owned by Other Funds
Fiscal Year 2010

Investment Type	Primary Government		Component Units	Agency	Total
	Governmental	Business-Type Activities			
U.S. Government Obligations	\$ 2,814	\$ 0	\$ 1,385	\$ 430,766	\$ 434,965
U.S. Government Agency Securities	71,260	162,724	1,124	0	235,108
Mortgage Backed Securities	101	0	0	0	101
Kansas Banks	0	0	2,971	0	2,971
Repurchase Agreements	3,678	33,946	1,325	0	38,949
Municipal Investment Pool	0	0	520	0	520
Guaranteed Investment Contracts	7,402	37,433	8,958	0	53,793
Corporate Securities	0	71,683	0	0	71,683
Total	<u>\$ 85,255</u>	<u>\$ 305,786</u>	<u>\$ 16,283</u>	<u>\$ 430,766</u>	<u>\$ 838,090</u>

State of Kansas
Notes to the Financial Statements
June 30, 2010

III. Detailed Notes On All Funds

State Treasury and Municipal Investment Pool Balance

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

Pooled Cash and Investments	
Cash	
Kansas banks demand accounts	\$ 30,389
Investments at fair market value	
Kansas banks certificates of deposit	149,288
U.S. Government agencies securities	1,129,476
Commercial paper	719,920
Repurchase agreements	675,000
Loans receivable	5,739
Public water supply loan fund	5,000
Linked deposits	50,069
Cash deposits with financial institutions	
Moneys in custodial demand accounts	644
Cash items	25
Cash in transit	(81,266)
Unclaimed property invested by KPERS	192,270
Unemployment trust fund cash with U.S. Treasury	143,795
Total State Treasury and Municipal Investment Pool Balance	<u>\$ 3,020,349</u>

III. Detailed Notes On All Funds

At June 30, 2010, the carrying amount (book balance) of the deposits included in the State Treasury balance was \$2.9 billion. At June 30, 2010, the State Treasurer had \$293.2 million in the associated bank balances. For cash deposits with financial institutions, the State requires that its depository banks pledge collateral that has a market value equal to or greater than the deposits. Effective March 15, 2004, the Kansas State Treasurer's office in its role as custodian for collateral pledged against the State deposits, agreed to follow the changes to the pledged collateral policy that the Pooled Money Investment Board has approved. The criteria for Kansas Bank CDs are as follows:

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

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

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

Component Unit - KDFA

KDFA has adopted a formal investment policy. The primary objectives of investment activities are, in priority order, safety, yield and liquidity. The standard of care to be used by investment officials shall be the "prudent investor" standard, and shall be applied in the context of managing an overall portfolio.

At June 30, 2010, KDFA has \$565,844 invested in the State Municipal Investment Pool.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, KDFA will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The bank balances of KDFA's deposits at June 30, 2010, totaled \$180,439. UMB Bank will pledge collateral to a Federal Reserve account for bank balance in excess of the FDIC limit, as well as by the standard coverage of the FDIC.

Credit Risk. KDFA's policy limits investments to those allowed by State Statute, and further to those with one of the top two ratings from Standard & Poor's or Moody's Investor Services, depending on the type of investment. As of June 30, 2010, KDFA was invested Kansas Municipal Investment Pool. As of June 30, 2010, the pool was rated AA+ / S1+ by Standard & Poor's. The Vanguard GNMA Fund's underlying securities are primarily GNMA securities, which are explicitly guaranteed by the U.S. Government and thus carry no credit risk. The Vanguard Short Term Bond Index Fund's underlying securities are U.S. Government, high quality (investment-grade) corporate, and investment-grade international dollar-denominated bonds. The Funds have an average rating of Aaa/Aa+.

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

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

As of June 30, 2010, KDFA had the following investments, excluding certificates of deposit, with the noted investment maturities (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>
KMIP	\$ 566	\$ 566
Vanguard	10,298	10,298
Total	<u>\$ 10,864</u>	<u>\$ 10,864</u>

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

Component Unit - KHRC

As of June 30, 2010, KHRC had the following cash and investments (expressed in thousands):

	<u>Cost</u>	<u>Fair Value</u>
Cash		
Financial Institution	\$ 105	\$ 105
Money market funds	3,298	3,298
Securities purchased under agreements to resell	275	275
U.S. Treasury Bond and Agency obligations	6,482	6,542
Total	<u>\$ 10,160</u>	<u>\$ 10,220</u>

As of June 30, 2010, KHRC investments and maturities consist of the following (expressed in thousands):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1 year</u>	<u>1-5 Years</u>
U.S. Agency Securities	\$ 5,193	\$ 0	\$ 5,193
Mortgage backed securities	1,349	928	421
Total	<u>\$ 6,542</u>	<u>\$ 928</u>	<u>\$ 5,614</u>

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

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

III. Detailed Notes On All Funds

Credit Risk. The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. Per the investment policy, KHRC will minimize the credit risk through pre-qualifying institutions, diversifying its portfolios, and maintaining a standard of quality of authorized eligible investments. As of June 30, 2010, KHRC's investments were rated A+ to AAA by Standard & Poor's.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, KHRC will not be able to recover the value of its deposits or investments that are in the possession of an outside party. KHRC's investment policy requires collateralization on all demand deposit accounts, and to secure investments in Certificates of Deposits and Repurchase Agreements. KHRC also minimizes custodial credit risk by pre-qualifying the custodial or depository institutions, broker/dealers, intermediaries and advisors with which KHRC will do business. Investments held at June 30, 2010, including the underlying securities on the repurchase agreement, are held by the investment's counterparty. The repurchase agreement and deposits held with a financial institution were fully collateralized at June 30, 2010.

Concentration of Credit Risk. KHRC's investments are diversified to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities. The maximum percentage of portfolio by investment type ranges from 100 percent for U.S. Treasury Securities, U.S. Government Instrumentality Obligations and the State of Kansas Pooled Money Investment Board to 15 percent for banker's acceptance and commercial paper. All of KHRC's investments are in U.S. Government Instrumentality Obligations, which include investments in the Federal National Mortgage Association (55.8 percent), Freddie Mac (18.7 percent), and the Federal Home Loan Bank (25.5 percent) as of June 30, 2010.

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

Component Unit - KTEC

The following table summarizes the KTEC's cash and investments at June 30, 2010 (expressed in thousands):

Bank deposits and repurchase agreements	\$ 1,158
Certificate of deposit	102
Cash held by the State	260
Total Deposits	<u>\$ 1,520</u>

Cash in the amount of \$259,691 held by the State, which is not categorized below, represents grant funds received but not yet expended at June 30, 2010.

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, KTEC's deposits may not be returned to them. KTEC does not have a deposit policy for custodial risk. KTEC was not exposed to custodial risk at June 30, 2010, as indicated below (expressed in thousands):

Deposits covered by federal depository insurance or collateral held by KTEC or its agent in KTEC's name	\$ 608
Deposits covered by collateral held by pledging financial institution's trust department or by its agent in KTEC's name	756
Total Deposits (Bank Balance)	<u>\$ 1,364</u>

III. Detailed Notes On All Funds

Investments in Limited Partners consisted of the following at June 30, 2010 (expressed in thousands):

Investments in Economic Development LLCs

Wichita Technology Ventures, LLC	\$ 809
Manhattan Holdings, LLC	660
Quest Ventures, LLC	215
Milestone Ventures, LLC	125
Precede Fund, LLC	192
Bi-State Investment Group	20

Seed Capital Investments

Chemidex	226
Control Vision Corporation	200
CritiTech, Inc.	407
CyDex, Inc.	378
Deciphera	113
Griffin Technology	100
Heartland Technologies	150
Hiper Technology	300
iModules Software, Inc.	165
Innovia Medical	300
IRR-Residential	200
Living Naturally	99
Magic Lantern, LLC	101
Nanoscale Materials, Inc.	250
NUVIO Corporation	150
Pixus Communications, LLC	100
PowerSmart, LLC	125
Proteon Therapeutics, LLC	182
Redemption Plus, Inc.	91
Softvu, LLC	160
Sportvision	42
Urogen	257
Vasogenix Pharmaceuticals, Inc.	249
Winglet Technology	150
Community Wireless	100
Edenspace	250
Peak Vision Sports	150
TDP, Inc.	496
Felton International	60
PS Holdings, LLC	38
Matrix Electronic Measuring, Inc.	150
Athletixnation	167
EcoFit Lighting	250
KC Biomedix	361
Professional Engineering Corp.	100
Niltride Solutions Inc.	100
Total	<u>\$ 8,738</u>

III. Detailed Notes On All Funds

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

Component Unit – Kansas Bioscience Authority

As of June 30, 2010, the Kansas Bioscience Authority (KBA) had balances of \$89.6 million of cash and money market investments.

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

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of a failure of the counterparty, KBA will not be able to recover the value of its deposits or investments that are in the possession of an outside party. At June 30, 2010, approximately \$50 million were exposed to custodial risk as deposits are in excess of FDIC insurance coverage limits. On June 30, 2010, KBA transferred \$50 million to a broker for investment purposes; these funds were subsequently invested in money market portfolio the following day. For the one day during which these funds were being transferred to the broker for investment, they were temporarily "walled off" in a tier 1 capital account that was protected by FDIC insurance coverage, so are included in this custodial credit risk. During fiscal 2009, KBA implemented a sweep option for its cash deposit account that transfers fund in excess of FDIC insurance coverage limits into a money market fund account for investment in government-backed securities. The investments in this money market account are protected from custodial credit risk by \$500,000 in Securities Investor Protection Corporation (SPIC) insurance coverage. Also, as of June 30, 2010, underlying securities of \$7.1 million in investments were held by the investments' counterparties.

Credit Risk. As of June 30, 2010, KBA was invested in government agency securities including FHMLC, FFCB, FHLB and FNMA securities. The government agency securities were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service. Under KBA's investment policy, only AAA-rated securities were considered for investment.

Concentration of Credit Risk. Under KBA's investment policy, there is no limit on the total amount that can be invested in U.S. Treasury securities, government agency securities, or money market funds, but no more than five percent of the investment portfolio can be invested in securities issued or guaranteed by any one corporate issuer. As of June 30, 2010, KBA did not have an investment in a security type in excess of 5 percent of the total cash and investments balance.

Interest Rate Risk. Interest rate risk relates to the exposure to fair value losses arising from the fluctuations in interest rates. Under KBA's investment policy, the average duration of the overall portfolio should be no more than four years and only high-quality securities are considered. Management utilizes an investment manager and considers input and advice from this manager as part of the investment policy. As of June 30, 2010, KBA had the following investment maturities (expressed in thousands):

Investment Type	Fair Value	Less than 90 days	90 days to 1 year	1-5 years
Government Securities	\$ 7,146	\$ 0	\$ 2,077	\$ 5,069

State of Kansas
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III. Detailed Notes On All Funds

KBA investments consisted of the following at June 30, 2010 (expressed in thousands):

Debt securities	\$ 5,317
Equity securities	1,404
Venture capital limited partnership	1,226
Total	<u>\$ 7,947</u>

At June 30, 2010, KBA also owned warrants in and equity rights for the purchase of common stock in certain portfolio companies. The value of these warrants and equity rights is not readily determinable; therefore, they are not included in these financial statements.

B. Investments

Investments in the State Treasury Balance and Municipal Investment Pool at June 30, 2010, are as follows (expressed in thousands):

U.S. Government agency securities	\$ 235,107
Mortgage backed securities	101
Repurchase agreements	38,949
U.S. Government obligations	434,965
Kansas banks	2,971
State of Kansas Municipal Investment Pool	520
Guaranteed investment contracts	53,794
Corporate securities	71,683
Security deposits held by Kansas Insurance Department	146,775
College Savings Program	2,329,875
Less component units and other reconciling items	(16,823)
Total investments	<u>\$ 3,297,917</u>

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

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

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

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

III. Detailed Notes On All Funds

Investments Owned by Other Funds but maintained by KDFA

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

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

State of Kansas
Notes to the Financial Statements
June 30, 2010

III. Detailed Notes On All Funds

As of June 30, 2010, State agencies had the following investments (expressed in thousands):

Agency Name	Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	More than 10 years
Fort Hays State University	Investment Agreement	\$ 115	\$ 0	\$ 0	\$ 115	\$ 0
Dept of Health & Environment	Investment Agreement	18,431	0	1,755	3,300	13,376
Dept of Health & Environment	Repurchase Agreement	37,671	0	0	13,134	24,537
Dept. of Transportation	Investment Agreement	15,277	0	0	0	15,277
Dept. of Commerce	Investment Agreement	6,267	0	2,816	3,451	0
Dept of Commerce	Repurchase Agreements	3,239	3,239	0	0	0
Kansas State University	Repurchase Agreements	932	0	0	932	0
Kansas State University	Investment Agreement	4,335	0	461	0	3,874
Emporia State University	Investment Agreement	227	0	0	0	227
Pittsburg State University	Investment Agreement	1,019	0	0	365	654
Dept. of Corrections	Repurchase Agreements	439	0	0	439	0
Dept. of Corrections	Investment Agreement	1,135	0	1,135	0	0
University of Kansas	Repurchase Agreements	393	0	0	0	393
University of Kansas	Investment Agreement	2,567	0	446	1,599	522
University of Kansas Medical Center	Investment Agreement	695	0	0	231	464
Total		<u>\$ 92,742</u>	<u>\$ 3,239</u>	<u>\$ 6,613</u>	<u>\$ 23,566</u>	<u>\$ 59,324</u>

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

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

Agency Name	Debt Service Reserve Fund	Other Investments	Total
Fort Hays State University	\$ 115	\$ 0	\$ 115
Dept of Health and Environment	50,168	5,934	56,102
Dept. of Transportation	15,277	0	15,277
Dept. of Commerce	9,506	0	9,506
Kansas State University	5,267	0	5,267
Emporia State University	227	0	227
Pittsburg State University	1,019	0	1,019
Dept. of Corrections	1,574	0	1,574
University of Kansas	2,960	0	2,960
University of Kansas Medical Center	695	0	695
Total	<u>\$ 86,808</u>	<u>\$ 5,934</u>	<u>\$ 92,742</u>

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

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

Concentration of Credit Risk. The KDFA places no limit on the amount that may be invested with any one provider. The table below identifies the percent of total investments held by each provider as of June 30, 2010 (expressed in thousands):

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

Agency Name	Investment Provider	Fair Value	Percent of Total for Agency
Fort Hays State University	Natixis Funding Corp.	\$ 115	100%
Dept. of Health & Environment	AIG	20,955	37.35%
Dept. of Health & Environment	Citigroup	17,558	31.30%
Dept. of Health & Environment	FSA	1,201	2.14%
Dept. of Health & Environment	MBIA	3,997	7.12%
Dept. of Health & Environment	Trinity Plus Funding	11,384	20.30%
Dept. of Health & Environment	Morgan Guaranty	1,007	1.79%
Dept. of Transportation	FSA Capital Mgmt. Serv.	15,277	100%
Dept. of Commerce	MBIA	3,451	36.30%
Dept. of Commerce	Bayerische	3,239	34.07%
Dept. of Commerce	FSA Capital Mgmt. Serv.	2,817	29.63%
Kansas State University	MBIA	3,874	73.55%
Kansas State University	JP Morgan Chase	932	17.70%
Kansas State University	Bayerische	461	8.75%
Emporia State University	Trinity Plus	227	100%
Pittsburg State University	AIG	814	79.83%
Pittsburg State University	Trinity Plus	206	20.17%
Dept. of Corrections	AIG	1,574	100%
University of Kansas	Bayerische	643	21.73%
University of Kansas	FSA Capital Mgmt. Serv.	1,871	63.23%
University of Kansas	Natixis	445	15.04%
University of KS Medical Ctr.	Natixis Funding Corp.	463	66.70%
University of KS Medical Ctr.	Societe Generale	231	33.30%
Wichita State University	AIG		100%
Total		<u><u>\$ 92,742</u></u>	

III. Detailed Notes On All Funds

Component Unit-Universities

The following table summarizes the State University System's cash and investments at June 30, 2010 (expressed in thousands):

	Fair Value
U.S. Government obligations	\$ 396
Kansas banks	2,971
Invested with PMIB	2,632
Invested with KDFA	10,284
Imprest funds	130
Cash held with the State Treasurer	550,175
Cash and other investments	2,133,011
Total cash and investments	<u>\$ 2,699,599</u>

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

Kansas Public Employees Retirement System (KPERS) Investments

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

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

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

III. Detailed Notes On All Funds

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

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

The borrower collateralizes the loan with either cash or government securities of 102 percent of fair value on domestic securities and 105 percent of fair value on international securities loaned. Cash collateral is invested in KPERS' name in a dedicated short-term investment fund consisting of investment grade debt securities. KPERS does not have the ability to pledge or sell collateral securities without a borrower default. At June 30, 2010, the maturities of securities in this dedicated bond portfolio were as follows: 46.3 percent of the fair values of the securities mature within 30 days; 26.0 percent mature between 31 and 180 days; and 27.5 percent mature after 180 days.

The custodian provides for full indemnification to KPERS for any losses that might occur in the event of borrower default. KPERS does incur credit risk as it relates to the credit quality of the securities in the collateral pool. The securities on loan are marked to market daily to ensure the adequacy of the collateral. The fair value of securities on loan as of June 30, 2010, and June 30, 2009, were \$1.3 billion and \$790 million respectively. Collateral held by KPERS for June 30, 2010, and June 30, 2009, were \$1.4 billion and \$824.7 million respectively. Net income produced from securities lending activities for fiscal year 2010 was \$4.6 million and for fiscal year 2009 was negative \$20.6 million.

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

Concentration Risk. KPERS has investments in Federal National Mortgage Association issued securities that represent 2.5 percent of total net asset value, and U.S. Treasury securities representing 7.1 percent of net asset value. KPERS investment policy does not prohibit holdings above five percent in the debt securities of U.S. government issuers. Government sponsored enterprises (GSEs, such as FNMA) are considered government issuers for the purpose of implementing KPERS investment policy. No other single issuer represents one percent or more of KPERS assets.

Currency Risk. The risk that changes in exchange rates will adversely affect the fair value of an investment. KPERS investments at June 30, 2010, were distributed among the following currencies (expressed in thousands):

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USD Equivalent	Currency	Percent
\$ 167,687	Australian Dollar	1.35%
72,251	Brazil Real	0.58%
565,801	British Pound Sterling	4.57%
169,930	Canadian Dollar	1.37%
772	Chilean Peso	0.01%
11,180	Chinese Yuan Renminbi	0.09%
3,446	Colombian Peso	0.03%
2,037	Czech Koruna	0.02%
30,540	Danish Krone	0.25%
3,794	Egyptian Pound	0.03%
794,568	Euro Currency Unit	6.42%
206,581	Hong Kong Dollar	1.67%
1,714	Hungarian Forint	0.01%
18,495	Indian Rupee	0.15%
48,128	Indonesian Rupian	0.39%
1,464	Israeli Shekel	0.01%
469,235	Japanese Yen	3.79%
6,807	Malaysian Ringgit	0.06%
52,077	Mexican New Peso	0.42%
110	Moroccan Dirham	0.00%
39,572	New Taiwan Dollar	0.32%
34,286	New Turkish Lira	0.28%
7,738	New Zealand Dollar	0.06%
33,247	Norwegian Krone	0.27%
1,384	Philippines Peso	0.01%
6,453	Polish Zloty	0.05%
4,566	Russian Rubel	0.04%
35,355	S African Comm Rand	0.29%
108,199	Singapore Dollar	0.87%
82,943	South Korean Won	0.67%
60,823	Swedish Krona	0.49%
156,923	Swiss Franc	1.27%
4,696	Thailand Baht	0.04%
1,370	Uruguayan Peso	0.01%
22,312	Other currencies	0.18%
9,149,418	U.S. Dollar *	73.93%
<u>\$ 12,375,902</u>		<u>100.00%</u>

* Includes securities lending collateral of \$1,144,213

KPERS' asset allocation and investment policies include active and passive investments in international securities as shown above. KPERS target allocation is to have 22 percent of assets (excluding securities lending collateral) in dedicated international equities. KPERS also has five percent of assets targeted to global equities which are expected to be between 40 and 60 percent international. Core Plus bond managers are allowed to invest up to 20 percent of their portfolio in non-dollar securities. KPERS utilizes a currency overlay manager to reduce risk by hedging up to 50 percent of the foreign currency for selected international equity portfolios. At June 30, 2010, KPERS total foreign currency exposure was 16.5 percent hedged.

Credit Risk. The risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. KPERS' investment policies require Core and Core Plus managers to have at least 70 percent of holdings in investment grade

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securities. Each portfolio is required to maintain a reasonable risk level relative to its benchmark. KPERS assets, as of June 30, 2010, subject to credit risk, are shown with current credit ratings below (expressed in thousands):

Quality Rating	Commercial Paper	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
NR	\$ 65	\$ 313,387	\$ 78,500	\$ 0	\$ 497,824	\$ 889,776
AAA	281	192,856	0	879,489	25,462	1,098,088
AA	0	157,805	437,243	11,430	258,054	864,532
A	37,347	736,715	1,689	0	361,254	1,137,005
BBB	0	639,245	0	0	0	639,245
BB	0	351,427	0	0	0	351,427
B	0	307,359	0	0	0	307,359
CCC	0	212,481	0	0	0	212,481
D	0	0	0	0	1,620	1,620
Total	<u>\$ 37,693</u>	<u>\$ 2,911,275</u>	<u>\$ 517,432</u>	<u>\$ 890,919</u>	<u>\$ 1,144,214</u>	<u>\$ 5,501,533</u>

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

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

Effective Duration	Commercial Paper	Corporate	Agency	U.S. Government	Securities Lending Collateral	Total
0-1 yr	\$ 37,693	\$ 853,058	\$ 274,220	\$ 106,435	\$ 1,141,355	\$ 2,412,761
1-3 yrs	0	416,952	138,548	314,206	2,859	872,565
3-5 yrs	0	604,790	82,830	104,199	0	791,819
5-10 yrs	0	830,177	1,468	305,855	0	1,137,500
10-20 yrs	0	206,298	20,366	60,224	0	286,888
Total	<u>\$ 37,693</u>	<u>\$ 2,911,275</u>	<u>\$ 517,432</u>	<u>\$ 890,919</u>	<u>\$ 1,144,214</u>	<u>\$ 5,501,533</u>

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

Investment Derivatives

Futures

Futures contracts are commitments for delayed delivery (liability) or receipt (asset) of securities in which the seller agrees to make delivery and the buyer agrees to take delivery at a specific future date, of a specific instrument, at a specific price. Market risk arises due to market price and interest rate fluctuations that may result in a decrease in the fair value of futures contracts. Futures contracts are traded on organized exchanges and require initial margin in the form of cash or marketable

III. Detailed Notes On All Funds

securities. Holders of the futures contracts look to the exchange for performance under the contract. Accordingly, the credit risk due to nonperformance of the counterparties to futures contracts is minimal. Daily, the net change in the futures contract value is settled in cash with the exchanges, making the fair values always equal to zero after the daily margin flow. At the close of business June 30, 2010, KPERS had total net margins payable the next day of \$4.1 million. Cash equivalents and short-term investments in amounts necessary to settle the economic value of the futures contracts were held in the portfolio so that no leverage was employed in accordance with the Statement of Investment Policy. The daily margin flows affect cash assets held at the broker. Realized gains/losses are recognized at contract maturity and are included with underlying security type returns. Total revenues of \$100.9 million were associated with futures for the year ending June 30, 2010.

Options

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

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. All of KPERS' interest rate swaps in fiscal year 2010 were receive fixed interest swaps.

Credit default swaps are used to manage credit exposure without direct purchase or sale of securities. Written credit default swaps increase credit exposure (selling protection) obligating the seller to buy the bonds from the counterparty in the event of default. This creates credit risk, but very little counterparty risk. Purchased credit default swaps decrease exposure (buying protection) providing the right to "put" bonds to the counterparty in the event of default. This decreases credit risk, and has counterparty risk in the event the seller of the protection fails to cover the defaulting security. Controls are established by the investment managers to monitor the creditworthiness of the counterparties.

TBA (To Be Announced) Agency Bonds

Some government agency bonds are traded well in advance of their official date. These securities do not have finalized indenture contracts, but they are traded securities similar to any bond. The GASB has included these types of bonds in their derivatives disclosures due to the common practice of buying the TBA security 30 to 60 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.

Foreign Currency Forwards

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

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Investment Derivative Notional Values

(expressed in thousands)

<u>Derivative</u>	<u>Asset Class</u>	<u>June 30,2009</u>	<u>June 30,2010</u>
Domestic Equity Futures	Domestic Equities	\$ 461,458	\$ 801,672
International Equity Futures	International Equities	439,362	280,809
Fixed Futures	Fixed	1,045,786	653,618
Options Written	Fixed	7	1,329
Receive Fixed Interest Swaps	Fixed	166,700	189,450
Credit Default Swaps	Fixed	69,146	80,435
TBA Agency Bonds	Fixed	245,601	78,500

Futures and Options reflect the summed absolute values of the exposure.

TBA Agency Bonds notional values are equal to their fair value.

Investment Derivative Fair Values

(expressed in thousands)

<u>Derivative</u>	<u>June 30,2009</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30,2010</u>
Options Written	\$ 0	\$ 1,138	\$ 1,833	\$ (695)
Received Fixed Interest Swaps	1,223	8,785	8,688	1,320
Credit Default Swaps	(8,956)	12,810	4,634	(780)
TBA Agency Bonds	245,601	2,157,608	2,324,709	78,500
Foreign Currency Forwards	(4,875)	72,122	71,299	(4,052)
Total	<u>\$ 232,993</u>	<u>\$ 2,252,463</u>	<u>\$ 2,411,163</u>	<u>\$ 74,293</u>

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Foreign Currency Forwards

(expressed in thousands)

	June 30, 2009			June 30, 2010		
Currency	Notional \$USD	Fair Values	FV Increases	FV Decreases	Fair Values	Notional \$USD
Investment Currency Forwards						
Australian Dollar	\$ 128,334	\$ 1,034	\$ 26,518	\$ 31,270	\$ (3,718)	\$ 118,732
Brazil Real	2,290	108	181	348	(59)	4,142
British Pound Sterling	214,379	(1,367)	16,505	15,776	(638)	186,854
Canadian Dollar	59,955	(2,127)	8,307	6,913	(733)	140,112
Chinese Yuan Renminbi	18,470	(554)	506	0	(48)	9,106
Czech Koruna	0	0	47	47	0	0
Danish Krone	0	0	90	90	0	0
Euro Currency Unit	279,114	365	70,000	64,454	5,911	546,982
Hong Kong Dollar	270	0	509	348	161	74,236
Indonesian Rupian	0	0	106	0	106	1,100
Israeli Shekel	0	0	44	44	0	0
Japanese Yen	323,031	(1,220)	38,206	41,531	(4,545)	314,418
Malaysian Ringgit	0	0	167	116	51	1,514
Mexican New Peso	101	0	210	220	(10)	1,967
New Taiwan Dollar	0	0	4	14	(10)	1,204
New Turkish Lira	0	0	114	114	0	0
New Zealand Dollar	31,254	(705)	1,744	911	128	29,991
Norwegian Krone	23,854	58	2,600	2,791	(133)	8,308
Other Currencies	0	0	138	138	0	0
Polish Zloty	0	0	237	237	0	0
S African Comm Rand	216	(3)	676	663	10	1,927
Singapore Dollar	8,988	(280)	1,209	1,266	(337)	24,312
South Korean Won	0	0	275	393	(118)	6,161
Swedish Krona	20,918	(34)	2,221	2,420	(233)	43,582
Swiss Franc	36,299	(150)	1,317	1,004	163	46,000
Investment Forwards	\$ 1,147,473	\$ (4,875)	\$ 171,931	\$ 171,108	\$ (4,052)	\$ 1,560,648
Hedging Currency Forwards						
Australian Dollar	\$ 41,763	\$ (4,642)	\$ 6,067	\$ 2,066	\$ (641)	\$ 242,972
British Pound Sterling	33,679	(4,738)	8,938	3,049	1,151	286,231
Canadian Dollar	31,794	(1,150)	1,085	1,208	(1,273)	81,339
Euro Currency Unit	223,167	(11,451)	48,049	11,513	25,085	405,306
Hong Kong Dollar	14,460	1	98	0	99	38,056
Japanese Yen	101,963	(1,388)	2,193	1,624	(819)	176,616
Swiss Franc	30,478	(1,115)	1,826	542	169	79,079
Hedging Forwards	\$ 477,304	\$ (24,483)	\$ 68,256	\$ 20,002	\$ 23,771	\$ 1,309,599
Total	\$ 1,624,777	\$ (29,358)	\$ 240,187	\$ 191,110	\$ 19,719	\$ 2,870,247

Hedging Derivatives

Foreign Currency Forwards

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

III. Detailed Notes On All Funds

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.”

KPERS has ongoing foreign currency exposure through its international equities portfolio. At June 30, 2010, the market values of international equities was \$2.8 billion. KPERS’ exposure to foreign currencies is converted into a proxy basket of seven liquid currencies that are highly correlated to the movements of the underlying currencies. The weights to be used are calculated with reference to the liquidity and risk of each currency. There is appropriate statistical evidence that the proxy basket does track the currency exposure closely (residual standard deviation of less than one percent). This proves the intent is to hedge and qualifies as a designated hedge under Generally Accepted Accounting Principles. The forward contracts are purchased as needed are determined by the hedge manager, and mature in the nearest September or March. Gains/losses are realized during those periods and the contracts are rolled over to the next period as appropriate. Through these processes, hedging contracts can adapt at any changes to portfolio currency exposure. Since the hedging currency forwards track to the overall exposure, and they reference the same foreign exchange rates as the underlying portfolio, this hedge is known to be effective through consistent critical terms.

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

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Currency Forwards Counterparty Exposure

(expressed in thousands)

Counterparty Name	By Counterparty at June 30, 2010		Standard & Poors
	Notional \$USD	Fair Values	Long Term Rating
Investment Forwards Counterparty Exposure			
Bank of America Corp	\$ 117,924	\$ (2,203)	A
Bank of New York Mellon	185,944	(2,133)	AA
BlackRock, Inc	157,891	3,152	A
BNP Paribas	34,932	405	AA
Brown Brothers Harriman	24,311	346	not rated
Citigroup Inc Total	34,446	51	A
Credit Suisse Group AG	57,317	(107)	A
Deutsche Bank AG	54,512	97	A
Goldman Sachs Group Inc	10,459	(127)	A
HSBC Holding PLC	132,126	(1,795)	AA
JPMorgan Chase & Co	152,442	(2,193)	A
Morgan Stanley	17,898	92	A
Northern Trust Corp	2,197	42	AA
Royal Bank of Canada	121,779	(1,221)	AA
Royal Bank of Scotland	74,728	310	AAA
SAS Rue La Boetie	28,730	449	not rated
Societe Generale	106,055	774	A
Standard Chartered PLC	813	(24)	A
State Street Corp	26,631	(171)	A
Toronto Dominion Bank	11,087	(506)	not rated
UBS AG	126,484	958	A
Westpac Banking Corp	81,942	(248)	AA
Investment Exposure	<u>\$ 1,560,648</u>	<u>\$ (4,052)</u>	
Hedging Forwards Counterparty Exposure			
Citigroup Inc	\$ 201,108	\$ 191	A
Deutsche Bank AG	276,007	(587)	A
JPMorgan Chase & Co	231,103	12,073	A
Royal Bank of Canada	164,728	14,985	AA
Royal Bank of Scotland	212,411	1,731	AAA
UBS AG	215,242	(4,622)	A
Hedging Exposure	<u>\$ 1,300,599</u>	<u>\$ 23,771</u>	

C. External Investment Pool

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

The MIP is considered a mixed pool because agencies of the State are participants in the pool. At June 30, 2010, the State's participation in the MIP was \$1.6 million. Deposits in the MIP are combined with State moneys to form the Pooled Money Investment Portfolio (PMIP). Investments subject to categorization of the PMIP are all category 1. As of March 15, 2004, the Pooled Money Investment Portfolio was rated AAAsf/S1+ by Standard & Poor's. Standard and Poor's requires monthly reporting on the Pool Money Investment Portfolio and conducts an annual rating review. Their most recent portfolio rating review was in April 2010, and the rating AAAsf/S1+ was reaffirmed.

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

D. Receivables

Accounts receivable as of June 30, 2010, 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	\$ 241,344	\$ 0	\$ 241,344	\$ 0
Loan receivable	0	806,113	806,113	24,654
Accrued interest	144	13,858	14,002	1,717
Other receivables	426,186	168,675	594,861	353,389
Total	<u>\$ 667,674</u>	<u>\$ 988,646</u>	<u>\$ 1,656,320</u>	<u>\$ 379,760</u>

Taxes receivable are shown net of allowances for uncollectible taxes of \$608.7 million and net of estimated individual and corporate refunds of \$333.5 million.

E. Investment in Direct Financing Leases

Component Units

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

Net investment in direct financing obligations as of June 30, 2010, is as follows (expressed in thousands):

Total minimum lease payments to be received	\$ 132,350
Less: unearned income	<u>(28,745)</u>
Net investment in direct financing leases	<u>\$ 103,605</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.

F. Restricted Assets

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

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

G. Equity

Invested in capital assets, restricted for capital projects, restricted for debt service and restricted for other purposes are each shown separately on the Statement of Net Assets. The majority of restrictions are within the component units, with \$395.9 million from the Kansas University Endowment. Restrictions as of June 30, 2010, from component units are as follows (expressed in thousands):

Component Units

	Kansas Development Finance Authority	Kansas Technology Enterprise Corporation	Kansas Housing Resources Corporation	Kansas Bioscience Authority	State University System	Total
Invested in capital assets, net of related debt	\$ 17	\$ 85	\$ 395	\$ 2,415	\$ 1,199,677	\$ 1,202,589
Restricted for capital projects	0	0	0	0	78,863	78,863
Restricted for debt service	0	0	0	0	44,548	44,548
Restricted for other purposes	0	82	3,232	4,999	1,034,639	1,042,952
Unrestricted	8,264	11,322	9,618	112,647	1,336,385	1,478,236
Total	<u>\$ 8,281</u>	<u>\$ 11,489</u>	<u>\$ 13,245</u>	<u>\$ 120,061</u>	<u>\$ 3,694,112</u>	<u>\$ 3,847,188</u>

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H. Capital Assets

Primary Government

	(expressed in thousands)			
	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental activities</i>				
Capital assets, not being depreciated:				
Land	\$ 200,143	\$ 31,066	\$ 11,811	\$ 219,398
Land improvements	91,374	13,895	9,204	96,065
Intangible	750	0	0	750
Construction in progress	912,291	317,387	26,167	1,203,511
Infrastructure (including construction in progress)	9,810,251	291,973	92,714	10,009,510
Total capital assets, not being depreciated	<u>11,014,809</u>	<u>654,321</u>	<u>139,896</u>	<u>11,529,234</u>
Capital assets, being depreciated:				
Buildings and improvements	1,278,264	129,832	120,239	1,287,857
Equipment and furnishings	514,398	42,872	76,898	480,372
Vehicles	74,219	11,064	10,153	75,130
Intangibles, software	0	27,720	0	27,720
Water rights	32,431	0	0	32,431
Total	<u>1,899,312</u>	<u>211,488</u>	<u>207,290</u>	<u>1,903,510</u>
Less accumulated depreciation for:				
Buildings and improvements	362,117	36,674	105,926	292,865
Equipment and furnishings	254,328	40,444	63,253	231,519
Vehicles	46,567	10,763	10,137	47,193
Intangibles, software	0	9,168	0	9,168
Water rights	14,739	836	0	15,575
Total	<u>677,751</u>	<u>97,885</u>	<u>179,316</u>	<u>596,320</u>
Total capital assets, being depreciated, net	<u>1,221,561</u>	<u>113,603</u>	<u>27,974</u>	<u>1,307,190</u>
Governmental activity capital assets, net	<u>\$ 12,236,370</u>	<u>\$ 767,924</u>	<u>\$ 167,870</u>	<u>\$ 12,836,424</u>
<i>Business-type activities</i>				
Capital assets, being depreciated:				
Equipment and furnishings	\$ 4,648	\$ 9,363	\$ 2,895	\$ 11,116
Less accumulated depreciation for:				
Equipment and furnishings	4,170	1,352	2,756	2,766
Business-type activity capital assets, net	<u>\$ 478</u>	<u>\$ 8,011</u>	<u>\$ 139</u>	<u>\$ 8,350</u>

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

Governmental activities

General government	\$ 23,130
Human resources	13,785
Education	1,568
Public safety	25,886
Agriculture and natural resources	5,176
Highways and other transportation	26,891
Health and environment	<u>1,449</u>
Total depreciation expense – Government activities	<u><u>\$ 97,885</u></u>

Business-Type activities

Health care stabilization	\$ 3
Nonmajor business-type	<u>1,349</u>
Total depreciation expense – Business-type activities	<u><u>\$ 1,352</u></u>

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Component Units

	(expressed in thousands)			
	Beginning Balance	Increases	Decreases	Ending Balance
<i>Kansas Development Finance Authority</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 184	\$ 13	\$ 50	\$ 147
Buildings and improvements	108	0	0	108
Less accumulated depreciation	274	14	50	238
Total capital assets, being depreciated, net	<u>\$ 18</u>	<u>\$ (1)</u>	<u>\$ 0</u>	<u>\$ 17</u>
<i>Kansas Technology Enterprise Corporation</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 1,076	\$ 28	\$ 185	\$ 919
Less accumulated depreciation	949	70	185	834
Total capital assets, being depreciated, net	<u>\$ 127</u>	<u>\$ (42)</u>	<u>\$ 0</u>	<u>\$ 85</u>
<i>Kansas Housing Resources Corporation</i>				
Capital assets, being depreciated				
Furniture and equipment	\$ 660	\$ 96	\$ 0	\$ 756
Vehicles	12	121	0	133
Buildings and improvements	49	13	0	62
Less accumulated depreciation	374	181	0	555
Total capital assets, being depreciated, net	<u>\$ 347</u>	<u>\$ 49</u>	<u>\$ 0</u>	<u>\$ 396</u>
<i>Kansas Bioscience Authority</i>				
Capital assets, not being depreciated				
Land	\$ 254	\$ 166	\$ 0	\$ 420
Construction in Process	626	3,894	0	4,520
Total capital assets, not being depreciated	<u>880</u>	<u>4,060</u>	<u>0</u>	<u>4,940</u>
Capital assets, being depreciated				
Furniture and equipment	\$ 216	\$ 58	\$ 0	\$ 274
Buildings and improvements	6	0	0	6
Less accumulated depreciation	86	47	0	133
Total capital assets being depreciated, net	<u>136</u>	<u>11</u>	<u>0</u>	<u>147</u>
Total capital assets, net	<u>\$ 1,016</u>	<u>\$ 4,071</u>	<u>\$ 0</u>	<u>\$ 5,087</u>

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	(expressed in thousands)			
	Beginning Balance	Increases	Decreases	Ending Balance
<i>University System</i>				
Capital assets, not being depreciated				
Land	\$ 45,311	\$ 24,565	\$ 755	\$ 69,121
Land improvements	40,017	2,298	40	42,275
Construction in progress	105,541	152,724	126,986	131,279
Total capital assets, not being depreciated	<u>190,869</u>	<u>179,587</u>	<u>127,781</u>	<u>242,675</u>
Capital assets, being depreciated				
Buildings and improvements	2,330,751	173,856	39,641	2,464,966
Equipment and furnishings	497,147	42,333	24,492	514,988
Intangible-Software	0	6,017	0	6,017
Vehicles	47,590	4,428	843	51,175
Total capital assets, being depreciated	<u>2,875,488</u>	<u>226,634</u>	<u>64,976</u>	<u>3,037,146</u>
Less accumulated depreciation for:				
Buildings and improvements	966,257	68,480	10,312	1,024,425
Equipment and furnishings	322,569	44,559	18,898	348,230
Intangible, software	0	3,303	0	3,303
Vehicles	38,202	3,684	869	41,017
Totals	<u>1,327,028</u>	<u>120,026</u>	<u>30,079</u>	<u>1,416,975</u>
Total capital assets, being depreciated, net	<u>1,548,460</u>	<u>106,608</u>	<u>34,897</u>	<u>1,620,171</u>
University system capital assets, net	<u>\$ 1,739,329</u>	<u>\$ 286,195</u>	<u>\$ 162,678</u>	<u>\$ 1,862,846</u>
<i>All Component Units</i>				
Capital assets, not being depreciated				
Land	\$ 45,565	\$ 24,731	\$ 755	\$ 69,541
Land improvements	40,017	2,298	40	42,275
Construction in progress	106,167	156,618	126,986	135,799
Total capital assets, not being depreciated	<u>191,749</u>	<u>183,647</u>	<u>127,781</u>	<u>247,615</u>
Capital assets, being depreciated				
Buildings and improvements	2,330,913	173,868	39,640	2,465,141
Equipment and furnishings	499,284	42,526	24,727	517,083
Intangible, software	0	6,017	0	6,017
Vehicles	47,602	4,550	844	51,308
Total capital assets, being depreciated	<u>2,877,799</u>	<u>226,961</u>	<u>65,211</u>	<u>3,039,549</u>
Less accumulated depreciation for:				
Buildings and improvements	966,411	68,486	10,313	1,024,584
Equipment and furnishings	324,085	44,842	19,134	349,793
Intangible, software	0	3,303	0	3,303
Vehicles	38,215	3,708	869	41,054
Totals	<u>1,328,711</u>	<u>120,339</u>	<u>30,316</u>	<u>1,418,734</u>
Total capital assets, being depreciated, net	<u>1,549,088</u>	<u>106,622</u>	<u>34,895</u>	<u>1,620,815</u>
All Component units capital assets, net	<u>\$ 1,740,837</u>	<u>\$ 290,269</u>	<u>\$ 162,676</u>	<u>\$ 1,868,430</u>

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Construction Commitments

The State has active construction projects as of June 30, 2010. The projects include road projects, dam repair, building remodeling and restoration, and new juvenile correctional facilities. At year-end, the State's commitments with contractors are as follows (expressed in thousands):

Agency – Project	Spent to Date	Remaining Commitment	Funding Source
Primary Government:			
Department of Correction			
Lansing Correctional Facility - Clinic and Infirmary Replacement	\$ 4,456	\$ 30	Correctional Facilities Infrastructure projects Fund
Department of Social and Rehabilitation Services			
Construction Project - Kansas Neurological Institution	1,929	408	Debt Service - State Institution Building Fund
Department of Administration			
Statehouse restoration and renovation	211,463	40,534	Debt service - Lease revenue Bonds secured by lease rents
Department of Transportation			
Various Roadway Projects - over 3,000 projects	n/a	771,900	Federal, state and local funds
Adjutant General's Department			
AFRC Wichita	2,016	230	Federal fund
Field Maintenance Shop Wichita	1,231	188	Federal fund
Great Plains Training Center	4,572	472	State bond funds

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Agency – Project	Spent to Date	Remaining Commitment	Funding Source
Component Units:			
Kansas State University			
Recreation Center Complex	\$ 1,350	\$ 21,230	Bonds and restricted fees funds
Sheep and Meat Goat Facility	70	1,450	Restricted fees fund and private gifts
Utilities Infrastructure/Power Plant Improvements	9,732	8,691	Infrastructure maintenance and support funds
Child Care Center	3,000	600	Bonds and restricted fees funds
Johnson Controls Energy Conservation Project	1,000	2,900	Bonds
Emporia State University			
Memorial Union Refurbishing	55,516	12,948	State funds
Pittsburg State University			
Porter Hall Repair Project	1,824	464	Bonds and university interest
New Student Housing	7,436	3,021	Bonds and housing & parking fee funds
Renovation of Existing Housing	1,919	1,271	Bonds and housing system operation fund
New Parking Expansion	3,412	744	Bonds and parking & student fee funds
KS Army National Guard Readiness/ Recreation Center	10,061	0	Bonds, education building fund, general fund, student fees, private gifts, and auxiliary funds.
McCray Hall Renovation	2,749	0	R&R fund, education building fund & student fees/private gifts
Construction of New Student Health Center	2,936	0	Bonds and private gifts and student fee funds
University of Kansas			
Pharmacy Teaching and Administration - Phase I	27,168	23,572	Revenue bonds and private gifts funds
Murphy Hall	67	4,393	Infrastructure maintenance program & university interest
Haworth Hall	796	1,804	Infrastructure maintenance program & university interest
Malott Hall	259	2,341	Infrastructure maintenance program & university interest
Edwards Campus -BEST Building	1,240	20,910	Bond proceeds secured by Edwards Campus Sales Tax Revenues
Energy Conservation Measures, PHASE III	7,411	18,186	Bond proceeds secured by unrestricted university revenues and infrastructure maintenance program funds
Transit Facility	15	4,585	Revenue generated from space rental of the new facility
University of Kansas Medical Center			
Miscellaneous	19,841	Unknown	University funds
Wichita State University			
Eck Stadium, Phase V	3,023	482	Rehabilitation and repair funds
Total	<u>\$386,492</u>	<u>\$943,354</u>	

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III. Detailed Notes On All Funds

I. Interfund Receivables, Payables, and Transfers

Due from/to other funds

Due from/to other funds represent interfund accounts receivable and payable. The total of due from/to other funds at June 30, 2010, is as follows (expressed in thousands):

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 4,568	\$ 16,772
Transportation Fund	56	0
Non-major Governmental Funds	19,711	1,076
Internal Service Funds	0	1,864
Non-major Enterprise Funds	0	4,623
Total	<u>\$ 24,335</u>	<u>\$ 24,335</u>

Advances to/from other funds

Advances to/from other funds represent long-term loans from one fund to another fund. Advances at June 30, 2010, were as follows (expressed in thousands):

Fund	Advances to Other Funds	Advances from Other Funds
General Fund	\$ 0	\$ 66,825
Non-major Governmental Funds	70,051	2,623
Non-major Enterprise Funds	1,000	0
Internal Service Funds	0	1,603
Total	<u>\$ 71,051</u>	<u>\$ 71,051</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.

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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	\$ 184,875	\$ 0
Transportation	0	466,885
Transportation-Capital Projects	0	179,732
Health Policy Authority	0	889,178
Non-major Governmental	1,437,089	0
Unemployment Insurance	0	7,836
Health Care Stabilization	0	206
Non-major Enterprise Funds	0	73,743
Internal Service Funds	0	4,384
Total	<u>\$ 1,621,964</u>	<u>\$ 1,621,964</u>

J. Short-term Obligations

Short-term obligations at June 30, 2010, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2009 Beginning Balance	Additions	Deletions	6/30/2010 Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 700,000	\$ 700,000	\$ 0
Accrued receivables:				
State Building Fund	0	43,735	43,735	0
Children's Initiatives Fund	0	33,443	33,443	0
Correctional Institution Building Fund	0	4,357	4,357	0
State Economic Development	0	20,891	20,891	0
Kansas Endowment for Youth Fund	0	208	208	0
27 th Paycheck	0	7,803	7,803	0
Bond Anticipation Notes:				
KDFA Series 2008-4, 1.98%	5,000	0	5,000	0
Total short-term obligations	<u>\$ 5,000</u>	<u>\$ 810,437</u>	<u>\$ 815,437</u>	<u>\$ 0</u>

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$700 million was issued on July 6, 2009, and redeemed on June 24, 2010.

Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for the State Buildings Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2010, \$29.2 million was posted to the Kansas Educational Building Fund and \$14.6 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in June 2010.

III. Detailed Notes On All Funds

Per House Bill 2354, Section 48(f) of the 2009 Session, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2010 a receivable was posted for \$33.4 million and was reduced to zero in April 2010.

Per House Bill 2354, Section 48(h) of the 2009 Session, on July 1, 2009, 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 2010, a receivable was posted for \$4.4 million and was reduced to zero in March, 2010.

Per House Bill 2354, Section 48(g) of the 2009 Session, on July 1, 2009, 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 2010, a receivable was posted for \$20.9 million and was reduced to zero in December 2009.

Per House Bill 2354, Section 48(i) of the 2009 Session, on July 1, 2009, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the director of budget which is to be 80 percent of the amount approved for expenditure during the fiscal year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2010, a receivable was posted for \$208 thousand and was reduced to zero in April 2010.

Per House Bill 2354, Section 48(n) of the 2009 Session, on July 1, 2009, receivables are to be posted to the State Treasurer's receivables for the 27th payroll in the amount of \$32.7 million. This amount is reduced as moneys are received into the fund. In fiscal year 2010, a receivable was posted for \$7.8 million and was reduced to zero in June 2010.

The Kansas Development Finance Authority is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the KDFA has authorized the issuance of notes in anticipation of revenue bond financing. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

The \$5 million KDFA Bond Anticipation Note, Series 2008-4, was issued to fund a capital improvement project for University of Kansas (Housing System). The loan was provided by the PMIB for a term of 356 days (due December 1, 2009) at an interest rate of 1.98 percent. Permanent financing was obtained with the issuance and sale of revenue bonds, KDFA Series 2010A on January 28, 2010 in the amount of \$23.7 million. The bond anticipation note was subsequently redeemed on January 28, 2010.

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K. Long-term Obligations

A summary of long-term obligations at June 30, 2010, for the fiscal year then ended is as follows (expressed in thousands):

	Government Activities	Business-Type Activities	Component Units	Total
Revenue bonds payable	\$ 2,861,825	\$ 749,001	\$ 700,808	\$ 4,311,634
Less bonds payable on demand	(664,315)	0	0	(664,315)
Sales tax limited obligation bonds	133,192	0	0	133,192
Sales tax accretion bonds	75,233	0	0	75,233
Notes payable	25,843	0	174,530	200,373
Capital leases payable	138,821	0	14,568	153,389
Arbitrage rebate payable	400	1,254	98	1,752
Unemployment benefits loan	0	88,159	0	88,159
Claims and judgments	87,216	215,402	0	302,618
Compensated absences	129,921	68	65,691	195,680
Other post employment benefits	36,270	224	30,404	66,898
Pollution remediation	70,936	0	4,000	74,936
Other	0	17,697	110,928	128,625
Total long-term obligations	<u>\$ 2,895,342</u>	<u>\$ 1,071,805</u>	<u>\$ 1,101,027</u>	<u>\$ 5,068,174</u>

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Long-term obligations at June 30, 2010, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2009 Beginning Balance	Additions	Deletions	6/30/2010 Ending Balance	Amounts Due In One Year
Governmental Activities									
<u>Revenue bonds payable:</u>									
KDFA Series 2001 M	2002	3.50 - 5.00%	2011	\$ 32,390	\$ 8,075	\$ 0	\$ 3,940	\$ 4,135	\$ 4,135
KDFA Series 2003 H	2004	1.41 - 5.21%	2014	40,250	22,175	0	4,020	18,155	4,210
KDFA Series 2004 A	2004	2.00 - 5.00%	2024	44,920	36,805	0	1,785	35,020	1,835
KDFA Series 2004 C	2004	3.43 - 5.50%	2034	500,000	489,930	0	10,415	479,515	10,805
KDFA Series 2004 G-2	2005	2.50 - 5.13%	2010	1,545	300	0	300	0	0
KDFA Series 2005 H	2006	3.25 - 5.00%	2032	88,175	78,740	0	3,250	75,490	3,380
KDFA Series 2005 N	2006	3.50 - 4.00%	2015	28,165	17,750	0	2,680	15,070	2,790
KDFA Series 2006 A	2006	4.00 - 5.00%	2027	209,490	195,745	0	7,300	188,445	7,600
KDFA Series 2006 L	2007	4.00 - 4.25%	2026	13,210	11,955	0	665	11,290	690
KDFA Series 2007 F	2007	4.00 - 4.97%	2017	34,505	28,945	0	3,085	25,860	3,210
KDFA Series 2007 K	2008	4.00 - 5.25%	2028	59,455	57,575	0	1,955	55,620	2,045
KDFA Series 2008 L	2009	2.00 - 5.25%	2029	43,265	43,265	0	1,510	41,755	1,565
KDFA Series 2009 A	2009	2.50 - 5.00%	2035	3,825	3,825	0	0	3,825	0
KDFA Series 2009 B	2009	5.00%	2019	515	515	0	0	515	0
KDFA Series 2009 F	2009	3.00 - 5.00%	2019	49,425	49,425	0	0	49,425	0
KDFA Series 2009 M-1&M-2	2010	3.00 - 6.31%	2034	85,265	0	85,265	650	84,615	2,215
KDFA Series 2009 N	2010	3.88 - 5.80%	2025	10,050	0	10,050	0	10,050	0
KDFA Series 2010 C	2010	5.00%	2020	52,755	0	52,755	0	52,755	0
KDFA Series 2010 E-1 & E-2	2010	2.00 - 6.12%	2035	84,160	0	84,160	0	84,160	0
KDFA Series 2010 F	2010	1.58 - 6.25%	2032	18,400	0	18,400	0	18,400	0
KDOT Series 1998	1998	3.65 - 5.50%	2014	189,195	46,670	0	15,310	31,360	19,895
KDOT Series 2000 B & C*	2001	4.50 - 5.85%	2010	200,000	200,000	0	200,000	0	0
KDOT Series 2002 A	2003	Variable	2012	199,600	55,915	0	22,390	33,525	21,835
KDOT Series 2002 B & C*	2003	3.39%	2020	320,005	320,005	0	0	320,005	0
KDOT Series 2002 D*	2003	Variable	2012	88,110	67,840	0	21,400	46,440	22,590
KDOT Series 2003 A & B	2004	3.13 - 5.00%	2014	248,190	248,190	0	40,830	207,360	40,565
KDOT Series 2004 A	2004	4.50 - 5.50%	2023	250,000	250,000	0	0	250,000	0
KDOT Series 2004 B	2005	4.30 - 5.00%	2025	200,000	200,000	0	0	200,000	0
KDOT Series 2004 C*	2005	Variable	2025	147,000	147,000	0	0	147,000	0
KDOT Series 2008 A*	2008	3.36%	2016	150,870	150,870	0	0	150,870	0
KDOT Series 2009 A	2010	2.25 - 5.00%	2021	176,680	0	176,680	0	176,680	0
				(885,715)	(885,715)		(221,400)	2,817,340 (664,315)	149,365 (22,590)
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	44,366	39,438	9,708	74,096	0
Unamortized deferred refunding difference				0	(310,53)	(5,204)	(6,646)	(29,611)	0
Total revenue bonds payable				\$ 2,683,700	1,859,113	461,544	123,147	2,197,510	126,775
<u>Sales tax limited obligation bonds:</u>									
1999 KISC	1999	4.20 - 5.25%	2028	17,496	16,821	0	369	16,452	400
2001 Project Area B	2001	4.00 - 5.10%	2021	20,639	16,053	0	904	15,149	1,134
2002 Subordinate KISC	2002	5.00 - 8.00%	2023	4,550	2,052	0	187	1,865	241
400 Acres Refunding	2005	3.25 - 5.54%	2021	3,931	3,654	0	148	3,506	187
2 nd Lien 2005 Turbo	2006	4.75 - 5.00%	2021	125,298	117,616	0	23,591	94,025	0
2010 A	2010	6.25%	2010	18,000	0	18,000	18,000	0	0
Salt Museum	2006	5.00%	2021	3,984	2,626	0	431	2,195	432
Total sales tax limited obligation bonds				\$ 193,898	158,822	18,000	43,630	133,192	2,394
<u>Notes payable:</u>									
Water supply storage in Federal reservoirs				32,575	21,275	0	625	20,650	711
Expanded Lottery Operations				5,000	5,000	0	0	5,000	0
Printing plant				3,857	380	0	187	193	193
Total notes payable				\$ 41,432	26,655	0	812	25,843	904
Capital leases payable					130,533	20,991	12,703	138,821	11,656
Sales Tax Limited Obligation-2010 B Accretion Bonds					0	75,233	0	75,233	0
Arbitrage rebate payable					385	15	0	400	0
Claims and judgments					85,920	424,257	422,961	87,216	45,863
Compensated absences					134,386	0	4,465	129,921	62,777
Other post employment benefits					26,626	18,986	9,342	36,270	0
Pollution remediation					81,092	7,642	17,798	70,936	23,082
Total Governmental Activities				\$ 2,503,532	\$ 1,026,668	\$ 634,858	\$ 2,895,342	\$ 273,451	

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	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2009 Beginning Balance	Additions	Deletions	6/30/2010 Ending Balance	Amounts Due In One Year
Business-Type Activities									
<u>Revenue bonds payable:</u>									
KDFA Series 1997 I & 2	1998	4.13 - 5.00%	2010	\$ 45,420	\$ 12,825	\$ 0	\$ 12,825	\$ 0	\$ 0
KDFA Series 1998 I & 2	1999	3.88 - 5.25%	2021	39,690	4,205	0	4,205	0	0
KDFA Series 1998 II	1998	3.75 - 5.25%	2013	80,500	17,275	0	9,820	7,455	4,305
KDFA Series 2000 I & II	2000	4.60 - 6.00%	2012	82,915	8,240	0	3,810	4,430	4,000
KDFA Series 2000 I & 2	2000	4.75 - 5.75%	2010	53,500	17,270	0	17,270	0	0
KDFA Series 2001 I & II	2002	3.00 - 5.50%	2022	141,045	115,815	0	5,685	110,130	6,000
KDFA Series 2002 I & 2	2002	4.00 - 5.50%	2024	51,805	22,800	0	2,310	20,490	2,045
KDFA Series 2002 II	2003	2.26 - 5.50%	2024	101,575	55,370	0	3,000	52,370	3,450
KDFA Series 2004 II	2004	2.00 - 5.25%	2023	45,140	45,140	0	1,500	43,640	1,750
KDFA Series 2004 I & 2	2005	3.00 - 5.00%	2026	176,010	160,430	0	11,530	148,900	7,760
KDFA Series 2005 CW I & II	2006	3.00 - 5.00%	2027	118,860	103,455	0	5,365	98,090	7,215
KDFA Series 2008 CW I & II	2009	3.00 - 5.13%	2030	66,545	66,545	0	0	66,545	1,365
KDFA Series 2008 DW I & 2	2009	5.00 - 6.00%	2029	36,700	36,445	0	1,330	35,115	1,365
KDFA Series 2009 DW I & 2	2010	1.50 - 5.60%	2029	73,040	0	73,040	1,080	71,960	2,515
KDFA Series 2005 TR	2006	3.00 - 5.00%	2026	32,690	28,455	0	2,080	26,375	2,085
KDFA Series 2006 TR	2007	4.00 - 5.00%	2027	24,755	21,595	0	1,705	19,890	1,765
KDFA Series 2008 G	2009	4.60 - 5.05%	2023	14,200	12,758	0	1,145	11,613	1,198
KDFA Series 2009 TR	2009	2.50 - 4.78%	2028	30,950	30,950	0	1,280	29,670	2,175
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	22,357	(87)	3,045	19,225	0
Unamortized deferred refunding difference				0	(15,954)	(2,630)	(1,687)	(16,897)	0
Total revenue bonds payable				<u>\$ 1,215,340</u>	<u>765,976</u>	<u>70,323</u>	<u>87,298</u>	<u>749,001</u>	<u>48,993</u>
Arbitrage rebate payable					2,885	(879)	752	1,254	1,066
Unemployment benefits loan					0	88,159	0	88,159	0
Claims and judgments					218,332	50	2,980	215,402	17,226
Compensated absences					72	0	4	68	57
Other post employment benefits					155	75	6	224	0
Other					17,115	582	0	17,697	0
Total Business-type Activities					<u>\$ 1,004,535</u>	<u>\$ 158,310</u>	<u>\$ 91,040</u>	<u>\$ 1,071,805</u>	<u>\$ 67,342</u>

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III. Detailed Notes On All Funds

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2009 Beginning Balance	Additions	Deletions	6/30/2010 Ending Balance	Amounts Due In One Year
Component Units									
<u>Revenue bonds payable:</u>									
KDFA Series 1989 E	1990	6.00 - 7.25%	2010	\$ 1,401	\$ 128	\$ 3	\$ 131	\$ 0	\$ 0
KDFA Series 1995 K	1996	3.75 - 5.40%	2016	3,835	2,020	0	2,020	0	0
KDFA Series 1996 J	1997	3.85 - 5.40%	2010	5,600	70	0	70	0	0
KDFA Series 1997 C	1997	4.70 - 5.30%	2011	3,255	550	0	305	245	245
KDFA Series 1997 G-1	1998	5.05%	2012	626	1,117	57	0	1,174	0
KDFA Series 1998 B	1998	3.90 - 5.00%	2018	9,320	5,690	0	430	5,260	450
KDFA Series 1998 D	1998	3.70 - 5.05%	2010	4,290	3,100	0	3,100	0	0
KDFA Series 1998 E	1999	3.40 - 4.90%	2024	4,750	3,715	0	145	3,570	155
KDFA Series 1998 L	1999	3.80 - 5.00%	2011	5,590	3,480	0	3,195	285	285
KDFA Series 1998 P	1999	3.00 - 4.85%	2019	3,650	2,410	0	160	2,250	170
KDFA Series 1999 A-1 & A-2	1999	3.20 - 5.00%	2012	28,210	7,400	0	2,075	5,325	2,025
KDFA Series 1999 B	1999	3.60 - 5.00%	2019	2,920	1,920	0	135	1,785	140
KDFA Series 1999 C	1999	4.00 - 5.10%	2019	3,085	2,045	0	145	1,900	150
KDFA Series 1999 D	1999	4.00 - 4.75%	2010	11,170	4,310	0	4,310	0	0
KDFA Series 1999 H	2000	3.75 - 5.20%	2012	17,830	2,375	0	750	1,625	790
KDFA Series 1999 N	2000	4.00 - 5.13%	2010	21,645	350	0	350	0	0
KDFA Series 2000 B	2000	4.70 - 5.90%	2010	5,705	3,095	0	3,095	0	0
KDFA Series 2000 D	2001	4.60 - 5.60%	2015	1,735	935	0	110	825	115
KDFA Series 2000 V	2001	4.35 - 4.75%	2011	16,370	2,175	0	1,100	1,075	1,075
KDFA Series 2001 B	2001	3.65 - 5.20%	2021	2,805	1,985	0	125	1,860	130
KDFA Series 2001 D	2001	4.25 - 5.25%	2021	48,895	34,975	0	2,180	32,795	2,290
KDFA Series 2001 F	2001	3.30 - 5.50%	2012	29,905	9,195	0	3,560	5,635	1,715
KDFA Series 2001 J	2002	3.50 - 4.30%	2013	5,300	1,760	0	525	1,235	540
KDFA Series 2001 N	2001	4.25 - 5.25%	2014	7,230	3,345	0	590	2,755	620
KDFA Series 2001 S	2002	4.13 - 5.50%	2016	15,095	11,015	0	8,230	2,785	720
KDFA Series 2001 U	2002	3.10 - 5.00%	2021	10,295	6,145	0	645	5,500	670
KDFA Series 2001 W	2002	3.00 - 5.00%	2022	47,855	36,905	0	18,700	18,205	1,705
KDFA Series 2002 A	2002	3.50 - 5.00%	2017	26,560	19,020	0	9,505	9,515	1,330
KDFA Series 2002 C	2002	3.00 - 5.00%	2022	15,830	12,090	0	705	11,385	725
KDFA Series 2002 H	2003	2.50 - 4.10%	2016	3,765	2,715	0	165	2,550	170
KDFA Series 2002 J-1 & J-2	2003	3.39 - 3.58%	2010	33,355	29,595	0	29,595	0	0
KDFA Series 2002 K	2003	4.30%	2023	5,120	5,120	0	3,280	1,840	65
KDFA Series 2002 N	2003	3.00 - 5.25%	2018	52,075	41,480	0	30,225	11,255	2,300
KDFA Series 2002 P	2003	3.00 - 5.00%	2021	12,150	9,235	0	540	8,695	560
KDFA Series 2003 A-1 & A-2	2003	1.80 - 5.50%	2023	2,610	2,055	0	105	1,950	110
KDFA Series 2003 C	2003	4.67 - 5.00%	2033	72,670	63,295	0	1,830	61,465	575
KDFA Series 2003 D-1 & D-2	2003	2.00 - 4.70%	2028	6,470	5,225	0	4,500	725	70
KDFA Series 2003 J	2004	2.00 - 5.25%	2025	34,100	28,395	0	12,15	27,180	1,285
KDFA Series 2004 D	2005	3.00 - 4.75%	2020	1,195	1,055	0	85	970	85
KDFA Series 2004 F	2005	2.00 - 5.25%	2012	44,860	3,155	0	9,745	21,770	12,270
KDFA Series 2004 G-1	2005	2.50 - 5.13%	2024	19,795	15,885	0	800	15,085	820
KDFA Series 2005 A	2005	3.00 - 5.00%	2035	44,535	41,935	0	920	41,015	950
KDFA Series 2005 D	2005	3.79 - 5.18%	2022	66,530	49,260	0	5,035	44,225	6,630
KDFA Series 2005 E-1 & E-2	2005	3.00 - 5.00%	2030	19,360	17,920	0	545	17,375	560
KDFA Series 2005 F	2006	3.25 - 4.40%	2026	8,930	8,580	0	375	8,205	380
KDFA Series 2005 G	2006	3.30 - 4.60%	2026	7,205	7,205	0	310	6,895	320
KDFA Series 2006 B	2006	3.50 - 4.13%	2021	9,790	9,650	0	140	9,510	145
KDFA Series 2007 A	2007	3.75 - 4.39%	2037	27,750	26,855	0	530	26,325	555
KDFA Series 2007 E	2007	3.75 - 4.30%	2027	6,275	5,855	0	230	5,625	240
KDFA Series 2007 H	2008	3.60 - 4.50%	2037	17,855	17,520	0	350	17,170	360
KDFA Series 2007 M	2008	3.20 - 4.60%	2027	18,220	17,550	0	695	16,855	715
KDFA Series 2008 A	2008	3.00 - 4.00%	2016	20,000	17,500	0	2,500	15,000	2,500
KDFA Series 2008 D	2008	5.10%	2038	1,600	1,600	0	0	1,600	0
KDFA Series 2008 L	2009	2.00 - 5.25%	2029	21,070	21,070	0	720	20,350	735
KDFA Series 2009 C	2009	3.00 - 5.00%	2017	20,000	20,000	0	2,500	17,500	2,500
KDFA Series 2009 G	2009	2.50 - 4.75%	2023	825	825	0	50	775	45
KDFA Series 2009 H	2009	2.50 - 7.30%	2035	14,630	14,630	0	0	14,630	0
KDFA Series 2009 J	2009	2.50 - 7.00 %	2030	4,545	4,545	0	0	4,545	160
KDFA Series 2009 K	2010	2.63 - 5.63%	2040	6,140	0	6,140	0	6,140	0
KDFA Series 2009 M-1 & M-2	2010	3.00 - 6.31%	2030	31,650	0	31,650	0	31,650	0
KDFA Series 2010 A	2010	2.00 - 4.05%	2030	23,700	0	23,700	0	23,700	610
KDFA Series 2010 B	2010	2.05 - 3.75%	2027	21,650	0	21,650	0	21,650	275
KDFA Series 2010 D	2010	3.12%	2015	1,315	0	1,315	0	1,315	200
KDFA Series 2010 G-1 & G-2	2010	2.00 - 6.60%	2040	21,565	0	21,565	0	21,565	0
KDFA Series 2010 H	2010	2.00%	2016	1,530	0	1,530	0	1,530	250
KDFA Series 2010 J	2010	0.75 - 4.45%	2030	14,765	0	14,765	0	14,765	595
KDFA Series 2010 K-1 & K-2	2010	2.00 - 6.20%	2035	15,050	0	15,050	0	15,050	1,140
KDFA Series 2010 M-1 & M-2	2010	2.00 - 5.10%	2026	20,990	0	20,990	0	20,990	0
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	3,864	2,698	933	5,629	0
Unamortized Deferred Refunding				0	(31)	(1,268)	(49)	(1,250)	0
Total Revenue Bonds Payable				\$ 1,116,397	705,223	159,845	164,260	700,808	54,220
<u>Notes payable:</u>									
Component units of university system					146,517	36,237	8,224	174,530	7,894
Total notes payable					146,517	36,237	8,224	174,530	7,894
Arbitrage rebate payable					123	22	47	98	0
Capital leases					14,147	1,745	1,324	14,568	1,358
Compensated absences					61,943	3,748	0	65,691	55,086
Other post employment benefits					20,068	10,362	26	30,404	0
Pollution remediation					0	4,000	0	4,000	300
Other					111,701	8,956	9,729	110,928	2,862
Total Component Units					\$ 1,059,722	\$ 224,915	\$ 183,610	\$ 1,101,027	\$ 121,720

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III. Detailed Notes On All Funds

The following table presents annual debt service requirements for those long-term debts outstanding, including bonds payable on demand, at June 30, 2010, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
Revenue bonds:						
2011	\$ 149,365	\$ 126,389	\$ 52,573	\$ 34,996	\$ 54,220	\$ 30,526
2012	165,340	118,786	48,058	32,849	57,260	28,882
2013	165,460	111,107	49,785	30,523	40,985	26,828
2014	165,825	104,153	52,476	28,083	38,345	25,181
2015	176,980	97,519	48,283	25,628	36,425	23,696
2016-2020	839,950	387,467	230,509	94,012	177,400	93,679
2021-2025	764,805	202,064	181,679	45,662	149,090	53,351
2026-2030	237,400	55,738	83,310	9,807	84,545	26,167
2031-2035	152,215	20,746	0	0	43,670	10,010
2036-2040	0	0	0	0	14,490	1,834
Less bonds payable on demand	(664,315)	(157,578)	0	0	0	0
Unamortized premium	74,095	0	19,225	0	5,628	0
Unamortized deferred refunding	(29,610)	0	(16,897)	0	(1,250)	0
Totals	<u>2,197,510</u>	<u>1,066,391</u>	<u>749,001</u>	<u>301,560</u>	<u>700,808</u>	<u>320,154</u>
Sales tax limited obligation bonds:						
2011	2,394	6,588	0	0	0	0
2012	2,494	6,510	0	0	0	0
2013	2,603	6,428	0	0	0	0
2014	2,716	6,339	0	0	0	0
2015	2,644	6,240	0	0	0	0
2016-2020	85,613	23,317	0	0	0	0
2021-2025	29,759	5,342	0	0	0	0
2026-2030	4,969	5,145	0	0	0	0
Totals	<u>113,192</u>	<u>65,909</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Notes payable:						
2011	904	778	0	0	7,894	7,905
2012	5,737	1,972	0	0	8,528	7,633
2013	763	725	0	0	8,799	7,259
2014	791	698	0	0	8,682	6,855
2015	819	669	0	0	12,383	6,373
2016-2020	4,564	2,878	0	0	44,410	30,037
2021-2025	5,305	1,980	0	0	36,175	17,348
2026-2030	4,659	996	0	0	22,493	9,176
2031-2035	1,639	401	0	0	16,226	4,022
2036-2040	544	61	0	0	8,940	1,162
2041-2045	118	3	0	0	0	0
Totals	<u>25,843</u>	<u>11,161</u>	<u>0</u>	<u>0</u>	<u>174,530</u>	<u>97,770</u>
Capital leases payable	138,821	48,132	0	0	14,568	3,907
Long-term debt without scheduled debt service:						
Arbitrage rebate payable	400	0	1,254	0	98	0
Sales tax limited obligation accretion bonds	75,233	0	0	0	0	0
Unemployment benefits loan	0	0	88,159	0	0	0
Claims and judgments	87,216	0	215,402	0	0	0
Compensated absences	129,921	0	68	0	65,691	0
Other post employment benefits	36,270	0	224	0	30,404	0
Pollution remediation	70,936	0	0	0	4,000	0
Other	0	0	17,697	0	110,928	0
Total long-term obligations	<u>\$ 2,895,342</u>	<u>\$ 1,191,593</u>	<u>\$ 1,071,805</u>	<u>\$ 301,560</u>	<u>\$ 1,101,027</u>	<u>\$ 421,831</u>

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III. Detailed Notes On All Funds

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

Fiscal Year Ended June 30	Principal	Interest	Hedging Derivative Instruments (Net)	Total
2011	\$ 22,590	\$ 22,856	\$ 1,487	\$ 46,933
2012	44,825	21,341	1,503	67,669
2013	40,295	19,121	1,506	60,922
2014	45,520	17,741	1,509	64,770
2015	113,110	15,132	1,516	129,758
2016 - 2020	250,975	44,811	7,577	303,363
2021 - 2025	147,000	16,575	4,313	167,888
Total	<u>\$ 664,315</u>	<u>\$ 157,577</u>	<u>\$ 19,411</u>	<u>\$ 841,303</u>

General Obligation Bonds

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

Revenue Bonds

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

Kansas Department of Transportation (KDOT) has 12 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 Comprehensive Transportation Program. The State's Comprehensive Transportation Program was developed by KDOT after extensive study of the transportation needs in the State and was implemented by the 1999 Kansas Legislature. Principal and interest payments on these bond issues are paid from revenues collected in the State Highway Fund, which include motor fuels taxes, state sales taxes, compensating use taxes, and drivers' license and vehicle registration fees. KDOT also has four outstanding series secured by pledges of revenues from loans and leases. Please reference Note K. above for KDOT revenue bonds and future principal and interest payments.

The coupon interest rate on outstanding bonds varies from 2.25 percent to 5.50 percent. In addition, various bonds were issued as variable rate instruments whose rates change on a daily, weekly, or 28-day basis depending on their respective individual modes. During the year, interest rates ranged from 0.05 percent to 0.30 percent on the daily adjustable bonds and from 0.30 percent to 1.00 percent on the weekly adjustable bonds. There were no 28-day adjustable bonds. The Series 2002 B, C and D, 2004 C and 2008 A Bonds are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, the liquidity provider has agreed to purchase the bonds and hold them for a maximum of 180 days. Through June 30, 2010, all bonds tendered have been remarketed. However, since there is not a long-term financing option in place at June 30, 2010, for these tendered bonds, these

III. Detailed Notes On All Funds

bonds have been recorded as obligations of the Transportation - Capital Project Fund resulting in a deficit fund balance in that fund.

Sales Tax Limited Obligation Bonds

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

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

III. Detailed Notes On All Funds

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, 2010, balance sheet. KDFA's special obligation bonds at June 30, 2010, total \$2.6 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, 2010, balance sheet. KDFA's private activity bonds at June 30, 2010, total \$1.6 billion.

Notes Payable

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

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 36 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, 2010, for portions of the storage designated as "future use" storage.

Lease Commitments

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

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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, 2010, are as follows (expressed in thousands):

<u>Fiscal Year</u>	
2011	\$ 12,695
2012	11,725
2013	10,999
2014	9,762
2015	8,539
2016-2020	32,376
2021-2025	15,047
2026-2030	<u>5,483</u>
Total future minimum lease payments	<u>\$ 106,626</u>
Rent expenditures/expenses for operating leases for the year ended June 30, 2010	<u>\$ 12,474</u>

Capital Leases

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

The following schedule presents future minimum lease payments as of June 30, 2010 (expressed in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 11,656	\$ 5,022
2012	15,948	5,807
2013	16,537	5,311
2014	16,433	6,083
2015	11,464	3,730
2016-2020	24,029	12,533
2021-2025	22,423	7,126
2026-2030	<u>20,331</u>	<u>2,520</u>
Total	<u>\$ 138,821</u>	<u>\$ 48,132</u>

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Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2010, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	\$ 9,510
Buildings	87,726
Equipment	43,937
Less: Accumulated depreciation	(43,804)
Total	<u>\$ 97,369</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, 2010, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2009 Beginning Balance	Current Year Defeased	Payments	6/30/2010 Ending Balance
Governmental Activities				
KDOT Series 1994	\$ 19,080	\$ 0	\$ 9,255	\$ 9,825
KDOT Series 1994 A	3,480	0	3,480	0
KDOT Series 1998	55,300	0	0	55,300
KDOT Series 1999	294,705	0	294,705	0
KDOT Series 2000 A	144,900	0	5,000	139,900
KDFA Series 2003 J	4,695	0	385	4,310
KDFA Series 2004 A	4,670	0	315	4,355
STAR Bonds Series 2010 A	0	18,000	18,000	0
Total governmental activities	<u>\$ 526,830</u>	<u>\$ 18,000</u>	<u>\$ 331,140</u>	<u>\$ 213,690</u>

KDFA, at the request of the Kansas Secretary of Administration, issued bonds to currently refund certain outstanding KDFA bond payments to achieve near term budgetary relief for the State General Fund. The KDFA Series 2009 M-1 and N were issued in the amount of \$26.0 million. This will result in an increase of \$47.2 million in future debt service payments and an estimated economic loss of \$0.8 million. The KDFA Series 2010 E-1 and F were issued in the amount of \$15.0 million. This will result in an increase of \$26.5 million in future debt service payments and an estimated economic loss of \$0.2 million.

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The STAR Bonds Series 2010 A was issued during the fiscal year for the partial financing of the project. It was expected at issuance this bond series would be refunded. The STARS Bonds Series 2010 B was subsequently issued to complete the project financing and refund the Series 2010 A bonds.

Bond Issue	6/30/2009 Beginning Balance	Current Year Defeased	Payments	6/30/2010 Ending Balance
Business-type Activities				
KDFA Series 1997 1 & 2	\$ 0	\$ 12,825	\$ 12,825	\$ 0
KDFA Series 1998 1 & 2	0	4,205	4,205	0
KDFA Series 2000 I	1,965	0	0	1,965
KDFA Series 2000 II (Nov.)	54,945	0	0	54,945
KDFA Series 2000 1 & 2	24,635	15,120	0	39,755
KDFA Series 2001 II	2,790	0	0	2,790
KDFA Series 2002 II	26,845	0	0	26,845
KDFA Series 2002 1 & 2	20,315	375	0	20,690
KDFA Series 2004 2	0	4,405	0	4,405
Total business-type activities	<u>\$ 131,495</u>	<u>\$ 36,930</u>	<u>\$ 17,030</u>	<u>\$ 151,395</u>

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

Bond Issues	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Service Reduction**
Business-type Activities				
KDFA Series 1997 1 & 2, 1998 1 & 2, 2000 1 & 2, 2002 1, 2004 2	\$ 36,930	\$ 19,900	\$ 5,259	\$ 9,078
Total defeased	<u>\$ 36,930</u>	<u>\$ 19,900</u>	<u>\$ 5,259</u>	<u>\$ 9,078</u>

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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, 2010, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2009 Beginning Balance	Current Year Defeased	Payments	6/30/2010 Ending Balance
KDFA Series 1995 K	\$ 0	\$ 1,820	\$ 1,820	\$ 0
KDFA Series 1998 D	0	3,100	3,100	0
KDFA Series 1998 L	0	2,920	2,920	0
KDFA Series 1999 D	0	3,525	3,525	0
KDFA Series 1999 H	10,030	0	0	10,030
KDFA Series 1999 N	19,240	0	19,240	0
KDFA Series 2000 T	1,150	0	140	1,010
KDFA Series 2000 V	7,215	0	0	7,215
KDFA Series 2001 S	0	7,540	0	7,540
KDFA Series 2001 W	1,240	16,655	130	17,765
KDFA Series 2002 A	0	8,230	0	8,230
KDFA Series 2002 J-1 & J-2	0	29,595	29,595	0
KDFA Series 2002 K	0	3,280	0	3,280
KDFA Series 2002 N	0	28,040	0	28,040
Total component units	<u>\$ 38,875</u>	<u>\$ 104,705</u>	<u>\$ 60,470</u>	<u>\$ 83,110</u>

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

Bond Issues	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Service Reduction**
KDFA Series 1995 K	\$ 1,820	\$ 0	\$ 161	\$ 179
KDFA Series 1998 D	3,100	0	799	992
KDFA Series 1998 L	2,920	0	335	370
KDFA Series 1999 D	3,525	0	255	262
KDFA Series 2001 S	7,540	7,540	733	909
KDFA Series 2001 W	16,655	16,655	1,031	1,118
KDFA Series 2002 A	8,230	8,230	352	576
KDFA Series 2002 J-1 & J-2	29,595	0	0	0
KDFA Series 2002 K	3,280	3,280	160	138
KDFA Series 2002 N	28,040	28,040	1,409	1,486
Total defeased	<u>\$ 104,705</u>	<u>\$ 63,745</u>	<u>\$ 5,235</u>	<u>\$ 6,030</u>

It should be noted that the KDFA Series 2002 J-1 & J-2 was changed from a variable rate to a fixed rate obligation and the KDFA Series 2003 D-1 was a cash defeasance.

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

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

III. Detailed Notes On All Funds

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$400,000 for Governmental Activities, \$1.3 million for Business-type Activities, and \$98,000 for Component Units.

Derivative Instruments

Kansas Department of Transportation recently issued and adopted accounting principles

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

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

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

For all swaps, there are three main strategies KDOT pursues with respect to each transaction. Each swap can achieve one or more of these strategies. Then as a result of execution of the derivative, its value will change with respect to how prevailing rates on each reporting period compare to 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 four swaps (one involving two counter-parties) 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 by expected change between short and long term rates. This is the function of a swap where KDOT receives floating rates based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which KDOT pays on the variable bonds. Therefore, when shorter term interest rates came close to, or

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exceeded longer term rates, KDOT entered into a swap whose receipts on the floating leg are based on a longer term index that is expected to outperform the payments on KDOT's variable debt. Part of the fair value of this swap is determined by the prevailing level of short term versus long term rates, that is, the steepness of the yield curve. The higher the level of long term rates compared to shorter term rates, the higher the expected benefit to KDOT, therefore, the higher the mark-to-market value of the swap. KDOT pays a fixed rate on one of these two swap transactions, therefore the other part of the value of this swap is determined by the prevailing level of interest rates compared to when KDOT entered into the swap transaction. Since interest rates have trended lower since inception, the mark-to-market value will be more negative to KDOT, even though KDOT may be receiving a net benefit from the receipts based on the 10 Year CMS Index. Since the long term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem such transactions investment instruments.

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

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2010 (expressed in thousands):

Associated KDOT Bonds	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Rating
Series 2002 D	\$ 45,765	12/17/2002	3/1/2012	5.2400% Contractual; 2.9936% GASB 53 At- the-Market	67% of USD-LIBOR	\$ (1,810)	Merrill Lynch Capital Services, Inc.	A2/A/A+
Series 2002 B & C*	\$ 200,000	10/23/2002	9/1/2019	3.16%	67% of USD-LIBOR	(19,088)	Goldman Sachs Bank USA	Aa3/A/A+
Series 2002 B & C*	\$ 120,005	10/23/2002	9/1/2019	3.16%	67% of USD-LIBOR	(11,448)	Citigroup Financial Products Inc.	A3/A/A+
Series 2008 A	\$ 150,275	12/2/2003	9/1/2015	3.3590% Contractual; 2.3493% GASB 53 At- the-Market	Lesser of ABR/71% of USD-LIBOR 'til 9/2010; 71% USD-LIBOR thereafter	(1,366)	Merrill Lynch Capital Services, Inc.	A2/A/A+
Series 2004 C	\$ 72,000	11/23/2004	9/1/2024	3.57%	63% USD-LIBOR + 0.29%	(10,224)	Goldman Sachs Bank USA	Aa3/A/A+
Series 2004 C	\$ 75,000	7/1/2007	9/1/2024	3.57%	62.329% of 10 Year CMS	(6,765)	Goldman Sachs Bank USA	Aa3/A/A+
Series 2004 B	\$ 75,000	7/10/2007	9/1/2024	67% of USD-LIBOR	61.56% of 10 Year CMS	4,742	JPMorgan Chase Bank N.A.	Aa1/AA/AA-
						<u><u>\$ (45,959)</u></u>		

* Two Counterparties

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.

III. Detailed Notes On All Funds

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2010, are shown above. KDOT's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

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

Under GASB 53, the sold option described is a hybrid instrument that is constituted of a companion instrument or borrowing, and an embedded derivative instrument. Therefore swaptions are bifurcated into two parts, the borrowing (intrinsic value) and derivative (time value), and a determination is also made of the at-the-market fixed rate on the date of the swaption is sold. Governments carry borrowings at historic cost, while derivatives are carried at fair value. The subsequent swap that Merrill Lynch exercised with KDOT is also considered a hybrid instrument consisting of an embedded at-the-market swap rate computed at the time the original option was sold, and a borrowing.

KDOT Series 2002B and C Swaps - In connection with the issuance of \$320 million of variable-rate KDOT Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002, KDOT competitively bid a floating-to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded \$200 million of notional principal and Salomon Smith Barney was awarded \$120 million of notional principal. The executed transaction consisted of a \$320 million 17-year amortizing interest rate swap under which KDOT pays Goldman/Citibank a fixed rate of 3.164 percent and receives 67 percent of LIBOR. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

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

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

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

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

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

Credit risk. As of June 30, 2010, KDOT has credit risk exposure to JPMorgan Chase Bank N.A. on the swap associated with the KDOT Series 2004 B Revenue Bonds. This is because the transaction has a positive fair value, meaning KDOT is exposed to the counterparty in the amount of the derivative's fair value. However, should interest rates change and the fair value of the swap become negative, KDOT would not be exposed to credit risk.

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

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

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

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

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L. Revisions to Beginning Net Assets

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

	Governmental	Business-type	Total	Component
June 30, 2009 fund balance as previously	\$ 9,759,073	\$ 773,563	\$ 10,532,636	\$ 3,434,197
<i>Revisions</i>				
Capital asset data correction	(5,085)	0	(5,085)	0
Star bond correction	(2,524)	0	(2,524)	0
KDOT change in accounting principal	(17,094)	0	(17,094)	0
Regent component unit changes	0	0	0	2,961
June 30, 2009 fund balance as restated	<u>\$ 9,734,370</u>	<u>\$ 773,563</u>	<u>\$ 10,507,933</u>	<u>\$ 3,437,158</u>

In preparation of implementing a new statewide computer system on July 1, 2010, agencies were requested to review capital assets. This review resulted in a reduction of assets by \$5.09 million, mostly from the removal of assets not meeting the State's established threshold.

Fund balance was reduced for a STAR bond issue that was not reflected in the financial statements.

KDOT beginning balances were adjusted to comply with GASB 53, "Accounting and Financial Reporting for Derivative Instruments". Details regarding derivatives can be found in Note III, K. Long Term Obligations.

Component units beginning balance increased in total by \$3 million. Wichita State University Union Corporation (dba Rhatigan Student Center) adjusted beginning balance by \$1.9 million for building improvements recorded incorrectly in prior years. A delay in receiving Kansas Athletics final financial report in fiscal year 2009 caused the State to have a correction of \$1.04 million in the fiscal year 2010 beginning balance.

IV. Other Information

A. Risk Management

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

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

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

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

The Tort Claims Fund (TCF) provides payment of compromises, settlements, and final judgments arising from claims against the State or an employee of the State under the Kansas Tort Claims Act, and costs of defending the State or an employee. When the balance in the TCF is insufficient to pay a claim, a transfer is made from the State General Fund to the TCF. The maximum claim liability allowed under The Kansas Tort Claims Act is \$500,000 per occurrence or accident. At June 30, 2010, there were no material claims incurred but unpaid.

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

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

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The following table presents the changes in claims liability balances (both current and non-current) during the current fiscal year ended June 30, 2010 (expressed in thousands):

	Claims Liability Beginning Balance	Plus: Current Year Claims and Changes in Estimates	Less: Claim Payments	Claims Liability Ending Balance	Non-current Liability	Current Liability
<i>Current fiscal year</i>						
State Self-insurance Fund	\$ 51,454	\$ 28,516	\$ (22,000)	\$ 57,970	\$ 41,317	\$ 16,653
Health and Dental Care Claims (Active Employees) Health and Hospitalization Fund	32,268	371,900	(376,691)	27,477	35	27,442
Post Employment Health and Dental Care Claims Health and Hospitalization Fund	2,198	23,842	(24,270)	1,770	2	1,768
Total	<u>\$ 85,920</u>	<u>\$ 424,258</u>	<u>\$ (422,961)</u>	<u>\$ 87,217</u>	<u>\$ 41,354</u>	<u>\$ 45,863</u>
<i>Prior fiscal year</i>						
State Self-insurance Fund	\$ 50,565	\$ 22,536	\$ (21,647)	\$ 51,454	\$ 36,278	\$ 15,176
Health and Dental Care Claims (Active Employees) Health and Hospitalization Fund	28,650	331,240	(327,622)	32,268	307	31,961
Post Employment Health and Dental Care Claims Health and Hospitalization Fund	3,643	25,121	(26,566)	2,198	20	2,178
Total	<u>\$ 82,858</u>	<u>\$ 378,897</u>	<u>\$ (375,835)</u>	<u>\$ 85,920</u>	<u>\$ 36,605</u>	<u>\$ 49,315</u>

Notes:

1. Claims liability ending balance are based on Aon's BIN modeling estimates using claims lag data through May 31, 2010, projected to June 30, 2010.
2. Future projections of claims liabilities are only estimates. All estimates, based upon the information available at a point in time, are subject to unforeseen and random events. Therefore, any projection must be interpreted as having a likely range of variability from the estimate.
3. IBNR includes 3% expense load and 3.5% margin.
4. Non-current liability represents the remaining IBNR reserve for the prior fiscal year.

B. Contingencies and Commitments

Litigation

The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws. Known claims, asserted and unasserted, have been evaluated for the likelihood of an unfavorable outcome and estimates have been made regarding the amount or range of potential loss in the event of an unfavorable outcome. After review, it is the State's opinion that its ultimate liability in these cases, if any, is not expected to have a material adverse affect on the financial position of the State, except for three cases. In *State of Kansas v. RJ Reynolds Tobacco Co.* regarding adjustment claims, we are unable to evaluate a likely outcome. The loss could be zero dollars or up to the full \$387 million already received under the agreement. In the case of the *Board of Trustees of Dodge City Community College, et.al., v. Kansas Board of Regents*, three community colleges are requesting relief for funding through 2000. The loss from this case, if any, could be as up to \$33 million. The Kansas Public School Districts have not filed a suit against the State, but a Notice of Claims regarding the funding of public education has been received. The range of potential loss is not capable of quantification, but if the school districts are successful, the amount could be very substantial.

IV. Other Information

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. The State does not expect any liabilities for disallowed costs from grantors.

C. Pollution Remediation

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

Oil Well Plugging

Legislation requires the Kansas Corporation Commission (KCC) to prepare and maintain an inventory of all abandoned wells with a special focus on wells which, (1) the State has assumed the plugging liability because of the lack of a potentially responsible party; and (2) pose either an ongoing or potential threat to the environment. In fiscal year 2010, KCC plugged approximately 351 wells. The number of known wells needing to be plugged in the future is expected to increase as more wells are discovered in remote areas and also as KCC develops a more refined well inventory process. The fiscal year 2010 pollution remediation liability is estimated at \$41.4 million. No recoveries for these well pluggings are expected.

Superfund Program Obligations

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

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

After the formal process to list a site on the NPL is completed, the EPA develops a design for remediation of the site that provides the proposed costs of implementation of the remedial action including the long term O&M for the site. The State is required to sign a contract with EPA obligating the State to provide the ten percent match and perform the long term O&M for the site. While the actual schedule is somewhat hard to anticipate, a cost schedule is projected with the proposed cost share and O&M estimates. The State has recorded \$8.41 million in liabilities for the Superfund Program.

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State Water Plan Orphan Sites Program

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

The State Water Plan – Contamination Remediation fund is the primary source of funding to provide the State cost share or State O&M requirements for NPL sites. It is difficult to predict what the future costs for the State Water Plan will be, however, the State has recorded a liability for \$0.75 million which is the amount known to be budgeted in fiscal year 2011 for this program.

State Funded Reimbursement Fund Programs

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

The Storage Tank Act establishes two separate Trust Funds to assist owners and operators of petroleum storage tanks with the cost of remedial actions. Both funds are designed to provide financial assistance to owners and operators of facilities where contamination from petroleum storage tanks has occurred. The Trust Funds are financed from a \$.01 fee placed on each gallon of petroleum (except aviation fuel) product manufactured in or imported into the State. The funds will be abolished on July 1, 2014, by the sunset provision unless reenacted by the Legislature.

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

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

To date, 2120 sites have been approved to receive reimbursement of approved costs under the Underground Storage Tank (UST) fund identified in K.S.A. 65-34,114 if funding is available.

A similar reimbursement fund has been created for Aboveground Petroleum Storage tanks (AST). 175 sites have been approved to receive reimbursement of approved costs under the AST fund identified in K.S.A. 65-34,129 if funding is available.

In addition to providing reimbursements of approved cost, the statute contains a provision that allows KDHE’s secretary to take whatever emergency action is necessary or appropriate to assure that the public health or safety is not threatened whenever there is a release or potential release from an UST or AST. The statute permits the secretary to take corrective action where the release or potential release presents an actual or potential threat to human health or the environment, if the owner or operator has not been identified or is unable or unwilling to

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perform corrective action, including but not limited to providing for alternative water supplies. The exact amount of future costs is unknown. The State has recorded a liability of \$17.43 million for UST Program and \$1.76 million for AST Program which represents the amounts budgeted for fiscal year 2011.

Kansas Drycleaner Environmental Response Act

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

The corrective action at these sites is performed based on a site prioritization system and KDHE is not liable for costs of corrective action in excess of the \$5 million cap at each site or in excess of the funding available to the program. An estimate of future costs is unknown, however, the State has recorded a liability of \$1.15 million for the Drycleaner Environmental Response Program. This amount represents the amount currently budgeted for future corrective action.

Kansas School for the Blind

The Kansas School for the Blind has contracted with Great Plains Asbestos Control, Inc. for the removal of loose ceiling texture in the Irwin Building. A liability of \$7,950 has been recorded for this work.

Kansas State University – Old Chemical Waste Landfill

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

Kansas State University – Schilling Air Force Base

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

Kansas State University - Jacksonville, Florida

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

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D. Other Post Employment Benefits

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

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

The State appropriates funds annually for the costs associated with this retirement benefit and provides funding for the expenditure on a pay-as-you-go basis through the Self Insurance Fund. In fiscal year 2010, non-Medicare retired plan members receiving benefits contributed \$13.8 million to the plan and the State contributed \$9.4 million to the plan.

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

	Primary Government	Component Units	Pension Trust	Total
Amortization of UAAL	\$ 10,428	\$ 4,479	\$ 28	\$ 14,935
Normal cost (with interest)	9,121	6,251	33	15,405
Annual required contribution	19,549	10,730	61	30,340
Interest on net OPEB obligation	1,031	773	5	1,809
Adjustment to ARC	(1,520)	(1,140)	(7)	(2,667)
Annual OPEB cost	19,060	10,363	59	29,482
Net employer contributions	(9,349)	(25)	0	(9,374)
Net OPEB obligation July 1, 2009	26,769	20,081	123	46,973
Net OPEB obligation June 30, 2010	<u>\$ 36,480</u>	<u>\$ 30,419</u>	<u>\$ 182</u>	<u>\$ 67,081</u>

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

<u>Fiscal Year</u>		<u>Annual OPEB Cost</u>		<u>Net Employer Contributions</u>		<u>Percentage Contributed</u>		<u>End of Year Net OPEB Obligation</u>
2008	\$	33,852	\$	5,105		15.08%	\$	28,747
2009		25,646		7,420		28.93%		46,974
2010		29,481		9,374		31.80%		67,081

Funded Status and Funding Progress. As of June 30, 2010, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$278.4 million. The State's policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$222.8 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.02 million, and the ratio of the UAAL to the covered payroll was 13.76 percent.

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

Actuarial Methods and Assumptions. Projections of benefits for reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010, actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 5.25 to 9.50 percent in the first sixteen years and an ultimate rate of 5.0 percent after sixteen years. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized over a 30 year open period in level dollar amounts.

Primary Government

In addition to the pension benefits described in the Employee Retirement Systems and Pension Plans note, the State provided post-employment health care benefits to retirees who elect the Kansas medical option. This subsidy was ended for post-employment retirees as of December 31, 2006. Retirees that elected the health insurance that the State provides now pays 100 percent of the premium. The monthly amount of premium cost individual ranges from \$395.86 to \$497.52 for early retirees. Early retirees are defined as those retirees not yet Medicare eligible. The employer contribution, according to GASB Statement No. 45, is the aggregate amount of the subsidies, which is calculated into the employer contribution for active employees.

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	Eligible State Retiree Participants	Eligible State Retiree and Family Participants	Enabling Legislation
Kansas Major Medical Post-Employment Benefits	8,391	14,230	K.S.A. 75-6504

The State funds post-employment health care benefits on a pay-as-you-go basis as part of the overall retirement benefit ending on June 30, 2010. No separation of pension obligation and health insurance obligation is made and assets are not allocated between obligations.

E. Employee Retirement Systems and Pension Plans

Kansas Public Employees Retirement System - Plan Descriptions

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

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

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

The System's total covered salaries and wages paid were approximately \$6.5 billion. The State's total salaries and wages paid were approximately \$2.034 billion of which approximately 1.049 billion or approximately 51.6 percent relates to employees participating in the System. The remaining approximately 48.4 percent represents salaries and wages paid to employees, such as educational institution employees not participating in the System, those employees who are classified as other than "permanent" and are not eligible for participation. Information on participating employees and retirement system membership at June 30, 2010, unless otherwise noted is as follows:

<u>Participating Employers</u>	<u>Membership</u>
KPERS	1,407
KP&F	91
Judges	1
Total	<u>1,499</u>

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MEMBERSHIP BY RETIREMENT SYSTEMS

	KPERS	KP&F	Judges	Total
Retirees and beneficiaries currently receiving benefits	69,081	4,055	203	73,339
Terminated employees entitled to benefits but not yet receiving them	11,037	150	14	11,201
Inactive members, deferred disabled	2,781	181	0	2,962
Inactive members not entitled to benefits	28,175	986	0	29,161
Current employees	153,386	7,179	266	160,831
Total	264,460	12,551	483	277,494

KPERS Plan Benefits

Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points". Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump-sum payment of up to 50 percent of the actuarial present value of the member's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor. For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

KPERS Contributions

Member contributions (from 4.0 to 7.0 percent of gross compensation), employer contributions and net investment income fund KPERS reserves. Member contribution rates are established by state law, and are paid by the employee according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. The contributions and assets of all three systems are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on a actuarial reserve basis. For fiscal years beginning in 1995, Kansas legislation placed a statutory limit of 0.1 percent of payroll increases in contribution rates for KPERS employers. During the 1995 legislative session, the statutory limits were increased to 0.2 percent of payroll over the prior year for fiscal years beginning in 1996 for state and school employers. The statutory increase for local units of government was amended to limit increases to no more than 0.15 percent over the prior year for calendar years beginning in 1997. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Legislation passed in 2003 amended the annual increases in future years. The statutory cap for the State/School group increased to 0.4 percent in fiscal year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. Legislation passed in 2004 amended the annual increases in future years for local employers. The statutory cap for the Local group increased to 0.4 percent in calendar year 2006, with subsequent increases of 0.5 percent in fiscal year 2007 and 0.6 percent in fiscal year 2008 and beyond. The amortization period for the unfunded liability of all three systems is 40 years from July 1, 1993.

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Basis of Accounting

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

Schedule of Funding Status and Funding Progress per KPERS 2010 CAFR

The funding status of KPERS at December 31, 2009, the most recent actuarial valuation date (expressed in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2009	\$13,461,221	\$ 21,138,206	\$7,676,985	64%	\$ 6,532,496	118%

Additional information as of the latest actuarial valuation follows:

	KPERS	KP&F	Judges
Valuation Date	12/31/2009	12/31/2009	12/31/2009
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent closed	Level Percent closed	Level Dollar closed
Remaining amortization period	23 years	23 years	23 years
Asset valuation method	Difference between actual return and expected return on market value recognized evenly over five-year period. Value must be within corridor of 80 percent to 120 percent of market value.		
Actuarial assumptions:			
Investment rate of return*	8%	8%	8%
Projected salary increases*	4.0% - 12.0%	4.0% - 12.5%	4.50%
Cost of Living Adjustment	none	none	none

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

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Other Retirement Plans

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

Employees participating in the Regents' mandatory retirement plan are required to contribute 5.5 percent of their salary, up to the maximum dollar amount permitted by the Internal Revenue Code. During fiscal year 2010, employees contributed approximately \$38.3 million. During fiscal year 2010, the 8.5 percent employer contribution totaled \$61.4 million, representing covered wages of approximately \$711.7 million. These employees, along with employees who participate in the KPERS retirement program, may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code, in the Regents' voluntary retirement plan, which allows the member to purchase a 403(b) contract to supplement the mandatory retirement plan. These employees, along with employees who participate in the KPERS retirement program, may also elect to participate, up to the maximum dollar amount permitted by the Internal Revenue Code in the State's 457 deferred compensation program, to supplement their mandatory retirement plan.

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

F. Subsequent Events

Bonds and Notes

Short-term Debt

Certificate of Indebtedness – On July 1, 2010, the Pooled Money Investment Board (PMIB) issued a \$700 million Certificate of Indebtedness per K.S.A. 75-3725a, subject to redemption not later than June 30, 2011. See Section III-J, Short-term Obligations, for additional information on issuance of a Certificate of Indebtedness.

Accrued Receivables for Ad Valorem Taxes – In July 2010, receivables were posted to the State Treasurer's receivables in the amount of \$28.5 million for the Kansas Educational Building Fund and \$14.3 million for the State Institutions Building Fund per K.S.A. 76-6b11. See Section III-J, Short-term Obligations, for additional information.

Accrued Receivables for Children's Initiatives Fund – In July 2010, receivables were posted to the State Treasurer's receivables for the Children's Initiatives Fund in the amount of \$29.1 million per Senate Bill No. 572, Section 61(f), Session of 2010. See Section III-J, Short-term Obligations, for additional information.

Accrued Receivables for Economic Development Initiatives Fund – In July 2010, receivables were posted to the State Treasurer's receivables for the Economic Development Initiatives Fund in the amount of \$17.9 million per Senate Bill No. 572, Section 61(g), Session of 2010.

Accrued Receivables for Correctional Institutions' Building Fund – In July 2010, receivables were posted to the State Treasurer's receivables for the Correctional Institutions' Building Fund in the amount of \$3.6 million per Senate Bill No. 572, Section 61(h), Session of 2010.

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Accrued Receivables for Kansas Endowment for Youth Fund – In July 2010, receivables were posted to the State Treasurer’s receivables for the Kansas Endowment for Youth Fund in the amount of \$207.2 thousand per Senate Bill No. 572, Section 61(i), Session of 2010.

Accrued Receivables for 27th Payroll – In July 2010, receivables were posted to the State Treasurer’s receivables for the 27th Payroll in the amount of \$3.8 million per Senate Bill No. 572, Section 61(i), Session of 2010.

Long-term Debt

Revenue Bonds – In July 2010, the KDFA issued Series 2010O-1 and 2 for continued renovation projects for the State Capitol and National Guard armories. The O-1 bond series totaled \$3.5 million with interest rates ranging from 3.0 to 4.0 percent. The bonds final maturity is May 1, 2013. The O-2 bond series (taxable Build America Bonds) totaled \$39.9 million with interest rates ranging from 2.7 to 6.1 percent. The bonds final maturity is May 1, 2030.

Revenue Bonds – In August 2010, the Kansas Department of Transportation issued Series 2010A (taxable Build America Bonds) to fund highway projections. The bonds totaled \$325 million with interest rate of 4.6 percent. The bonds final maturity is on September 1, 2035.

Revenue Bonds – In December 2010, the KDFA issued the Kansas Revolving Funds Revenue Bonds Series 2009SRF-1, 2 and 3 for the Department of Health and Environment. A portion of these bonds will be used to refund \$193.2 million in prior bonds. The bonds totaled \$214 million (\$60.5 taxable Build America Bonds) with interest rates ranging from 1.7 to 5.2 percent. The bonds final maturity is on March 1, 2025.

Revenue Bonds – In December 2010, the KDFA issued Series 2010U-1 and 2 for Kansas State University for energy conservation projects. A portion of these bonds will be used to refund \$6.1 million in prior bonds. The bonds totaled \$25 million with interest rates ranging from 1.8 to 6.2 percent. The bonds final maturity is on May 1, 2029.

G. Economic Condition

While the U.S. economy has been growing since the third quarter of calendar year (CY) 2009, the rate of growth has slowed somewhat in CY 2010. Concerns of a double-dip recession nevertheless have waned over the summer, and assumptions are that modest growth will continue in the national and state economies in calendar years 2011 and 2012. Current forecasts call for nominal Gross Domestic Product to grow by 3.6 percent in CY 2011 and 5.8 percent in CY 2012 (coming off a 3.4 percent increase in CY 2010); and nominal Kansas Gross State Product to grow by 4.1 percent in CY 2011 and 5.8 percent in CY 2012 (after a 4.3 percent increase in CY 2010). Significant uncertainty remains relative to employment in several of the State’s key sectors, including aviation manufacturing, though there is some evidence that rural areas of the State may be emerging from the economic downturn faster than the nation as a whole as a result of a weak dollar and strong demand for exports. The Consensus estimates are premised on a continued recovery of the State’s economy during the balance of fiscal year (FY) 2011 and slightly accelerating growth throughout FY 2012.

IV. Other Information

Key Economic Indicators						
(Dollars in Thousands)						
	CY 2010		CY 2011		CY 2012	
Consumer Price Index for All Urban Consumers	1.6	%	1.6	%	2.4	%
Nominal Kansas Gross State Product	4.3		4.1		5.8	
Nominal Kansas Personal Income:						
Dollars in Millions	\$113,993		\$117,869		\$124,470	
<i>Percentage Change</i>	3.0	%	3.4	%	5.6	%
Nominal Kansas Disposable Income:						
Dollars in Millions	\$102,683		\$105,250		\$109,776	
<i>Percentage Change</i>	2.0	%	2.5	%	4.3	%
Kansas Unemployment Rate	6.7		6.7		6.5	

Personal Income

Kansas Personal Income (KPI) in CY 2010 is expected to increase by 3.0 percent above the CY 2009 level (after having fallen by 1.4 percent in CY 2009). The forecast calls for KPI to grow by 3.4 percent in CY 2011 and 5.6 percent in CY 2012. Overall U.S. Personal Income growth is not expected to differ significantly from the pattern in the State, with national estimates currently at 2.5 percent, 3.7 percent, and 5.9 percent for the same three calendar years, respectively.

Employment

Data obtained from the Kansas Department of Labor (KDOL) verify that employment has stabilized relative to the fall of 2009. The most recent monthly data show that total non-farm employment from September 2009 to September 2010 increased by about 1,000 jobs. From its peak in April of 2008 to its low point in February of 2010, the State lost 75,800 jobs. Sectors with the heaviest job losses included professional and business services; financial activities; and leisure and hospitality. The current average estimates used by KDOL indicate that the overall State unemployment rate, which was 4.4 percent in CY 2008 and 6.7 percent in CY 2009, is expected again to be 6.7 percent in CY 2010 before declining to 6.5 percent in CY 2011. One positive sign relates to initial unemployment claims data, which throughout most of CY 2010 have been well below the same time periods studied for CY 2009. The national unemployment rate is expected to remain well above the Kansas rate, with the U.S. rate now expected to be 9.5 percent in CY 2010 and 9 percent in CY 2011.

Agriculture

Although net farm income declined in CY 2009, the outlook for both CY 2010 and CY 2011 is considerably brighter as a result of higher commodity prices and relatively strong production. The All Farm Products Index of Prices received by Kansas farmers was 155 in September, up from 118 a year earlier. Wheat, corn, sorghum and soybean prices are significantly higher this fall than they were a year ago. Moreover, improved weather conditions in CY 2010 have contributed to a more efficient harvest. Livestock prices also remain higher thus far in CY 2010 than they were in CY 2009. High input prices, especially energy and fertilizer costs, and topsoil moisture deficiencies in certain areas of the State do remain as areas of concern for the agricultural sector.

IV. Other Information

Unemployment Benefits

Unemployment payments provided to individuals to replace part of their wages lost as a result of involuntary unemployment are expected to be \$1,105.9 million for FY 2011. The amount that had been estimated during the 2010 Legislative Session for unemployment benefits was \$1,020.1 million for FY 2011. Because of the continued sluggish economy, KDOL has had an upward revision of unemployment benefit payments from approved levels for FY 2011. However, benefit payments have significantly dropped from FY 2010 levels of \$1,381.3 million. For FY 2012, the agency estimates that benefit payments will drop to \$491.8 million, which shows that more Kansans are finding jobs and the economy is improving.

School Finance

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

It is not anticipated that any decision from the courts ordering action by the Legislature on the subject of school finance would be rendered within this fiscal year. It is possible that the 2011 Legislature may have to address the issue of school finance as the 2005 and 2006 Legislatures did. Because the timing of such action will likely coincide, as it did previously, with an economic upturn for State tax revenues, it is possible that the Legislature could have the option of appropriating additional State aid to schools within available tax resources, depending on the size of the restoration. It should be noted, however, that the increased State sales tax will revert entirely to the State Highway Fund, effective with FY 2014, so available resources in the General Fund are not anticipated to grow as dramatically as the 2004-2007 timeframe.

Management Policies

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

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

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

On a budgetary basis, General Fund spending has been drastically reduced over the past three years to bring spending in line with available resources. In making these reductions, State assistance to individuals, State aid to local governments, and aid to school districts have all been greatly affected. For agency operations, no statewide

IV. Other Information

furlough or mandatory salary cuts have been imposed. Agencies have been directed to manage their way through the cuts to ensure that staffing essential positions is at the necessary functioning levels (such as at the correctional facilities and state hospitals).

Operating Policies

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

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

Revenue Policies

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

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

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

Cash Management Policies

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

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

Debt Service Policies

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

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

The most recent issuer credit ratings for the State are AA+ by Standard and Poor's and Aa1 by Moody's Corporation. These ratings indicate that the State has a strong capacity to meet its financial commitments and reflect the following credit factors: a relatively diverse economic base, conservative fiscal management, and a low debt burden.

IV. Other Information

Governor's Budget Report

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

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

Financing of State Spending

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

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

Revenue Estimates

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

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

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

The consensus revenue estimate is the official revenue projection for the General Fund. Estimates of revenues to other funds are prepared by individual State agencies, reviewed by the Division of the Budget, and included in *The Governor's Budget Report*. The General Fund consensus revenue estimate for FY 2012 is \$5.8 billion, which is subject to revision in April 2011.

IV. Other Information

Budget Balancing Mechanisms

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

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

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

Prior to FY 2003, the allotment system had not been used for 30 years; however, the Governor imposed two rounds of allotments that year. In FY 2009, the Governor imposed two allotments as well of a limited scope. The current Governor imposed two comprehensive allotments for FY 2010 to bring General Fund expenditures in balance with anticipated revenues. It is not anticipated that any allotment will be required in FY 2011.

KPERS Unfunded Actuarial Liability

KPERS most recent actuarial valuation shows a \$602.2 million decrease in the unfunded actuarial liability (UAL), increasing the funded ratio to 64 percent. This means that KPERS does not have enough assets to provide all the benefits already earned by members and to pay off the UAL in the adopted amortization period ending in 2033.

At this time, GASB does not require unfunded pension actuarial liabilities to be recorded in the financial statements, therefore they are not included in the statement amounts, however the State group portion of KPERS unfunded liability is \$806 million. If the State were to record it’s unfunded liability amount, the net assets in governmental funds would decrease by \$804.5 million and the business-type funds would decrease by \$1.5 million as shown below:

	Governmental Activities	Business-Type Activities
Net assets as reported in the		
Government-wide statements	\$ 9,966,548	\$ 560,932
KPERS unfunded liability	(804,508)	(1,492)
Total	<u>\$ 9,162,040</u>	<u>\$ 559,440</u>

Economic Summary

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

**REQUIRED
SUPPLEMENTARY
INFORMATION**

Budgetary information

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

On or before October 1, agencies are required to submit annual or biennial budget estimates for the next fiscal year to the Division of Budget. These estimates are used in preparing the Governor's budget report. On or before the eighth calendar day of each regular legislative session, the Governor is required to submit the budget report to the Legislature. However, in the case of the regular legislative session immediately following the election of a governor who was elected to the Office of Governor for the first time, that governor must submit the budget report to the legislature on or before the 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 firm encumbrances in excess of appropriations or limitations and/or available cash. Encumbrances are reported as expenditures for budgetary purposes and as reserved fund balances in the governmental financial statements in this report. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the budget unit level. The supplemental budgetary appropriations made in the General Fund were not material. Due to the volume of data, the detailed budget information at the budget unit level is not presented here.

State of Kansas
Required Supplementary Information
June 30, 2010

**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual
General Fund**

For the Fiscal Year Ended June 30, 2010

(expressed in thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues and other financing sources:				
Property tax	\$ 28,000	\$ 24,000	\$ 24,997	\$ 997
Income and inheritance tax	3,015,000	2,789,000	2,668,059	(120,941)
State sales tax	1,695,000	1,640,000	1,652,037	12,037
Consumer's and retailer's compensating use tax	220,000	205,000	205,540	540
Tobacco and liquor taxes	195,200	191,200	189,880	(1,320)
Severance taxes	73,500	84,000	81,870	(2,130)
Insurance premiums taxes	117,300	118,800	120,375	1,575
Other taxes	24,000	35,800	37,679	1,879
Investment earnings	24,000	23,000	8,524	(14,476)
Transfers	(11,230)	127,731	94,859	(32,872)
Charges for services, other revenues and financing sources	0	52,500	58,797	6,297
Total revenues and other financing sources	<u>5,380,770</u>	<u>5,291,031</u>	<u>5,142,617</u>	<u>(148,414)</u>
Expenditures and other financing uses:				
Current:				
General government	628,037	608,507	606,946	1,561
Human resources	808,873	768,807	767,000	1,807
Education	3,726,630	3,612,724	3,478,724	134,000
Public safety	376,417	366,254	365,323	931
Agriculture and natural resources	20,738	19,270	19,142	128
Health and environment	31,565	31,086	30,909	177
Total expenditures and other financing uses	<u>5,592,260</u>	<u>5,406,648</u>	<u>5,268,044</u>	<u>138,604</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(211,490)</u>	<u>(115,617)</u>	<u>(125,427)</u>	<u>\$ (9,810)</u>
Fund balances, beginning of year	<u>149,441</u>	<u>44,726</u>	<u>104,039</u>	
Fund balances, end of year	<u>\$ (62,049)</u>	<u>\$ (70,891)</u>	<u>\$ (21,388)</u>	

State of Kansas
Required Supplementary Information
June 30, 2010

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, 2010
(expressed in thousands)

	<u>General Fund</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ (125,427)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	30,009
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	582,061
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(1,161,554)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>603,285</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u><u>\$ (71,626)</u></u>

State of Kansas
Required Supplementary Information
June 30, 2010

**Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Transportation Fund
For the Year Ended June 30, 2010
*(expressed in thousands)***

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues:				
Motor fuel taxes	\$ 292,355	\$ 292,355	\$ 279,465	\$ (12,890)
Vehicle registrations and permits	170,756	170,756	175,618	4,862
Intergovernmental	401,834	401,834	494,164	92,330
Sales and use taxes	267,825	267,825	259,581	(8,244)
Investment earnings	10,158	10,158	8,011	(2,147)
Other	4,991	4,991	12,596	7,605
Transfers from other state funds	3,196	3,196	2,058	(1,138)
Total revenues	<u>1,151,115</u>	<u>1,151,115</u>	<u>1,231,493</u>	<u>80,378</u>
Expenditures, with legal limits:				
Current operating:				
Maintenance	141,411	134,389	132,866	1,523
Construction	56,843	55,228	53,239	1,989
Local support	8,122	8,052	7,001	1,051
Management	62,276	55,770	53,762	2,008
Capital improvements	13,857	8,697	8,874	(177)
Transfers to other state funds	108,836	253,608	253,648	(40)
Expenditures with legal limits	<u>391,345</u>	<u>515,744</u>	<u>509,390</u>	<u>6,354</u>
Expenditures, without legal limits:				
Current operating:				
Maintenance	170,988	123,850	118,106	5,744
Local support	17,292	22,452	14,924	7,528
Management	5,328	5,328	901	4,427
Capital improvements	594,137	497,996	408,080	89,916
Transfers to other state funds	2,087	2,087	1,797	290
Expenditures without legal limits	<u>789,832</u>	<u>651,713</u>	<u>543,808</u>	<u>107,905</u>
Total expenditures	<u>1,181,177</u>	<u>1,167,457</u>	<u>1,053,198</u>	<u>114,259</u>
Excess (deficiency) of revenues over expenditures	<u>(30,062)</u>	<u>(16,342)</u>	<u>178,295</u>	<u>194,637</u>
Other financing sources (uses):				
Transfers-in	8,602	0	6	6
Transfers-out	<u>(174,356)</u>	<u>(181,965)</u>	<u>(182,118)</u>	<u>(153)</u>
Total other financing sources (uses)	<u>(165,754)</u>	<u>(181,965)</u>	<u>(182,112)</u>	<u>(147)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>\$ (195,816)</u>	<u>\$ (198,307)</u>	<u>\$ (3,817)</u>	<u>\$ 194,490</u>

State of Kansas
Required Supplementary Information
June 30, 2010

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, 2010
(expressed in thousands)

	<u>Transportation Fund</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ (3,817)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	(4,751)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	374,683
Expenditures on prior year encumbrances are not reported for budgetary reporting	(525,300)
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	<u>(46,815)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u>\$ (206,000)</u>

State of Kansas
Required Supplementary Information
June 30, 2010

**Schedule of Revenue, Expenditures, and
Changes in Fund Balances - Budget and Actual**
Health Policy Authority
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues and Other Financing Sources:				
Operating grants	\$1,821,627	\$1,821,627	\$1,828,635	\$ 7,008
Investment earnings	310	317	210	(107)
Transfers	(892,156)	(892,156)	(895,067)	(2,911)
Charges for services, other revenues & financing sources	145,362	161,245	171,225	9,980
Total revenues and other financing sources	<u>1,075,143</u>	<u>1,091,033</u>	<u>1,105,003</u>	<u>13,970</u>
Expenditures and Other Financing Uses:				
Current:				
Human resources	<u>1,207,095</u>	<u>1,205,541</u>	<u>1,119,444</u>	<u>86,097</u>
Total expenditures and other financing uses	<u>1,207,095</u>	<u>1,205,541</u>	<u>1,119,444</u>	<u>86,097</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ (131,952)</u>	<u>\$ (114,508)</u>	<u>\$ (14,441)</u>	<u>\$ 100,067</u>

State of Kansas
Required Supplementary Information
June 30, 2010

Reconciliation of the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual with the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds for the Health Policy Authority
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	<u>Health Policy Authority</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses - budgetary basis	\$ (14,441)
Current year encumbrances are reported as expenditures for budgetary reporting purposes	5,581
Expenditures on prior year encumbrances are not reported for budgetary reporting purposes	5,606
Budgetary expenditures and transfers to other state funds have been adjusted to GAAP basis	(2,769)
Budgetary basis revenues and transfers from other state funds have been adjusted to GAAP basis	<u>(1,147)</u>
Changes in Fund Balance as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balance	<u>\$ (7,170)</u>

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

Roadways

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

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

PL-2 Roadway surface needs at least routine maintenance.

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

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

Fiscal Year	Interstate Miles		Non-interstate Miles	
	Minimum	Actual	Minimum	Actual
	Acceptable	Condition	Acceptable	Condition
	Condition	Level*	Condition	Level*
2008	80%	96%	75%	85%
2009	80%	97%	75%	86%
2010	80%	97%	75%	86%

*Percent of miles in PL-1

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

Fiscal Year	Interstate Highways		Non-interstate Highways	
	Minimum	Actual	Minimum	Actual
	Acceptable	Expenses	Acceptable	Expenses
	Condition	Level	Condition	Level
2006	110,000	\$ 115,820	260,000	\$ 380,988
2007	110,000	62,935	260,000	384,627
2008	110,000	68,654	260,000	363,582
2009	110,000	67,603	260,000	392,237
2010	110,000	54,807	260,000	335,108

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

State of Kansas
Required Supplementary Information
June 30, 2010

Bridges

The condition of the bridge system in the state is assessed annually using the Pontis Bridge Management System. This system evaluates the condition of several elements (decks, girders, floor beams, columns, etc.) within each bridge using a rating scale of 1 to 5. These element ratings are weighted and aggregated to establish a health index of 0 to 100 for each bridge which, in turn, are aggregated to establish a health index for the entire system.

The goal of KDOT is to maintain the bridge system at a higher level, but has defined an overall statewide health index of 80 as the minimum acceptable condition level. This table compares the minimum acceptable health index with the actual health index for the current and prior years.

<u>Fiscal Year</u>	<u>Minimum Acceptable Health Index</u>	<u>Actual Health Index</u>
2008	80	94
2009	80	94
2010	80	94

KDOT's goal is to continually improve the condition of the State's bridge system. To achieve this goal it is necessary to perform maintenance activities and to replace those bridges that can no longer be economically maintained. To maintain the State's bridges at or above the stated minimum acceptable health index it is estimated that annual preservation and replacement expenditures must be approximately \$75 million. The following table compares the estimated annual expenditures needed to maintain the bridges system with the actual expenditures for the current and prior years (expressed in thousands).

<u>Fiscal Year</u>	<u>Minimum Acceptable Health Index</u>	<u>Actual Expenses</u>
2006	\$ 75,000	\$ 90,908
2007	75,000	76,536
2008	75,000	72,941
2009	75,000	50,992
2010	75,000	29,219

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

OPEB Schedule of Funding Progress
(expressed in thousands)

<u>Actuarial Valuation Date</u>	<u>Value of Assets (a)</u>	<u>Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>
6/30/2008	\$0	\$ 316,640	\$ 316,640	0%	\$ 1,969,392
6/30/2009	0	236,910	236,910	0%	2,033,724
6/30/2010	0	278,394	222,806	0%	2,023,243

**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
Social and Rehabilitation Services
Adjutant General
Aging
Agriculture
Attorney General
Administration
Health and Environment
Highway Patrol
Historical Society
Labor
Commerce
Insurance
Judicial
State Library
Revenue
Education
Secretary of State
State Treasurer
Wildlife and Parks
Executive
Legislative
Transportation Special Revenue
State Water Plan
Peace Officer Training

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds:

State Buildings (Appropriated)
Capitol Complex Buildings
Master Lease Program
Corrections
State Library
Pooled Funds
Armories
Public Broadcasting Digital
Vital Statistics Project
Highway Patrol
Labor
Social and Rehabilitation Services

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:

Bond and Interest

Highway Debt Service

STAR bond liability fund for GAAP purposes

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2010

(expressed in thousands)

	Special Revenue Funds			
	State Regulatory Boards and Commissions	Correctional Facilities	Tobacco Settlement for Children's Initiative	Social and Rehabili- tation Services
ASSETS				
Cash and cash equivalents	\$ 46,742	\$ 6,983	\$ 9,555	\$ 55,808
Investments	0	0	0	0
Receivables, net	0	681	0	103,919
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	133	0	0
Total assets	<u>\$ 46,742</u>	<u>\$ 7,797</u>	<u>\$ 9,555</u>	<u>\$ 159,727</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 5,208	\$ 4,330	\$ 2,728	\$ 112,058
Due to other funds	0	38	0	188
Deferred revenue	0	0	0	38
Advances from other funds	0	154	0	1,596
Total liabilities	<u>5,208</u>	<u>4,522</u>	<u>2,728</u>	<u>113,880</u>
Fund balances:				
Reserved for debt service	0	133	0	0
Reserved for encumbrances	5,013	941	10,322	24,426
Reserved for advances to other funds	0	0	0	0
Unreserved	36,521	2,201	(3,495)	21,421
Total fund balances	<u>41,534</u>	<u>3,275</u>	<u>6,827</u>	<u>45,847</u>
Total liabilities and fund balances	<u>\$ 46,742</u>	<u>\$ 7,797</u>	<u>\$ 9,555</u>	<u>\$ 159,727</u>

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2010

(expressed in thousands)

	Special Revenue Funds			
	Adjutant General	Aging	Agriculture	Attorney General
ASSETS				
Cash and cash equivalents	\$ 8,820	\$ 3,762	\$ 5,265	\$ 17,245
Investments	0	0	0	0
Receivables, net	0	49,597	0	0
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	0	0	0
Total assets	<u>\$ 8,820</u>	<u>\$ 53,359</u>	<u>\$ 5,265</u>	<u>\$ 17,245</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 9,177	\$ 50,818	\$ 613	\$ 2,542
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
Total liabilities	<u>9,177</u>	<u>50,818</u>	<u>613</u>	<u>2,542</u>
Fund balances:				
Reserved for debt service	0	0	0	0
Reserved for encumbrances	8,727	869	2,372	1,352
Reserved for advances to other funds	0	0	0	0
Unreserved	(9,084)	1,672	2,280	13,351
Total fund balances	<u>(357)</u>	<u>2,541</u>	<u>4,652</u>	<u>14,703</u>
Total liabilities and fund balances	<u>\$ 8,820</u>	<u>\$ 53,359</u>	<u>\$ 5,265</u>	<u>\$ 17,245</u>

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Continued

June 30, 2010

(expressed in thousands)

	Special Revenue Funds			
	Administration	Health and Environment	Highway Patrol	Historical Society
ASSETS				
Cash and cash equivalents	\$ 27,013	\$ 65,808	\$ 15,067	\$ 5,219
Investments	0	0	0	0
Receivables, net	0	217	0	0
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	4	0	0	0
Total assets	<u>\$ 27,017</u>	<u>\$ 66,025</u>	<u>\$ 15,067</u>	<u>\$ 5,219</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 2,292	\$ 11,029	\$ 4,042	\$ 347
Due to other funds	0	134	533	0
Deferred revenue	0	32	0	0
Advances from other funds	0	341	0	0
Total liabilities	<u>2,292</u>	<u>11,536</u>	<u>4,575</u>	<u>347</u>
Fund balances:				
Reserved for debt service	4	0	0	0
Reserved for encumbrances	14,041	33,542	464	2,685
Reserved for advances to other funds	0	0	0	0
Unreserved	10,680	20,947	10,028	2,187
Total fund balances	<u>24,725</u>	<u>54,489</u>	<u>10,492</u>	<u>4,872</u>
Total liabilities and fund balances	<u>\$ 27,017</u>	<u>\$ 66,025</u>	<u>\$ 15,067</u>	<u>\$ 5,219</u>

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Continued

June 30, 2010

(expressed in thousands)

	Special Revenue Funds			
	Labor	Commerce	Insurance	Judicial
ASSETS				
Cash and cash equivalents	\$ 7,156	\$ 130,463	\$ 18,172	\$ 12,433
Investments	0	9,506	0	0
Receivables, net	0	8,567	0	0
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	111	0	0
Total assets	\$ 7,156	\$ 148,647	\$ 18,172	\$ 12,433
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 3,576	\$ 3,782	\$ 1,343	\$ 1,903
Due to other funds	100	0	83	0
Deferred revenue	0	0	0	0
Advances from other funds	118	0	415	0
Total liabilities	3,794	3,782	1,841	1,903
Fund balances:				
Reserved for debt service	0	0	0	0
Reserved for encumbrances	7,962	17,949	207	33
Reserved for advances to other funds	0	0	0	0
Unreserved	(4,600)	126,916	16,124	10,497
Total fund balances	3,362	144,865	16,331	10,530
Total liabilities and fund balances	\$ 7,156	\$ 148,647	\$ 18,172	\$ 12,433

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Continued

June 30, 2010

(expressed in thousands)

	Special Revenue Funds			
	State Library	Revenue	Education	Secretary of State
ASSETS				
Cash and cash equivalents	\$ 300	\$ 21,687	\$ 10,297	\$ 14,877
Investments	0	0	0	0
Receivables, net	0	14	0	0
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	0	0	0
Total assets	<u>\$ 300</u>	<u>\$ 21,701</u>	<u>\$ 10,297</u>	<u>\$ 14,877</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 25	\$ 3,351	\$ 1,398	\$ 1,349
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
Total liabilities	<u>25</u>	<u>3,351</u>	<u>1,398</u>	<u>1,349</u>
Fund balances:				
Reserved for debt service	0	0	0	0
Reserved for encumbrances	0	3,259	1,607	3,037
Reserved for advances to other funds	0	0	0	0
Unreserved	275	15,091	7,292	10,491
Total fund balances	<u>275</u>	<u>18,350</u>	<u>8,899</u>	<u>13,528</u>
Total liabilities and fund balances	<u>\$ 300</u>	<u>\$ 21,701</u>	<u>\$ 10,297</u>	<u>\$ 14,877</u>

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2010

(expressed in thousands)

	Special Revenue Funds			
	State Treasurer	Wildlife and Parks	Executive	Legislative
ASSETS				
Cash and cash equivalents	\$ 2,378	\$ 31,359	\$ 8,322	\$ 76
Investments	0	0	0	0
Receivables, net	0	0	0	0
Due from other funds	15,000	0	0	0
Advances to other funds	57,516	0	0	0
Restricted cash and cash equivalents	0	1,681	0	0
Total assets	\$ 74,894	\$ 33,040	\$ 8,322	\$ 76
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 72,891	\$ 3,896	\$ 103	\$ 0
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
Total liabilities	72,891	3,896	103	0
Fund balances:				
Reserved for debt service	0	1,681	0	0
Reserved for encumbrances	12	2,997	0	0
Reserved for advances to other funds	57,516	0	0	0
Unreserved	(55,525)	24,466	8,219	76
Total fund balances	2,003	29,144	8,219	76
Total liabilities and fund balances	\$ 74,894	\$ 33,040	\$ 8,322	\$ 76

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Continued

June 30, 2010

(expressed in thousands)

	Special Revenue Funds		
	Transportation Special Revenue	State Water Plan	Peace Officer Training
ASSETS			
Cash and cash equivalents	\$ 25,519	\$ 10,404	\$ 817
Investments	0	0	0
Receivables, net	4,680	2,646	0
Due from other funds	0	0	0
Advances to other funds	0	0	0
Restricted cash and cash equivalents	0	0	0
Total assets	\$ 30,199	\$ 13,050	\$ 817
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and other liabilities	\$ 1,591	\$ 1,724	\$ 22
Due to other funds	0	0	0
Deferred revenue	0	1,250	0
Advances from other funds	0	0	0
Total liabilities	1,591	2,974	22
Fund balances:			
Reserved for debt service	0	0	0
Reserved for encumbrances	13,841	4,339	2
Reserved for advances to other funds	0	0	0
Unreserved	14,767	5,737	793
Total fund balances	28,608	10,076	795
Total liabilities and fund balances	\$ 30,199	\$ 13,050	\$ 817

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Continued
June 30, 2010

(expressed in thousands)

	Capital Projects Funds			
	State Buildings (Appropriated)	Capitol Complex Buildings	Master Lease Program	Corrections
ASSETS				
Cash and cash equivalents	\$ 40,899	\$ 4	\$ 6,464	\$ 0
Investments	0	0	0	2,019
Receivables, net	0	0	30,852	49
Due from other funds	0	0	4,711	0
Advances to other funds	0	0	12,535	0
Restricted cash and cash equivalents	0	299	0	2,482
Total assets	\$ 40,899	\$ 303	\$ 54,562	\$ 4,550
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 3,255	\$ 1,938	\$ 1	\$ 1,017
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
Total liabilities	3,255	1,938	1	1,017
Fund balances:				
Reserved for debt service	0	173	0	2,421
Reserved for encumbrances	6,152	31,029	149	561
Reserved for advances to other funds	0	0	12,535	0
Unreserved	31,492	(32,837)	41,877	551
Total fund balances	37,644	(1,635)	54,561	3,533
Total liabilities and fund balances	\$ 40,899	\$ 303	\$ 54,562	\$ 4,550

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Continued

June 30, 2010

(expressed in thousands)

	Capital Projects Funds			
	State Library	Pooled Funds	Armories	Public Broadcasting Digital
ASSETS				
Cash and cash equivalents	\$ 160	\$ 0	\$ 113	\$ 12
Investments	0	0	0	0
Receivables, net	0	0	0	0
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	0	2,231	2,708	325
Total assets	\$ 160	\$ 2,231	\$ 2,821	\$ 337
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 1	\$ 135	\$ 281	\$ 0
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
Total liabilities	1	135	281	0
Fund balances:				
Reserved for debt service	0	2,231	2,701	325
Reserved for encumbrances	0	0	348	0
Reserved for advances to other funds	0	0	0	0
Unreserved	159	(135)	(509)	12
Total fund balances	159	2,096	2,540	337
Total liabilities and fund balances	\$ 160	\$ 2,231	\$ 2,821	\$ 337

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Continued

June 30, 2010

(expressed in thousands)

	Capital Projects Funds			
	Vital Statistics Project	Highway Patrol	Labor	Social and Rehabilitation Services
ASSETS				
Cash and cash equivalents	\$ 0	\$ 1	\$ 100	\$ 0
Investments	0	0	0	0
Receivables, net	0	0	0	0
Due from other funds	0	0	0	0
Advances to other funds	0	0	0	0
Restricted cash and cash equivalents	1	0	80	12
Total assets	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 180</u>	<u>\$ 12</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 0	\$ 0	\$ 0	\$ 0
Due to other funds	0	0	0	0
Deferred revenue	0	0	0	0
Advances from other funds	0	0	0	0
Total liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances:				
Reserved for debt service	1	0	0	8
Reserved for encumbrances	0	0	21	0
Reserved for advances to other funds	0	0	0	0
Unreserved	0	1	159	4
Total fund balances	<u>1</u>	<u>1</u>	<u>180</u>	<u>12</u>
Total liabilities and fund balances	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 180</u>	<u>\$ 12</u>

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Balance Sheet - Nonmajor Governmental Funds - Concluded

June 30, 2010

(expressed in thousands)

	Debt Service Funds			
	Bond and Interest	Highway Debt Service	STAR Bonds Debt Service	Total Nonmajor Governmental
ASSETS				
Cash and cash equivalents	\$ 0	\$ 0	\$ 0	\$ 609,300
Investments	0	0	0	11,525
Receivables, net	0	59	0	201,281
Due from other funds	0	0	0	19,711
Advances to other funds	0	0	0	70,051
Restricted cash and cash equivalents	908	98,783	101,926	211,684
Total assets	<u>\$ 908</u>	<u>\$ 98,842</u>	<u>\$ 101,926</u>	<u>\$ 1,123,552</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and other liabilities	\$ 417	\$ 0	\$ 0	\$ 309,183
Due to other funds	0	0	0	1,076
Deferred revenue	0	0	0	1,320
Advances from other funds	0	0	0	2,624
Total liabilities	<u>417</u>	<u>0</u>	<u>0</u>	<u>314,203</u>
Fund balances:				
Reserved for debt service	476	97,363	101,926	209,443
Reserved for encumbrances	15	1,479	0	199,753
Reserved for advances to other funds	0	0	0	70,051
Unreserved	0	0	0	330,102
Total fund balances	<u>491</u>	<u>98,842</u>	<u>101,926</u>	<u>809,349</u>
Total liabilities and fund balances	<u>\$ 908</u>	<u>\$ 98,842</u>	<u>\$ 101,926</u>	<u>\$ 1,123,552</u>

State of Kansas
Other Supplementary Information
June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2010**
(expressed in thousands)

	Special Revenue Funds			
	State Regulatory Boards and Commission	Correctional Facilities	Tobacco Settlement for Children's Initiative	Social and Rehabilitation
REVENUES				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	1	0	0	2,703
Gross receipts tax	5,345	0	0	0
Charges for services	87,948	13,349	60,476	107,937
Operating grants	5,001	43,984	0	802,230
Capital grants	0	0	0	0
Investment earnings	108	20	363	169
Other revenues	5,111	2,776	1,357	13,945
Total revenues	<u>103,514</u>	<u>60,129</u>	<u>62,196</u>	<u>926,984</u>
EXPENDITURES				
Current:				
General government	52,967	0	0	0
Human resources	11,250	0	38,547	1,467,469
Education	1,036	0	12,527	0
Public safety	6,129	76,431	8,998	0
Agriculture and natural resources	8,820	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	9,327	0
Debt service:				
Principal	1,833	525	0	0
Interest	1,673	73	0	0
Total expenditures	<u>83,708</u>	<u>77,029</u>	<u>69,399</u>	<u>1,467,469</u>
Excess of revenues over (under) expenditures	<u>19,806</u>	<u>(16,900)</u>	<u>(7,203)</u>	<u>(540,485)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of debt	0	0	0	0
Transfers, net	(14,619)	14,474	(14,545)	540,718
Other financing sources (uses)	0	0	0	0
Total other financing sources (uses)	<u>(14,619)</u>	<u>14,474</u>	<u>(14,545)</u>	<u>540,718</u>
Net change in fund balances	5,187	(2,426)	(21,748)	233
Fund balances, beginning of year	36,347	5,701	28,575	45,614
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	<u>36,347</u>	<u>5,701</u>	<u>28,575</u>	<u>45,614</u>
Fund balances, end of year	<u>\$ 41,534</u>	<u>\$ 3,275</u>	<u>\$ 6,827</u>	<u>\$ 45,847</u>

State of Kansas
Other Supplementary Information
June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Special Revenue Funds			
	Adjutant General	Aging	Agriculture	Attorney 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	0	0	0	0
Charges for services	4	(1,011)	10,265	14,422
Operating grants	238,861	18,532	4,031	7,616
Capital grants	0	0	0	0
Investment earnings	1	0	7	11
Other revenues	519	65	562	1,409
Total revenues	239,385	17,586	14,865	23,458
EXPENDITURES				
Current:				
General government	0	0	0	16,321
Human resources	0	337,281	0	0
Education	0	0	0	0
Public safety	247,928	0	0	12,367
Agriculture and natural resources	0	0	14,780	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	0	0	0
Interest	0	0	0	0
Total expenditures	247,928	337,281	14,780	28,688
Excess of revenues over (under) expenditures	(8,543)	(319,695)	85	(5,230)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of debt	0	0	0	0
Transfers, net	5,244	320,357	466	4,333
Other financing sources (uses)	0	0	0	0
Total other financing sources (uses)	5,244	320,357	466	4,333
Net change in fund balances	(3,299)	662	551	(897)
Fund balances, beginning of year	2,942	1,879	4,101	15,600
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	2,942	1,879	4,101	15,600
Fund balances, end of year	\$ (357)	\$ 2,541	\$ 4,652	\$ 14,703

State of Kansas
Other Supplementary Information
June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Special Revenue Funds			
	Administration	Health and Environment	Highway Patrol	Historical Society
REVENUES				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	690	2,393	875
Gross receipts tax	0	935	0	0
Charges for services	10,337	28,496	9,055	1,099
Operating grants	1,461	125,593	28,455	690
Capital grants	0	0	0	47
Investment earnings	187	481	65	38
Other revenues	15,898	42,928	716	99
Total revenues	<u>27,883</u>	<u>199,123</u>	<u>40,684</u>	<u>2,848</u>
EXPENDITURES				
Current:				
General government	23,724	0	0	0
Human resources	0	0	0	0
Education	0	0	0	3,404
Public safety	0	0	56,623	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	190,127	0	0
Debt service:				
Principal	10,690	0	0	0
Interest	25,823	0	0	0
Total expenditures	<u>60,237</u>	<u>190,127</u>	<u>56,623</u>	<u>3,404</u>
Excess of revenues over (under) expenditures	<u>(32,354)</u>	<u>8,996</u>	<u>(15,939)</u>	<u>(556)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of debt	0	0	0	0
Transfers, net	37,794	(2,639)	15,117	161
Other financing sources (uses)	(2,992)	0	0	0
Total other financing sources (uses)	<u>34,802</u>	<u>(2,639)</u>	<u>15,117</u>	<u>161</u>
Net change in fund balances	2,448	6,357	(822)	(395)
Fund balances, beginning of year	22,277	48,132	11,314	5,267
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	<u>22,277</u>	<u>48,132</u>	<u>11,314</u>	<u>5,267</u>
Fund balances, end of year	<u>\$ 24,725</u>	<u>\$ 54,489</u>	<u>\$ 10,492</u>	<u>\$ 4,872</u>

State of Kansas
Other Supplementary Information
June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued
For the Fiscal Year Ended June 30, 2010**

(expressed in thousands)

	Special Revenue Funds			
	Labor	Commerce	Insurance	Judicial
REVENUES				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	15,325	0	0
Sales and excise tax	0	0	0	0
Gross receipts tax	0	30	11,632	0
Charges for services	1,445	5,885	10,988	19,886
Operating grants	30,535	69,126	0	669
Capital grants	0	0	0	0
Investment earnings	0	1,242	0	39
Other revenues	13,434	5,661	550	2,012
Total revenues	<u>45,414</u>	<u>97,269</u>	<u>23,170</u>	<u>22,606</u>
EXPENDITURES				
Current:				
General government	0	120,988	19,516	23,160
Human resources	0	0	0	0
Education	49,980	2,651	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	9,780	0	0
Interest	0	5,248	0	0
Total expenditures	<u>49,980</u>	<u>138,667</u>	<u>19,516</u>	<u>23,160</u>
Excess of revenues over (under) expenditures	<u>(4,566)</u>	<u>(41,398)</u>	<u>3,654</u>	<u>(554)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of debt	0	59,206	0	0
Transfers, net	4,945	35,959	(424)	892
Other financing sources (uses)	0	0	0	0
Total other financing sources (uses)	<u>4,945</u>	<u>95,165</u>	<u>(424)</u>	<u>892</u>
Net change in fund balances	379	53,767	3,230	338
Fund balances, beginning of year	2,983	91,098	13,101	10,192
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	<u>2,983</u>	<u>91,098</u>	<u>13,101</u>	<u>10,192</u>
Fund balances, end of year	<u>\$ 3,362</u>	<u>\$ 144,865</u>	<u>\$ 16,331</u>	<u>\$ 10,530</u>

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June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Special Revenue Funds			
	State Library	Revenue	Education	Secretary of State
Revenues:				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	(18,687)	0	0
Sales and excise tax	0	18,563	0	0
Gross receipts tax	0	153	0	0
Charges for services	1	16,187	3,962	4,244
Operating grants	1,783	1,236	737,231	1,055
Capital grants	0	0	0	0
Investment earnings	0	0	2	156
Other revenues	0	0	41,639	1
Total revenues	1,784	17,452	782,834	5,456
Expenditures:				
Current:				
General government	0	76,434	0	6,688
Human resources	0	0	0	0
Education	1,565	0	864,300	0
Public safety	0	0	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	0	0	0
Interest	0	0	0	0
Total expenditures	1,565	76,434	864,300	6,688
Excess of revenues over (under) expenditures	219	(58,982)	(81,466)	(1,232)
Other financing sources (uses):				
Proceeds from sale of debt	0	0	0	0
Transfers, net	0	62,988	86,371	(204)
Other financing sources (uses)	0	0	0	0
Total other financing sources (uses)	0	62,988	86,371	(204)
Net change in fund balances	219	4,006	4,905	(1,436)
Fund balances, beginning of year	56	14,339	3,994	14,964
Revisions to beginning fund balances	0	5	0	0
Fund balances, beginning of year (restated)	56	14,344	3,994	14,964
Fund balances, end of year	\$ 275	\$ 18,350	\$ 8,899	\$ 13,528

State of Kansas
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June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued
For the Fiscal Year Ended June 30, 2010**

(expressed in thousands)

	Special Revenue Funds			
	State Treasurer	Wildlife and Parks	Executive	Legislative
REVENUES				
Property tax	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0
Sales and excise tax	0	1,087	0	0
Gross receipts tax	0	0	0	0
Charges for services	951	34,186	183	28
Operating grants	0	13,272	14,632	0
Capital grants	0	0	0	0
Investment earnings	2,958	199	178	0
Other revenues	16,949	147	111	40
Total revenues	20,858	48,891	15,104	68
EXPENDITURES				
Current:				
General government	18,172	0	13,477	92
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	0	0	0
Agriculture and natural resources	0	49,092	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	0
Debt service:				
Principal	0	0	0	0
Interest	0	60	0	0
Total expenditures	18,172	49,152	13,477	92
Excess of revenues over (under) expenditures	2,686	(261)	1,627	(24)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of debt	0	1,743	0	0
Transfers, net	(2,664)	3,846	(7,843)	0
Other financing sources (uses)	0	0	0	0
Total other financing sources (uses)	(2,664)	5,589	(7,843)	0
Net change in fund balances	22	5,328	(6,216)	(24)
Fund balances, beginning of year	1,981	23,816	14,435	100
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	1,981	23,816	14,435	100
Fund balances, end of year	\$ 2,003	\$ 29,144	\$ 8,219	\$ 76

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June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Special Revenue Funds		
	Transportation Special Revenue	State Water Plan	Peace Officer Training
REVENUES			
Property tax	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0
Sales and excise tax	0	2,737	0
Gross receipts tax	0	0	0
Charges for services	0	4,533	697
Operating grants	10,443	0	0
Capital grants	0	0	0
Investment earnings	244	0	0
Other revenues	1,692	4,543	1
Total revenues	12,379	11,813	698
EXPENDITURES			
Current:			
General government	0	0	0
Human resources	0	0	0
Education	0	29	0
Public safety	0	0	492
Agriculture and natural resources	0	16,351	0
Highways and other transportation	23,753	0	0
Health and environment	0	3,007	0
Debt service:			
Principal	0	0	0
Interest	0	0	0
Total expenditures	23,753	19,387	492
Excess of revenues over (under) expenditures	(11,374)	(7,574)	206
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of debt	0	0	0
Transfers, net	10,071	1,614	(2)
Other financing sources (uses)	0	0	0
Total other financing sources (uses)	10,071	1,614	(2)
Net change in fund balances	(1,303)	(5,960)	204
Fund balances, beginning of year	29,911	16,036	591
Revisions to beginning fund balances	0	0	0
Fund balances, beginning of year (restated)	29,911	16,036	591
Fund balances, end of year	\$ 28,608	\$ 10,076	\$ 795

State of Kansas
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June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued
For the Fiscal Year Ended June 30, 2010**

(expressed in thousands)

	Capital Projects Funds				
	State Buildings (Appropriated)	Capital Complex Buildings	Master Lease Program	Corrections	State Library
REVENUES					
Property tax	\$ 49,752	\$ 0	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0	0	0
Sales and excise tax	0	0	0	0	0
Gross receipts tax	0	0	0	0	0
Charges for services	0	0	0	0	0
Operating grants	0	0	0	0	241
Capital grants	0	0	0	0	0
Investment earnings	0	29	56	94	0
Other revenues	0	0	1	0	1
Total revenues	<u>49,752</u>	<u>29</u>	<u>57</u>	<u>94</u>	<u>242</u>
EXPENDITURES					
Current:					
General government	180	3,349	(184)	0	0
Human resources	4,205	0	0	0	0
Education	38,213	0	0	0	95
Public safety	3,871	0	0	4,225	0
Agriculture and natural resources	0	0	0	0	0
Highways and other transportation	0	0	0	0	0
Health and environment	0	0	0	0	0
Debt service:					
Principal	0	6,750	9,285	5,305	0
Interest	0	7,353	2,112	2,683	0
Total expenditures	<u>46,469</u>	<u>17,452</u>	<u>11,213</u>	<u>12,213</u>	<u>95</u>
Excess of revenues over (under) expenditures	<u>3,283</u>	<u>(17,423)</u>	<u>(11,156)</u>	<u>(12,119)</u>	<u>147</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of debt	0	0	2,609	0	0
Transfers, net	(6,751)	67,579	0	8,681	0
Other financing sources (uses)	0	(53,829)	0	0	0
Total other financing sources (uses)	<u>(6,751)</u>	<u>13,750</u>	<u>2,609</u>	<u>8,681</u>	<u>0</u>
Net change in fund balances	<u>(3,468)</u>	<u>(3,673)</u>	<u>(8,547)</u>	<u>(3,438)</u>	<u>147</u>
Fund balances, beginning of year	41,112	2,038	63,108	6,971	12
Revisions to beginning fund balances	0	0	0	0	0
Fund balances, beginning of year (restated)	<u>41,112</u>	<u>2,038</u>	<u>63,108</u>	<u>6,971</u>	<u>12</u>
Fund balances, end of year	<u>\$ 37,644</u>	<u>\$ (1,635)</u>	<u>\$ 54,561</u>	<u>\$ 3,533</u>	<u>\$ 159</u>

State of Kansas
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June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Capital Projects Funds			
	Pooled Funds	Armories	Public Broadcasting Digital	Vital Statistics Project
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	252	41	4	2
Other revenues	1	1	1	0
Total revenues	<u>253</u>	<u>42</u>	<u>5</u>	<u>2</u>
EXPENDITURES				
Current:				
General government	47,076	0	0	0
Human resources	0	0	0	0
Education	0	0	0	0
Public safety	0	1,462	0	0
Agriculture and natural resources	0	0	0	0
Highways and other transportation	0	0	0	0
Health and environment	0	0	0	211
Debt service:				
Principal	650	1,455	325	490
Interest	3,034	1,139	232	12
Total expenditures	<u>50,760</u>	<u>4,056</u>	<u>557</u>	<u>713</u>
Excess of revenues over (under) expenditures	<u>(50,507)</u>	<u>(4,014)</u>	<u>(552)</u>	<u>(711)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of debt	172,820	0	0	0
Transfers, net	(120,217)	2,908	2,679	499
Other financing sources (uses)	0	0	(2,075)	0
Total other financing sources (uses)	<u>52,603</u>	<u>2,908</u>	<u>604</u>	<u>499</u>
Net change in fund balances	2,096	(1,106)	52	(212)
Fund balances, beginning of year	0	3,646	285	213
Revisions to beginning fund balances	0	0	0	0
Fund balances, beginning of year (restated)	0	3,646	285	213
Fund balances, end of year	<u>\$ 2,096</u>	<u>\$ 2,540</u>	<u>\$ 337</u>	<u>\$ 1</u>

State of Kansas
Other Supplementary Information
June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Continued**
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)

	Capital Projects Fund		
	Highway Patrol	Labor	Social and Rehabilitation Services
REVENUES			
Property tax	\$ 0	\$ 0	\$ 0
Income and inheritance tax	0	0	0
Sales and excise tax	0	0	0
Gross receipts tax	0	0	0
Charges for services	0	0	0
Operating grants	0	0	0
Capital grants	0	0	0
Investment earnings	0	32	8
Other revenues	1	0	0
Total revenues	<u>1</u>	<u>32</u>	<u>8</u>
EXPENDITURES			
Current:			
General government	0	0	0
Human resources	0	3,103	1,154
Education	0	0	0
Public safety	0	0	0
Agriculture and natural resources	0	0	0
Highways and other transportation	0	0	0
Health and environment	0	0	0
Debt service:			
Principal	240	2,115	3,250
Interest	131	802	2,508
Total expenditures	<u>371</u>	<u>6,020</u>	<u>6,912</u>
Excess of revenues over (under) expenditures	<u>(370)</u>	<u>(5,988)</u>	<u>(6,904)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of debt	0	0	31,847
Transfers, net	370	2,835	5,736
Other financing sources (uses)	0	0	(31,579)
Total other financing sources (uses)	<u>370</u>	<u>2,835</u>	<u>6,004</u>
Net change in fund balances	0	(3,153)	(900)
Fund balances, beginning of year	1	3,333	912
Revisions to beginning fund balances	0	0	0
Fund balances, beginning of year (restated)	<u>1</u>	<u>3,333</u>	<u>912</u>
Fund balances, end of year	<u>\$ 1</u>	<u>\$ 180</u>	<u>\$ 12</u>

State of Kansas
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June 30, 2010

**Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds - Concluded
For the Fiscal Year Ended June 30, 2010**

(expressed in thousands)

	Debt Service Funds			
	Bond and Interest	Highway Debt Service	STAR Bonds Debt Service	Total Nonmajor Governmental
REVENUES				
Property tax	\$ 0	\$ 0	\$ 0	\$ 49,752
Income and inheritance tax	0	0	0	(3,362)
Sales and excise tax	0	0	31,865	60,914
Gross receipts tax	0	0	0	18,095
Charges for services	0	0	0	445,553
Operating grants	0	0	0	2,156,677
Capital grants	0	0	0	47
Investment earnings	77	807	0	7,870
Other revenues	400	0	0	172,571
Total revenues	<u>477</u>	<u>807</u>	<u>31,865</u>	<u>2,908,117</u>
EXPENDITURES				
Current:				
General government	(11)	0	15,153	437,102
Human resources	0	0	0	1,912,989
Education	0	0	0	923,820
Public safety	3,180	0	0	421,706
Agriculture and natural resources	0	0	0	89,043
Highways and other transportation	0	0	0	23,753
Health and environment	0	0	0	202,672
Debt service:				
Principal	5,385	85,830	25,630	169,538
Interest	2,859	78,034	7,424	141,200
Total expenditures	<u>11,413</u>	<u>163,864</u>	<u>48,207</u>	<u>4,321,823</u>
Excess of revenues over (under) expenditures	<u>(10,936)</u>	<u>(163,057)</u>	<u>(16,342)</u>	<u>(1,413,706)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of debt	0	0	92,615	360,840
Transfers, net	6,551	363,810	0	1,437,090
Other financing sources (uses)	0	(200,000)	(18,284)	(308,759)
Total other financing sources (uses)	<u>6,551</u>	<u>163,810</u>	<u>74,331</u>	<u>1,489,171</u>
Net change in fund balances	(4,385)	753	57,989	75,465
Fund balances, beginning of year	4,876	98,089	43,835	733,777
Revisions to beginning fund balances	0	0	102	107
Fund balances, beginning of year (restated)	4,876	98,089	43,937	733,884
Fund balances, end of year	<u>\$ 491</u>	<u>\$ 98,842</u>	<u>\$ 101,926</u>	<u>\$ 809,349</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, 2010

Combining Statement of Net Assets - Nonmajor Proprietary Funds

June 30, 2010

(expressed in thousands)

	Business-Type Activities					
	Workers Compensa- tion	Lottery	Intergover- mental Transfer Program	Transporta- tion Revolving Fund	Communica- tion Systems Revolving Fund	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 5,697	\$ 6,429	\$ 743	\$ 0	\$ 2,011	\$ 14,880
Restricted cash and cash equivalents	0	0	0	1,359	2	1,361
Receivables, net	0	9,558	0	8,733	1,992	20,283
Inventories	0	2,014	0	0	0	2,014
Total current assets	5,697	18,001	743	10,092	4,005	38,538
Noncurrent assets:						
Investments	0	0	0	15,277	0	15,277
Receivables, net	0	0	0	82,789	14,908	97,697
Advances to other funds	1,000	0	0	0	0	1,000
Capital assets (net of accumulated depreciation)	0	8,332	0	0	0	8,332
Other noncurrent assets	0	0	0	721	78	799
Total noncurrent assets	1,000	8,332	0	98,787	14,986	123,105
Total assets	\$ 6,697	\$ 26,333	\$ 743	\$ 108,879	\$ 18,991	\$ 161,643
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	\$ 549	\$ 7,636	\$ 0	\$ 951	\$ 160	\$ 9,296
Deferred revenue	0	0	0	0	4,314	4,314
Due to other funds	0	4,568	0	0	56	4,624
Short-term compensated absences	7	0	0	0	0	7
Short-term portion of long-term liabilities	4,876	0	0	6,025	1,198	12,099
Total current liabilities	5,432	12,204	0	6,976	5,728	30,340
Noncurrent liabilities:						
Compensated absences	1	0	0	0	0	1
Claims and judgements	26,555	0	0	0	0	26,555
Bonds, notes and loans payable	0	0	0	70,969	10,415	81,384
Arbitrage rebate payable	0	0	0	188	0	188
Other post employment benefits	0	204	0	0	0	204
Total noncurrent liabilities	26,556	204	0	71,157	10,415	108,332
Total liabilities	31,988	12,408	0	78,133	16,143	138,672
NET ASSETS						
Invested in capital assets, net of related debt	0	8,332	0	0	0	8,332
Restricted for:						
Debt service	0	0	0	15,277	2	15,279
Unrestricted	(25,291)	5,593	743	15,469	2,846	(640)
Total net assets	(25,291)	13,925	743	30,746	2,848	22,971
Total liabilities and net assets	\$ 6,697	\$ 26,333	\$ 743	\$ 108,879	\$ 18,991	\$ 161,643

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Other Supplementary Information
June 30, 2010

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Nonmajor Proprietary Funds
For the Fiscal Year Ended June 30, 2010**
(expressed in thousands)

	Business-Type Activities					Total
	Workers Compensa- tion	Lottery	Intergover- mental Transfer Program	Transporta- tion Revolving Fund	Communica- tion Systems Revolving Fund	
OPERATING REVENUE						
Charges for services	\$ 3,148	\$ 258,494	\$ 0	\$ 162	\$ 512	\$ 262,316
Other revenue	104	0	388	2,943	0	3,435
Total operating revenues	<u>3,252</u>	<u>258,494</u>	<u>388</u>	<u>3,105</u>	<u>512</u>	<u>265,751</u>
OPERATING EXPENSES						
Personal services	239	4,872	0	0	0	5,111
Supplies and services	1,631	45,111	0	53	699	47,494
Lottery prize awards	0	132,610	0	0	0	132,610
Depreciation	0	1,349	0	0	0	1,349
Insurance claims and expenses	1,620	0	0	0	0	1,620
Other expenses	1,050	0	139	0	134	1,323
Total operating expenses	<u>4,540</u>	<u>183,942</u>	<u>139</u>	<u>53</u>	<u>833</u>	<u>189,507</u>
Operating income (loss)	<u>(1,288)</u>	<u>74,552</u>	<u>249</u>	<u>3,052</u>	<u>(321)</u>	<u>76,244</u>
NONOPERATING REVENUES (EXPENSES)						
Investment earnings	0	0	190	846	64	1,100
Interest expense	0	0	0	(3,056)	(619)	(3,675)
Other expenses	0	(138)	0	0	0	(138)
Capital contributions	0	9,116	0	0	0	9,116
Total nonoperating revenues (expenses)	<u>0</u>	<u>8,978</u>	<u>190</u>	<u>(2,210)</u>	<u>(555)</u>	<u>6,403</u>
Net income (loss)	<u>(1,288)</u>	<u>83,530</u>	<u>439</u>	<u>842</u>	<u>(876)</u>	<u>82,647</u>
Transfers in	(1,001)	(72,736)	0	0	0	(73,737)
Transfers out	<u>(6)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(6)</u>
Net change in net assets	<u>(2,295)</u>	<u>10,794</u>	<u>439</u>	<u>842</u>	<u>(876)</u>	<u>8,904</u>
Total net assets - beginning	<u>(22,996)</u>	<u>3,131</u>	<u>304</u>	<u>29,904</u>	<u>3,724</u>	<u>14,067</u>
Total net assets - ending	<u>\$ (25,291)</u>	<u>\$ 13,925</u>	<u>\$ 743</u>	<u>\$ 30,746</u>	<u>\$ 2,848</u>	<u>\$ 22,971</u>

Internal Service Funds

Internal Service Funds are used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis:

Printing
Accounting Services
Motor Pool
Information Technology
Aircraft
Building Maintenance
Architectural Services
State Workers' Compensation
Capitol Security
Osawatomie Motor Pool
Wildlife Aircraft
Personnel Services

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Statement of Net Assets - Internal Service Funds

June 30, 2010

(expressed in thousands)

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,311	\$ 10,278	\$ 796	\$ 6,354	\$ 19	\$ 12,879
Receivables, net	0	0	0	0	0	206
Inventories	0	0	0	486	0	0
Total current assets	1,311	10,278	796	6,840	19	13,085
Noncurrent assets:						
Receivables, net	0	0	0	0	0	1,703
Capital assets (net of accumulated depreciation)	2,647	41,159	454	17,626	0	66,180
Total noncurrent assets	2,647	41,159	454	17,626	0	67,883
Total assets	\$ 3,958	\$ 51,437	\$ 1,250	\$ 24,466	\$ 19	\$ 80,968
LIABILITIES						
Current liabilities:						
Accounts payable and other liabilities	\$ 230	\$ 957	\$ 79	\$ 1,529	\$ 14	\$ 887
Due to other funds	0	0	527	1,289	0	47
Short-term compensated absences	122	291	2	737	0	361
Short-term portion of long-term liabilities	193	29,210	0	0	0	2,009
Total current liabilities	545	30,458	608	3,555	14	3,304
Noncurrent liabilities:						
Compensated absences	23	56	0	141	0	69
Claims and judgements	0	37	0	0	0	0
Bonds, notes and loans payable	0	18,381	0	0	0	56,357
Advances from other funds	0	0	798	804	0	1
Total noncurrent liabilities	23	18,474	798	945	0	56,427
Total liabilities	568	48,932	1,406	4,500	14	59,731
NET ASSETS						
Invested in capital assets, net of related debt	2,647	572	454	17,626	0	66,180
Unrestricted	743	1,933	(610)	2,340	5	(44,943)
Total net assets	3,390	2,505	(156)	19,966	5	21,237
Total liabilities and net assets	\$ 3,958	\$ 51,437	\$ 1,250	\$ 24,466	\$ 19	\$ 80,968

State of Kansas
Other Supplementary Information
June 30, 2010

Combining Statement of Net Assets - Internal Service Funds - Concluded

June 30, 2010

(expressed in thousands)

	Architectural Service	State Workers Compensation	Capitol Security	Osawatimie Motor Pool	Wildlife Aircraft	Personnel Services	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 351	\$ 10,698	\$ 126	\$ 10	\$ 202	\$ 400	\$ 43,424
Receivables, net	0	0	0	0	0	0	206
Inventories	0	0	0	0	0	0	486
Total current assets	<u>351</u>	<u>10,698</u>	<u>126</u>	<u>10</u>	<u>202</u>	<u>400</u>	<u>44,116</u>
Noncurrent assets:							
Receivables, net	0	0	0	0	0	0	1,703
Capital assets (net of accumulated depreciation)	13	0	0	0	0	0	128,079
Total noncurrent assets	<u>13</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>129,782</u>
Total assets	<u><u>\$ 364</u></u>	<u><u>\$ 10,698</u></u>	<u><u>\$ 126</u></u>	<u><u>\$ 10</u></u>	<u><u>\$ 202</u></u>	<u><u>\$ 400</u></u>	<u><u>\$ 173,898</u></u>
LIABILITIES							
Current liabilities:							
Accounts payable and other liabilities	\$ 60	\$ 510	\$ 23	\$ 1	\$ 0	\$ 9	\$ 4,299
Due to other funds	0	0	0	0	0	0	1,863
Short-term compensated absences	69	62	5	0	0	17	1,666
Short-term portion of long-term liabilities	0	16,653	0	0	0	0	48,065
Total current liabilities	<u>129</u>	<u>17,225</u>	<u>28</u>	<u>1</u>	<u>0</u>	<u>26</u>	<u>55,893</u>
Noncurrent liabilities:							
Compensated absences	13	12	1	0	0	3	318
Claims and judgments	0	41,317	0	0	0	0	41,354
Bonds, notes and loans payable	0	0	0	0	0	0	74,738
Advances from other funds	0	0	0	0	0	0	1,603
Total noncurrent liabilities	<u>13</u>	<u>41,329</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>118,013</u>
Total liabilities	<u>142</u>	<u>58,554</u>	<u>29</u>	<u>1</u>	<u>0</u>	<u>29</u>	<u>173,906</u>
NET ASSETS							
Invested in capital assets, net of related debt	13	0	0	0	0	0	87,492
Unrestricted	209	(47,856)	97	9	202	371	(87,500)
Total net assets	<u>222</u>	<u>(47,856)</u>	<u>97</u>	<u>9</u>	<u>202</u>	<u>371</u>	<u>(8)</u>
Total liabilities and net assets	<u><u>\$ 364</u></u>	<u><u>\$ 10,698</u></u>	<u><u>\$ 126</u></u>	<u><u>\$ 10</u></u>	<u><u>\$ 202</u></u>	<u><u>\$ 400</u></u>	<u><u>\$ 173,898</u></u>

State of Kansas
Other Supplementary Information
June 30, 2010

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Internal Service Funds
For the Fiscal Year Ended June 30, 2010
(expressed in thousands)**

	Printing	Accounting Services	Motor Pool	Information Technology	Aircraft	Building Maintenance
OPERATING REVENUES						
Charges for services	\$ 4,348	\$ 11,159	\$ 682	\$ 40,826	\$ 106	\$ 29,839
Other revenue	0	5,575	1,442	2	0	5
Total operating revenues	<u>4,348</u>	<u>16,734</u>	<u>2,124</u>	<u>40,828</u>	<u>106</u>	<u>29,844</u>
OPERATING EXPENSES						
Salaries and wages	2,425	5,407	49	12,892	0	8,197
Supplies and services	128	(21,029)	278	16,065	159	5,908
Depreciation	200	39	88	6,352	0	2,930
Insurance claims and expenses	0	0	0	0	0	0
Other expenses	0	0	0	0	0	23
Total operating expenses	<u>2,753</u>	<u>(15,583)</u>	<u>415</u>	<u>35,309</u>	<u>159</u>	<u>17,058</u>
Operating income (loss)	<u>1,595</u>	<u>32,317</u>	<u>1,709</u>	<u>5,519</u>	<u>(53)</u>	<u>12,786</u>
NONOPERATING REVENUES (EXPENSES)						
Investment earnings	0	0	0	0	0	60
Interest expense	0	(289)	0	0	0	(2,641)
Other expenses	(194)	0	0	0	0	(14)
Total nonoperating revenues (expenses)	<u>(194)</u>	<u>(289)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(2,595)</u>
Net income (loss)	<u>1,401</u>	<u>32,028</u>	<u>1,709</u>	<u>5,519</u>	<u>(53)</u>	<u>10,191</u>
Transfers in	(14)	1,269	(1,401)	(69)	0	(271)
Transfers out	(118)	0	0	(406)	0	(3,367)
Net change in net assets	<u>1,269</u>	<u>33,297</u>	<u>308</u>	<u>5,044</u>	<u>(53)</u>	<u>6,553</u>
Total net assets - beginning	2,129	(30,650)	(458)	14,980	58	21,807
Revisions to beginning net assets	(8)	(142)	(6)	(58)	0	(7,123)
Total net assets - beginning (restated)	<u>2,121</u>	<u>(30,792)</u>	<u>(464)</u>	<u>14,922</u>	<u>58</u>	<u>14,684</u>
Total net assets - ending	<u>\$ 3,390</u>	<u>\$ 2,505</u>	<u>\$ (156)</u>	<u>\$ 19,966</u>	<u>\$ 5</u>	<u>\$ 21,237</u>

State of Kansas
Other Supplementary Information
June 30, 2010

**Combining Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Internal Service Funds - Concluded
For the Fiscal Year Ended June 30, 2010**
(expressed in thousands)

	Architectural Service	State Workers Compensation	Capitol Security	Osawatimie Motor Pool	Wildlife Aircraft	Personnel Services	Total
OPERATING REVENUES							
Charges for services	\$ 1,404	\$ 31,111	\$ 85	\$ 32	\$ 57	\$ 150	\$ 119,799
Other revenue	81	(6,092)	161	0	0	0	1,174
Total operating revenues	<u>1,485</u>	<u>25,019</u>	<u>246</u>	<u>32</u>	<u>57</u>	<u>150</u>	<u>120,973</u>
OPERATING EXPENSES							
Salaries and wages	1,164	1,226	325	0	0	196	31,881
Supplies and services	31	1,869	19	23	1	103	3,555
Depreciation	6	1	0	0	0	0	9,616
Insurance claims and expenses	0	21,989	0	0	0	0	21,989
Other expenses	0	1	0	0	0	0	24
Total operating expenses	<u>1,201</u>	<u>25,086</u>	<u>344</u>	<u>23</u>	<u>1</u>	<u>299</u>	<u>67,065</u>
Operating income (loss)	<u>284</u>	<u>(67)</u>	<u>(98)</u>	<u>9</u>	<u>56</u>	<u>(149)</u>	<u>53,908</u>
NONOPERATING REVENUES (EXPENSES)							
Investment earnings	0	0	0	0	0	0	60
Interest expense	0	0	0	0	0	0	(2,930)
Other expenses	0	0	0	0	0	0	(208)
Total nonoperating revenues (expenses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(3,078)</u>
Net income (loss)	<u>284</u>	<u>(67)</u>	<u>(98)</u>	<u>9</u>	<u>56</u>	<u>(149)</u>	<u>50,830</u>
Transfers in	(6)	0	0	0	0	0	(492)
Transfers out	0	0	0	0	0	0	(3,891)
Net change in net assets	<u>278</u>	<u>(67)</u>	<u>(98)</u>	<u>9</u>	<u>56</u>	<u>(149)</u>	<u>46,447</u>
Total net assets - beginning	(56)	(47,787)	195	0	146	520	(39,116)
Revisions to beginning net assets	0	(2)	0	0	0	0	(7,339)
Total net assets - beginning (restated)	<u>(56)</u>	<u>(47,789)</u>	<u>195</u>	<u>0</u>	<u>146</u>	<u>520</u>	<u>(46,455)</u>
Total net assets - ending	<u>\$ 222</u>	<u>\$ (47,856)</u>	<u>\$ 97</u>	<u>\$ 9</u>	<u>\$ 202</u>	<u>\$ 371</u>	<u>\$ (8)</u>

**STATISTICAL
SECTION**

State of Kansas
Statistical Section
June 30, 2010

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Financial Trends	157
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	167
These schedules contain information to help the reader assess the state's most significant revenue source, the income and sales taxes.	
Debt Capacity	169
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	171
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	173
These schedules contain service and infrastructure data to help the reader understand how the information in the State's financial report relates to the services the State provides and the activities it performs.	

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The State implemented GASB Statement 34 in fiscal year 2002; schedules presenting government-wide information include information beginning that year.

The State University System was changed from a business-type activity to a component unit of the State which significantly changes some amounts for fiscal year 2004 and beyond.

State of Kansas
Statistical Section
June 30, 2010

Financial Trends

Net Assets by Fund Type

Last Nine Fiscal Years

(expressed in thousands)

		2002	2003	2004
1	Governmental activities			
2	Invested in capital assets, net of related debt	\$ 7,494,576	\$ 7,758,504	\$ 7,855,107
3	Restricted	60,207	118,013	142,188
4	Unrestricted	1,583,141	1,194,510	831,722
5	Total governmental activities net assets	<u>\$ 9,137,924</u>	<u>\$ 9,071,027</u>	<u>\$ 8,829,017</u>
6				
7	Business-type activities ¹			
8	Invested in capital assets, net of related debt	\$ 714,933	\$ 844,948	\$ 479
9	Restricted	513,119	844,360	589,332
10	Unrestricted	406,782	(10,780)	57,317
11	Total business-type activities net assets	<u>\$ 1,634,834</u>	<u>\$ 1,678,528</u>	<u>\$ 647,128</u>
12				
13	Primary government			
14	Invested in capital assets net of related debt	\$ 8,209,509	\$ 8,603,452	\$ 7,855,586
15	Restricted	573,326	962,373	731,520
16	Unrestricted	1,989,923	1,183,730	889,039
17	Total primary government net assets	<u>\$ 10,772,758</u>	<u>\$ 10,749,555</u>	<u>\$ 9,476,145</u>

¹ In fiscal year 2004 the State University System was changed from a business-type activity to a component unit of the State

State of Kansas
Statistical Section
June 30, 2010

Financial Trends

Net Assets by Fund Type

Last Nine Fiscal Years

(expressed in thousands)

2005	2006	2007	2008	2009	2010	
\$ 435,125	\$ 8,144,626	\$ 9,538,694	\$ 9,800,244	\$ 9,509,615	\$ 9,601,110	1
89,640	97,386	93,923	87,640	143,946	209,443	2
762,257	1,309,066	331,906	86,523	105,512	155,995	3
<u>\$ 9,287,022</u>	<u>\$ 9,551,078</u>	<u>\$ 9,964,523</u>	<u>\$ 9,974,407</u>	<u>\$ 9,759,073</u>	<u>\$ 9,966,548</u>	4
						5
						6
						7
\$ 247	\$ 388	\$ 256	\$ 364	\$ 478	\$ 8,351	8
766,234	950,950	1,087,458	1,066,936	779,479	433,809	9
5,642	20,004	6,768	18,330	(6,394)	118,772	10
<u>\$ 772,123</u>	<u>\$ 971,342</u>	<u>\$ 1,094,482</u>	<u>\$ 1,085,630</u>	<u>\$ 773,563</u>	<u>\$ 560,932</u>	11
						12
						13
\$ 8,435,372	\$ 8,145,014	\$ 9,538,950	\$ 9,800,608	\$ 9,510,093	\$ 9,609,461	14
855,874	1,048,336	1,181,381	1,154,576	923,425	643,252	15
767,899	1,329,110	338,674	104,853	99,118	274,767	16
<u>\$ 10,059,145</u>	<u>\$ 10,522,460</u>	<u>\$ 11,059,005</u>	<u>\$ 11,060,037</u>	<u>\$ 10,532,636</u>	<u>\$ 10,527,480</u>	17

State of Kansas
Statistical Section
June 30, 2010

Financial Trends

Changes in Net Assets, Last Nine Fiscal Years

(expressed in thousands)

	2002	2003	2004
Expenses			
Governmental activities:			
General government	\$ 561,006	\$ 419,040	\$ 1,615,560
Human resources	2,723,207	2,804,932	3,106,382
Education	2,662,380	3,125,520	3,201,981
Public safety	476,638	446,867	438,540
Agriculture and natural resources	90,948	92,466	88,870
Highways and other transportation	860,035	798,083	777,697
Health and environment	166,038	174,249	176,436
Economic development	0	0	0
Interest expense	0	0	0
Total governmental activities expenses	<u>7,540,252</u>	<u>7,861,157</u>	<u>9,405,466</u>
Business-type activities:			
Water pollution and safety	42,370	22,489	28,975
Health care stabilization	27,588	34,955	33,874
Employment security	341,587	487,610	468,413
Workers' compensation	(856)	(38,177)	2,842
Lottery	132,284	140,103	154,774
Universities	1,857,220	1,749,824	0
Intergovernmental transfer program	94,823	35,953	1,210
Transportation revolving loans	0	0	0
Total business-type activities expenses	<u>2,495,016</u>	<u>2,432,757</u>	<u>690,088</u>
Total primary government expenses	<u>\$ 10,035,268</u>	<u>\$ 10,293,914</u>	<u>\$ 10,095,554</u>
Program Revenues			
Governmental activities:			
General government	\$ 225,970	\$ 283,224	\$ 298,640
Human resources	1,723,828	1,782,338	1,982,802
Education	295,077	322,565	359,415
Public safety	111,009	85,705	79,468
Agriculture and natural resources	52,315	55,648	58,116
Highways and other transportation	583,663	588,536	493,479
Health and environment	99,249	119,147	130,810
Total governmental activities revenues	<u>3,091,111</u>	<u>3,237,163</u>	<u>3,402,730</u>
Business-type activities: ¹			
Water pollution and safety	35,799	23,769	50,634
Health care stabilization	27,684	26,201	22,236
Employment security	318,187	352,282	370,895
Workers' compensation	468	871	3,859
Lottery	191,064	203,939	225,457
Universities	800,899	1,026,479	0
Intergovernmental transfer program	0	67	191
Transportation revolving fund	0	0	0
Total business-type activities revenues	<u>1,374,101</u>	<u>1,633,608</u>	<u>673,272</u>
Total primary government revenues	<u>\$ 4,465,212</u>	<u>\$ 4,870,771</u>	<u>\$ 4,076,002</u>
Net (Expense) Revenue			
Government activities	\$ (4,449,141)	\$ (4,623,994)	\$ (6,002,736)
Business-type activities	(1,120,915)	(799,149)	(16,816)
Total primary net (expense) revenue	<u>\$ (5,570,056)</u>	<u>\$ (5,423,143)</u>	<u>\$ (6,019,552)</u>

State of Kansas
Statistical Section
June 30, 2010

Financial Trends

Changes in Net Assets, Last Nine Fiscal Years

(expressed in thousands)

2005	2006	2007	2008	2009	2010	
						1
						2
\$ 1,215,280	\$ 975,416	\$ 1,074,391	\$ 1,002,719	\$ 955,701	\$ 851,373	3
3,124,978	2,979,056	3,080,465	3,279,850	3,691,535	3,785,792	4
3,393,376	4,378,010	4,696,343	5,011,242	5,183,287	5,028,780	5
514,904	583,340	607,343	742,254	754,869	786,682	6
93,528	98,116	102,471	111,445	126,940	109,672	7
679,952	893,582	639,384	848,375	437,099	516,629	8
189,908	197,884	199,996	225,740	229,198	232,955	9
3,293	3,780	3,125	251	0	0	10
0	0	149,550	145,246	151,702	144,125	11
9,215,219	10,109,184	10,553,068	11,367,122	11,530,331	11,456,008	12
						13
30,499	33,995	33,845	33,794	35,479	33,366	14
39,897	32,500	24,013	56,030	45,641	30,347	15
280,644	253,055	245,910	277,545	735,844	1,381,286	16
2,273	4,888	4,342	5,050	4,511	4,540	17
145,496	167,623	170,928	171,216	165,048	184,080	18
0	0	0	0	0	0	19
9,287	1,084	583	470	102	139	20
0	1,145	1,977	2,681	3,384	4,561	21
508,096	494,290	481,598	546,786	990,009	1,638,319	22
\$ 9,723,315	\$ 10,603,474	\$ 11,034,666	\$ 11,913,908	\$ 12,520,340	\$ 13,094,327	23
						24
						25
						26
\$ 320,129	\$ 274,969	\$ 281,027	\$ 308,030	\$ 322,789	344,150	27
1,861,855	2,090,961	2,099,064	2,163,300	2,609,468	2,839,446	28
386,369	390,180	395,050	407,737	425,331	747,276	29
126,632	149,638	165,609	255,683	266,768	350,512	30
65,012	63,533	66,477	68,020	72,042	74,804	31
563,126	586,235	697,979	697,233	579,323	690,597	32
131,568	129,227	122,938	139,367	138,245	159,009	33
3,454,691	3,684,743	3,828,144	4,039,370	4,413,966	\$ 5,205,794	34
						35
44,542	42,992	35,393	32,139	34,029	67,258	36
21,244	27,402	36,010	38,079	43,108	26,719	37
348,021	349,919	275,733	224,745	220,886	310,145	38
3,464	1,182	7,395	5,508	4,049	3,148	39
207,772	237,270	241,441	238,349	232,139	258,494	40
0	0	0	0	0	0	41
167	133	157	191	197	0	42
0	70	912	127	901	674	43
625,210	658,968	597,041	539,138	535,309	666,438	44
\$ 4,079,901	\$ 4,343,711	\$ 4,425,185	\$ 4,578,508	\$ 4,949,275	\$ 5,872,232	45
						46
						47
\$ (5,760,528)	\$ (6,424,441)	\$ (6,724,924)	\$ (7,327,752)	\$ (7,116,365)	(6,250,214)	48
117,114	164,678	115,443	(7,648)	(454,700)	(971,881)	49
\$ (5,643,414)	\$ (6,259,763)	\$ (6,609,481)	\$ (7,335,400)	\$ (7,571,065)	\$ (7,222,095)	50

State of Kansas
Statistical Section
June 30, 2010

Financial Trends

Revenues and Other Changes in Net Assets

Last Nine Years

(Expressed in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>
51 Governmental activities:			
52 Taxes			
53 Property tax	\$ 54,535	\$ 446,611	\$ 648,604
54 Income and inheritance tax	2,010,550	1,936,916	2,104,072
55 Sales and excise tax	2,248,760	2,496,744	2,510,227
56 Gross receipts tax	103,825	115,282	127,953
57 Investment earnings	37,369	13,422	11,437
58 Other revenue	208,732	150,857	232,168
59 Extraordinary items	(570,470)	45,710	68,294
60 Transfers	0	(606,944)	0
61 Total governmental activities revenues	<u>4,093,301</u>	<u>4,598,598</u>	<u>5,702,755</u>
62 Business-type activities: ¹			
63 Investment earnings	(159)	(636)	28,290
64 Other revenue	582,437	204,634	28,024
65 Transfers	570,470	606,944	(68,294)
66 Total business-type activities revenues	<u>1,152,748</u>	<u>810,942</u>	<u>(11,980)</u>
67 Total primary government revenues	<u>\$ 5,246,049</u>	<u>\$ 5,409,540</u>	<u>\$ 5,690,775</u>
68			
69 Change in Net Assets			
70 Governmental activities	\$ (355,840)	\$ (25,396)	\$ (299,981)
71 Business-type activities	<u>13,833</u>	<u>11,793</u>	<u>(28,796)</u>
72 Total primary government	<u>\$ (342,007)</u>	<u>\$ (13,603)</u>	<u>\$ (328,777)</u>

¹ In fiscal year 2004 the State University System was changed from a business-type activity to a component unit of the State

State of Kansas
Statistical Section
June 30, 2010

Financial Trends

Revenues and Other Changes in Net Assets

Last Nine Fiscal Years

(Expressed in thousands)

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	
						51
						52
\$ 666,698	\$ 548,725	\$ 593,229	\$ 613,222	\$ 631,800	\$ 625,862	53
2,385,369	2,866,019	3,210,696	3,431,970	2,997,595	2,562,404	54
2,660,026	2,789,933	2,863,794	2,949,551	2,883,012	2,764,218	55
127,336	132,928	134,872	138,094	138,532	139,813	56
26,401	61,617	106,727	35,563	17,811	30,229	57
275,320	244,009	218,482	106,339	232,779	278,082	58
77,383	0	0	0	0	0	59
0	66,868	69,881	78,160	78,177	81,784	60
<u>6,218,533</u>	<u>6,710,099</u>	<u>7,197,681</u>	<u>7,352,899</u>	<u>6,979,706</u>	<u>6,482,392</u>	61
						62
29,507	37,446	45,914	44,956	37,890	32,033	63
55,757	35,972	31,624	33,014	182,920	809,001	64
(77,383)	(66,868)	(69,881)	(78,160)	(78,177)	(81,784)	65
<u>7,881</u>	<u>6,550</u>	<u>7,657</u>	<u>(190)</u>	<u>142,633</u>	<u>759,250</u>	66
<u>\$ 6,226,414</u>	<u>\$ 6,716,649</u>	<u>\$ 7,205,338</u>	<u>\$ 7,352,709</u>	<u>\$ 7,122,339</u>	<u>\$ 7,241,642</u>	67
						68
						69
\$ 458,005	\$ 285,658	\$ 472,757	\$ 25,147	\$ (136,659)	\$ 232,178	70
124,995	171,228	123,100	(7,838)	(312,067)	(212,631)	71
<u>\$ 583,000</u>	<u>\$ 456,886</u>	<u>\$ 595,857</u>	<u>\$ 17,309</u>	<u>\$ (448,726)</u>	<u>\$ 19,547</u>	72

State of Kansas
Statistical Section
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Financial Trends

Fund Balances, Governmental Funds

Last Nine Fiscal Years

(expressed in thousands)

		2002	2003	2004
1	General Fund			
2	Reserved	\$ 22,837	\$ 19,255	\$ 18,789
3	Unreserved	60,595	(53,782)	115,150
4	Total general fund	<u>\$ 83,432</u>	<u>\$ (34,527)</u>	<u>\$ 133,939</u>
5				
6	Social and Rehabilitation Fund ¹			
7	Reserved	\$ 20,445	\$ 15,762	\$ 15,763
8	Unreserved	(3,628)	4,961	45,747
9	Total social and rehabilitation fund	<u>\$ 16,817</u>	<u>\$ 20,723</u>	<u>\$ 61,510</u>
10				
11	Transportation Fund			
12	Reserved	\$ 732,505	\$ 971,806	\$ 1,011,621
13	Unreserved	183,896	(178,882)	(295,037)
14	Total transportation fund	<u>\$ 916,401</u>	<u>\$ 792,924</u>	<u>\$ 716,584</u>
15				
16	Transportation - Capital Projects Fund			
17	Reserved	\$ 0	\$ 0	\$ 0
18	Unreserved	(200,000)	(608,115)	(608,115)
19	Total transportation - capital projects fund	<u>\$ (200,000)</u>	<u>\$ (608,115)</u>	<u>\$ (608,115)</u>
20				
21	Health Policy Authority Fund			
22	Reserved	\$ 0	\$ 0	\$ 0
23	Unreserved	0	0	0
24	Total health policy authority fund	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
25				
26	All Other Governmental Funds			
27	Reserved reported in:			
28	Reserved for debt service	\$ 46,819	\$ 74,631	\$ 112,572
30	Reserved for encumbrances	147,834	163,830	167,582
31	Reserved for advances to other funds	0	60,164	79,888
32	Unreserved	285,994	204,844	324,311
33	Total all other governmental funds	<u>\$ 480,647</u>	<u>\$ 503,469</u>	<u>\$ 684,353</u>

¹ In fiscal year 2008 the Social and Rehabilitation Fund was no longer a major fund.

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Financial Trends

Fund Balances, Governmental Funds

Last Nine Fiscal Years

(expressed in thousands)

2005	2006	2007	2008	2009	2010	
\$ 15,674	\$ 22,386	\$ 28,871	\$ 7,324	\$ 24,663	\$ 29,680	1
297,059	649,526	791,980	414,713	(201,007)	(278,000)	2
\$ 312,733	\$ 671,912	\$ 820,851	\$ 422,037	\$ (176,344)	\$ (248,320)	3
						4
						5
						6
\$ 19,413	\$ 18,125	\$ 16,708	\$ 0	\$ 0	\$ 0	7
70,426	45,558	7,810	0	0	0	8
\$ 89,839	\$ 63,683	\$ 24,518	\$ 0	\$ 0	\$ 0	9
						10
						11
\$ 942,114	\$ 962,147	\$ 977,154	\$ 735,930	\$ 1,022,259	\$ 781,308	12
(168,173)	(243,585)	(356,696)	(94,692)	(562,388)	(524,154)	13
\$ 773,941	\$ 718,562	\$ 620,458	\$ 641,238	\$ 459,871	\$ 257,154	14
						15
						16
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	17
(755,115)	(755,115)	(755,115)	(755,115)	(885,715)	(664,315)	18
\$ (755,115)	\$ (755,115)	\$ (755,115)	\$ (755,115)	\$ (885,715)	\$ (664,315)	19
						20
						21
\$ 0	\$ 4,152	\$ 8,405	\$ 0	\$ 7,964	\$ 5,204	22
0	4,917	15,785	1,464	8,722	4,312	23
\$ 0	\$ 9,069	\$ 24,190	\$ 1,464	\$ 16,686	\$ 9,516	24
						25
						26
						27
\$ 76,143	\$ 13,489	\$ 13,767	\$ 32,224	\$ 165,598	\$ 209,443	28
155,113	149,569	189,578	11,575	237,604	199,753	30
79,215	86,002	41,023	78,530	78,717	73,581	31
353,789	402,889	416,568	722,144	251,858	326,572	32
\$ 664,260	\$ 651,949	\$ 660,936	\$ 844,473	\$ 733,777	\$ 809,349	33

State of Kansas
Statistical Section
June 30, 2010

Financial Trends

Changes in Fund Balances, Governmental Funds

Last Nine Fiscal Years

(expressed in thousands)

	2002	2003	2004
1 Revenues			
2 Taxes	\$ 4,392,768	\$ 4,988,981	\$ 5,455,211
3 Charges for services	449,109	531,949	746,995
4 Intergovernmental (operating and capital grants)	2,657,395	2,730,334	2,697,149
5 Investment earnings	37,442	13,636	11,473
6 Other revenues (includes extraordinary items)	177,028	161,081	309,115
7 Total revenues	<u>7,713,742</u>	<u>8,425,981</u>	<u>9,219,943</u>
8			
9			
10 Expenditures			
11 General government	582,613	542,359	1,699,154
12 Human resources	2,727,508	2,805,640	3,111,624
13 Education	2,664,448	3,128,229	3,206,817
14 Public safety	482,523	467,663	451,511
15 Agriculture and natural resources	91,302	91,034	89,161
16 Highways and other transportation	920,930	898,645	1,018,471
17 Health and environment	166,504	175,636	186,653
18 Economic Development	0	0	0
19 Debt service:			
20 Principal	73,861	92,026	73,448
21 Interest	83,511	82,351	82,589
22 Total expenditures	<u>7,793,200</u>	<u>8,283,583</u>	<u>9,919,428</u>
23			
24 Excess of revenues over (under) expenditures	(79,458)	142,398	(699,485)
25			
26			
27 Other Financing Sources (Uses)			
28 Proceeds from sale of debt	164,740	383,863	1,321,417
29 Transfers, net	(573,043)	(612,542)	77,220
30 Other financing sources (uses)	(33,202)	(646,970)	(442,781)
31 Extraordinary items	0	45,710	0
32 Total other financing sources (uses)	<u>(441,505)</u>	<u>(829,939)</u>	<u>955,856</u>
33			
34 Net change in fund balances	<u>\$ (520,963)</u>	<u>\$ (687,541)</u>	<u>\$ 256,371</u>
35			
36 Debt service as a percentage of noncapital			
37 expenditures	2.02%	2.11%	1.57%

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Financial Trends

Changes in Fund Balances, Governmental Funds

Last Nine Fiscal Years

(expressed in thousands)

2005	2006	2007	2008	2009	2010	
						1
\$ 5,827,740	\$ 6,378,200	\$ 6,828,429	\$ 7,138,723	\$ 6,625,408	\$ 6,207,094	2
554,851	655,564	744,423	654,744	845,364	704,012	3
2,910,532	3,042,060	3,091,345	3,391,868	3,580,727	4,486,248	4
26,411	61,625	106,733	35,573	17,821	29,636	5
283,470	263,737	290,090	127,260	240,323	260,349	6
9,603,004	10,401,186	11,061,020	11,348,168	11,309,643	11,687,339	7
						8
						9
						10
1,274,908	999,533	1,101,740	1,044,775	1,082,627	991,136	11
3,125,941	2,982,450	3,089,907	3,289,095	3,697,593	3,777,533	12
3,396,304	4,380,427	3,879,673	5,014,160	5,185,294	5,026,615	13
507,215	577,042	611,471	749,165	755,762	779,411	14
91,512	96,026	102,387	111,419	126,182	108,018	15
1,026,447	1,027,094	1,033,768	1,033,419	1,010,200	988,028	16
190,761	199,016	200,906	227,102	227,159	233,173	17
3,293	3,780	3,125	251	0	0	18
						19
85,347	93,570	112,398	135,524	134,367	190,938	20
139,062	142,316	147,770	145,694	146,375	141,200	21
9,840,790	10,501,254	10,283,145	11,750,604	12,365,559	12,236,052	22
						23
(237,786)	(100,068)	777,875	(402,436)	(1,055,916)	(548,713)	24
						25
						26
						27
257,125	532,422	54,188	225,171	117,248	561,972	28
84,732	37,830	(797,276)	83,167	84,246	86,169	29
(1,956)	(177,402)	0	(150,275)	0	0	30
0	0	0	0	0	(87,359)	31
339,901	392,850	(743,088)	158,063	201,494	560,782	32
						33
\$ 102,115	\$ 292,782	\$ 34,787	\$ (244,373)	\$ (854,422)	\$ 12,069	34
						35
						36
2.28%	2.25%	2.53%	2.39%	2.27%	2.71%	37

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Revenue Capacity

Personal Income by Industry, Last Eight Calendar Years

(expressed in thousands)

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

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

State of Kansas
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June 30, 2010

Revenue Capacity

Personal Income by Industry, Last Eight Calendar Years

(expressed in thousands)

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	
					1
\$ 228,199	\$ 234,407	\$ 280,613	\$ 285,723	\$ 304,439	2
1,328,010	1,589,409	1,569,892	1,288,477	1,549,581	3
690,152	722,574	792,169	795,278	865,694	4
3,776,521	4,094,066	4,071,929	4,413,807	3,988,070	5
1,661,073	12,504,265	13,461,380	12,736,605	11,899,007	6
3,772,210	3,991,402	4,241,222	4,657,163	4,436,794	7
4,362,037	4,582,546	4,678,343	4,920,439	4,540,800	8
2,489,576	2,611,443	2,767,873	2,970,686	2,850,770	9
3,344,081	3,521,742	3,716,215	3,479,790	3,102,540	10
3,684,245	3,883,858	4,188,156	4,361,995	4,232,883	11
1,167,144	1,171,789	1,042,920	911,215	874,085	12
4,494,448	4,875,571	5,190,583	5,215,212	5,252,448	13
684,829	879,612	1,116,081	1,325,278	1,182,450	14
2,469,462	2,847,681	2,855,338	3,098,871	2,925,202	15
507,546	541,281	527,279	617,913	658,248	16
6,444,008	6,819,398	7,198,640	8,139,847	8,503,526	17
274,399	295,266	312,531	326,814	318,636	18
1,655,420	1,759,646	1,793,797	2,102,920	2,018,859	19
1,984,554	2,059,524	2,230,187	3,084,342	2,905,835	20
					21
					22
2,054,583	2,145,533	2,140,546	2,197,668	2,321,229	23
1,889,902	2,096,824	2,544,087	2,844,514	3,143,234	24
9,889,548	10,239,615	9,703,924	10,333,042	10,770,093	25

State of Kansas
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Debt Capacity

Long Term Obligations

Last Nine Years

(Expressed in thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>
1 Government Activities			
2 Revenue bonds payable (includes demand bonds)	\$ 1,448,399	\$ 1,374,622	\$ 2,164,339
3 Sales tax limited obligation	0	136,292	160,830
4 Note payable	24,249	25,899	22,549
5 Capital leases payable	122,121	152,539	161,801
6 Arbitrage rebate payable	93	677	385
7 Claims and judgements	40,310	42,816	49,396
8 Compensated absences	96,303	95,456	94,726
9 Other post employment benefits	0	0	0
10 Pollution remediation	0	0	0
11 Total governmental activities	<u>1,731,475</u>	<u>1,828,301</u>	<u>2,654,026</u>
12			
13 Business-Type Activities			
14 Revenue bonds payable	713,110	878,605	584,824
15 Note payable	58,052	56,163	0
16 Arbitrage rebate payable	5,342	4,538	3,123
17 Unemployment benefits loan	0	0	0
18 Claims and judgements	337,200	297,372	185,909
19 Compensated absences	41,900	43,858	54
20 Other post employment benefits	0	0	0
21 Other	2,800	0	(930)
22 Total business-type activities	<u>1,158,404</u>	<u>1,280,536</u>	<u>772,980</u>
23			
24 Component Units			
25 Revenue bonds payable	253,975	306,540	619,409
26 Note payable	0	0	82,316
27 Capital leases payable	0	0	0
28 Arbitrage rebate payable	0	0	16
29 Compensated absences	0	0	44,887
30 Other post employment benefits	0	0	0
31 Pollution remediation	0	0	0
32 Other	0	0	17,129
33 Total component units	<u>253,975</u>	<u>306,540</u>	<u>763,757</u>
34 Total	<u><u>\$ 3,143,854</u></u>	<u><u>\$ 3,415,377</u></u>	<u><u>\$ 4,190,763</u></u>

State of Kansas
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Debt Capacity
Long Term Obligations
Last Nine Years
(Expressed in thousands)

2005	2006	2007	2008	2009	2010	
						1
\$ 1,748,407	\$ 2,764,949	\$ 2,740,099	\$ 2,726,970	\$ 2,744,828	\$ 2,861,825	2
173,239	232,322	218,420	185,924	156,196	208,425	3
22,391	20,448	18,278	17,597	26,655	25,843	4
159,781	152,483	145,366	140,106	130,533	138,821	5
388	93	97	481	385	400	6
54,642	68,033	61,593	82,858	85,920	87,216	7
100,030	109,214	118,795	121,255	134,386	129,921	8
0	0	0	16,813	26,626	36,270	9
0	0	0	0	81,092	70,936	10
2,258,878	3,347,542	3,302,648	3,292,004	3,386,621	3,559,657	11
						12
						13
650,193	720,978	714,857	677,472	765,976	749,001	14
0	0	0	0	0	0	15
2,003	963	1,340	1,755	2,885	1,254	16
0	0	0	0	0	88,159	17
187,474	186,871	180,802	205,766	218,332	215,402	18
49	47	59	56	72	68	19
0	0	0	89	155	224	20
11,392	12,961	13,730	14,703	17,115	17,697	21
851,111	921,820	910,788	899,841	1,004,535	1,071,805	22
						23
						24
726,535	691,253	684,398	692,025	705,223	700,808	25
68,351	109,783	20,443	119,073	146,517	174,530	26
0	4,666	16,143	15,019	14,147	14,568	27
62	80	69	163	123	98	28
47,919	49,655	52,503	58,743	61,943	65,691	29
0	0	0	11,775	20,068	30,404	30
0	0	0	0	0	4,000	31
106,726	103,761	127,836	110,071	111,701	110,928	32
949,593	959,198	1,001,392	1,006,869	1,059,722	1,101,027	33
\$ 4,059,582	\$ 5,228,560	\$ 5,214,828	\$ 5,198,714	\$ 5,450,878	\$ 5,732,489	34

State of Kansas
Statistical Section
June 30, 2010

Demographic and Economic Information
Kansas Demographic Statistics
Last Ten Fiscal Years

Year	Population (1)	Per Capita Personal Income (2)	Median Age (3)	Education Level in Years of Formal Schooling (4)	K to 12 Public School Enrollment (4)	Unemployment Rate (5)
2001	2,694,641	28,432	35.25	13.28	468,171	4.3%
2002	2,715,884	29,141	35.40	-	468,173	5.1%
2003	2,723,507	29,545	35.50	-	467,326	5.4%
2004	2,735,502	31,003	36.10	-	484,262	4.8%
2005	2,744,687	32,948	36.10	-	466,037	5.3%
2006	2,764,075	34,743	36.00	-	465,374	4.7%
2007	2,775,997	36,483	36.70	-	465,135	4.8%
2008	2,802,134	37,978	36.20	-	471,263	4.4%
2009	2,818,747	38,886	35.90	-	503,229	7.1%
2010	(6)	37,916	(6)	(6)	478,897	6.7%

Data Sources:

- (1) U.S. Bureau of the Census Web Site: <http://www.census.gov>.
- (2) State Department of Commerce and U.S. Department of Commerce, BEA Web Site: <http://kansascommerce.com> or <http://www.bea.gov>
- (3) State Department of Health and Environment: <http://www.kdheks.gov>
- (4) State Department of Education Web Site: <http://www.ksde.org>. The source for education level in years of formal schooling came from 1990 and 2000 census reports issued by the U.S. Census Bureau. The K-12 public school enrollment represents the head count as of September 20 of each year.
- (5) State Department of Labor, Kansas Labor Market Information Services Web Site: <http://laborstats.dol.ks.gov>.
- (6) Information is not available at this time.

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Demographic and Economic Information

Principal Employers in Kansas

Current Year and Ten Years Ago

Demographic and Economic Information

Principal Employers in Kansas

Current Year and Ten Years Ago

Employer	2010				2001		
	Local/Total Employees		Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
State Government (excludes Regents)	22,375 / 22,375		1	1.46%	30,164	1	2.24%
KU and KUMC	12,125 / 12,125		2	0.79%	14,175	2	1.05%
Sprint Aerosystems Inc.	8,000 / 210,000		3	0.52%	-	-	-
Hawker Beechcraft Corp.	7,000 / 7,000		4	0.46%	-	-	-
Embarq Corp.	5,600 / 20,200		5	0.36%	-	-	-
Spirit Communications Co. LP	5,000 / 40,000		6	0.33%	18,000	3	1.34%
Royal Caribbean Cruises Ltd.	4,900 / 60,300		7	0.32%	-	-	-
B & V - Baker Guam JV	4,500 / 4,500		8	0.29%	-	-	-
Via Christi Regional Med. Ctr.	4,000 / 10,770		9	0.26%	-	-	-
Performance Contracting Inc.	2,900 / 4,000		10	0.19%	-	-	-
Boeing Company	- / -		-	-	16,800	4	1.25%
Cessna aircraft Corporation	- / -		-	-	12,500	5	0.93%
Raytheon Aircraft Company	- / -		-	-	10,000	6	0.74%
IBP, Inc.	- / -		-	-	5,500	7	0.41%
Dillon's Food Store	- / -		-	-	4,850	8	0.36%
Burlington Northern Santa Fe	- / -		-	-	4,600	9	0.34%
Southwestern Bell Telephone	- / -		-	-	4,500	10	0.33%
Total	76,400 / 391,270			4.98%	121,089		8.99%

Source: Dun & Bradstreet Corporation, Million Dollar Databases 2010 for current fiscal year and Marketplace Directory April through June 2001 for fiscal year 2001 annual financial report. The base number used to calculate the percentage is the average number of the total employment in FY10 from the Department of Labor website at <http://www.dol.ks.gov>.

State of Kansas
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Operating Information
Full-time Equivalent State Government Employees by Function/Program
Last Ten Fiscal Years

	Function/Program	2000	2001	2002	2003	2004
1	General Government	5,494	5,465	5,541	5,551	5,518
2	Public Safety	4,957	5,045	5,064	5,083	5,083
3	Education	16,421	16,406	16,305	16,452	15,901
4	Transportation	3,220	3,248	3,248	3,248	3,248
5	Agriculture and Natural	1,211	1,194	1,278	1,286	1,281
6	Resources					
7	Human Resources	8,675	8,472	8,730	8,729	8,426
8	Total	39,978	39,830	40,166	40,349	39,457

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

State of Kansas
Statistical Section
June 30, 2010

Operating Information
Full-time Equivalent State Government Employees by Function/Program
Last Ten Fiscal Years

<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	
5,745	5,843	5,659	5,799	5,786	1
5,114	5,102	5,111	5,131	5,129	2
15,562	16,770	17,076	17,714	18,375	3
3,252	3,238	3,238	3,202	3,151	4
1,287	1,266	1,271	1,243	1,342	5
					6
8,189	8,191	8,160	8,337	8,313	7
<u>39,149</u>	<u>40,410</u>	<u>40,515</u>	<u>41,426</u>	<u>42,096</u>	8



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

Legislative Post Audit Committee
Kansas State Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (State) as of and for the year ended June 30, 2010, and have issued our report thereon dated January 7, 2011. We did not audit the financial statements of the various component units of the six State universities which represent 48 percent and 34 percent, respectively, of the assets and revenues of the discretely presented component units, the Kansas Technology Enterprise Corporation (KTEC) which represents less than 1 percent of the assets and revenues of the discretely presented component units, the Lottery which represents less than 1 percent and 2 percent, respectively, of the assets and revenues of the aggregate remaining fund information, the Kansas Public Employees Retirement System (KPERs) which represents 71 percent and 19 percent, respectively, of the assets and revenues of the aggregate remaining fund information, and the College Savings Program (a State Fiduciary Fund) which represents 11 percent and 2 percent, respectively of the assets 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 and the KTEC in the aggregate discretely presented component units, and the Lottery, KPERs and the College Savings Program in the aggregate remaining fund information, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audits of the various component units of the six State universities and the College Savings Program were not conducted in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or

material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting (2010-1). 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.

Compliance and Other Matters

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

The State's response to the findings identified in the audit are described in the accompanying schedule of findings and responses. We did not audit the State's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State of Kansas Legislative Post Audit committee, management, federal awarding agencies, pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

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

Berberich Trahan & CO., PA
CERTIFIED PUBLIC ACCOUNTANTS

January 7, 2011
Wichita, KS

SCHEDULE OF FINDINGS AND RESPONSES

Finding 2010-1: The State does not have an adequate system over the recording and reporting of specific balance sheet accounts. (Significant Deficiency)

Criteria or Specific Requirement: The process used in the preparation of the audited financial statements should include internal controls over the summarization of financial data that would detect material misstatements in the financial statements.

Condition: The current accounting system utilized by the State was designed to provide information primarily related to budget compliance. Consequently, the system is designed to record cash transactions and un-liquidated encumbrances and generally omits noncash assets and liabilities. As a result, the noncash assets and liabilities are accounted for separately with the use of various shadow systems.

Cause: The current centralized accounting system was not designed to account for all assets and liabilities necessary for financial statements prepared in conformity with generally accepted accounting principles.

Effect: The State is not able to report all transactions of the entity without the use of surveys and shadow systems. Transactions could occur and not be reported timely.

Recommendation: The current SMART project to design and implement a new financial management system should be analyzed to make certain the system will include data for all assets, liabilities and operating accounts necessary for the preparation of financial statements in accordance with generally accepted accounting principles.

Management Response (unaudited):

The State of Kansas implemented an integrated financial management system, effective July 1, 2010. This system, which is known as the Statewide Management, Accounting and Reporting Tool (SMART), allowed the State to decommission the current Statewide Accounting and Reporting System (STARS), other statewide centralized systems and over sixty agency administrative systems that were developed because the limited functionality of STARS could not meet the business requirements of agencies.

The software product implemented is PeopleSoft Financials (version 9.0). The modules included in the project scope are General Ledger, Purchasing, Accounts Payable, Accounts Receivable/Billing, Projects and Grants, Asset Management and Time & Labor. All state agencies will use SMART to process transactions either by direct entry or interface.

Previously, the State of Kansas did not have a centralized asset management repository, so agencies developed and maintained different solutions for managing assets (properties, land, equipment, machinery, etc). To obtain asset information for comprehensive annual financial reporting and other purposes, the Department of Administration requires that state agencies certify asset information annually.

As a task required for go-live, each state agency was required to convert its asset information into the SMART Asset Management module. This module will integrate, as appropriate, with other SMART modules including Purchasing, Accounts Payable, Project Costing, Accounts Receivable/Billing and General Ledger. Additionally, the SMART system provides for location management, reporting and query capabilities and consistent asset data structures for creating parent/child relationships and property associations.

Because the STARS system did not provide Accounts Receivable functionality, state agencies with Accounts Receivable were required to report information to the Department of Administration annually. This information was then used to prepare the Comprehensive Annual Financial Report. All agencies are using the SMART Accounts Receivable module for deposits and/or other receivables. Because there are many different types of receivables and because many receivables are managed in agency programmatic systems (as may be required by federal granting agencies), some agencies will continue using these specialized systems as the primary applications for recording and reporting receivables. The State does expect the use of the module to increase as agencies learn how to apply the functionality to their business requirements and practices.

Because the STARS system also did not provide a centralized Accounts Payable solution, agencies developed their own programmatic systems and/or manual processes. Since SMART has an Accounts Payable module, agencies are able to record liabilities, as appropriate, to known vendors. Additionally, agencies are able to process General Ledger transactions to record other types of obligations. As is the case with Accounts Receivable, there are many different types of payables that may be primarily managed in specialized agency programmatic systems. As applicable, federal grant requirements may require that these specialized systems be the systems of source for recording and reporting liabilities. The State does expect the use of the module to increase as agencies learn how to apply the functionality to its business requirements and practices.