III. Detailed Notes On All Funds

H. Short-term Obligations

Short-term obligations at June 30, 2016, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2015 Beginning Balance	Additions	Deletions	6/30/2016 Ending Balance
Governmental Activities				
Certificates of Indebtedness	$ 0	$ 840,000	$ 840,000	$ 0
Accrued receivables:				
Expanded Lottery Act Revenues Fund	0	82,799	82,799	0
Children's Initiatives Fund	0	25,600	25,600	0
Correctional Institution Building Fund	0	3,994	3,994	0
State Economic Development	0	21,254	21,254	0
Kansas Endowment for Youth Fund	0	196	196	0
Kansas Educational Building Fund	0	28,200	28,200	0
State Institutions Building Fund	0	14,600	14,600	0
Total short-term obligations	$ 0	$ 1,016,643	$ 1,016,643	$ 0

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 $840 million was issued on July 1, 2015, and redeemed on June 30, 2016.

Per Senate Bill 112, Section 80(r) of the 2015 Session, on July 1, 2015, receivables are to be posted to the State Treasurer's receivables for the Expanded Lottery Act Revenues Fund. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2016, a receivable was posted for $82.8 million and was reduced to zero in June 2016.

Per Senate Bill 112, Section 80(h) of the 2014 Session, on July 1, 2015, 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 2016 a receivable was posted for $25.6 million and was reduced to zero in June 2016.

Per Senate Bill 112, Section 80(j) of the 2015 Session, on July 1, 2015, 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 2016, a receivable was posted for $4.0 million and was reduced to zero in February 2016.

Per Senate Bill 112, Section 80(i) of the 2015 Session, on July 1, 2015, 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 2016, a receivable was posted for $21.3 million and was reduced to zero in December 2015.

III. Detailed Notes On All Funds

Per Senate Bill 112, Section 80(k) of the 2015 Session, on July 1, 2015, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the director of budget which is to be 75 percent of the amount approved for expenditure during the fiscal year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2016, a receivable was posted for $196,000 and was reduced to zero in June 2016.

Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for State Building Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2016, $28.2 million was posted to the Kansas Educational Building Fund and $14.6 million to the State Institutions Building Funds. The receipts were reduced to zero in June 2016.

I. Long-term Obligations

A summary of long-term obligations at June 30, 2016, for the fiscal year then ended is as follows (expressed in thousands):

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	$ 4,750,952	$ 327,577	$ 941,839	$ 6,020,368
Less bonds payable on demand	(147,000)	0	0	(147,000)
Notes payable	17,047	0	0	17,047
Other component units of university system	0	0	790,803	790,803
Capital leases payable	137,708	0	6,500	144,208
Arbitrage rebate payable	237	340	29	606
Claims	87,361	263,484	0	350,845
Judgments	31,784	0	0	31,784
Compensated absences	112,219	92	84,423	196,734
Other post employment benefits	4,266	26	1,816	6,108
Net pension liability	2,078,136	6,475	268,020	2,352,631
Pollution remediation	63,053	0	0	63,053
Other	0	11,732	208,246	219,978
Total long-term obligations	$ 7,135,763	$ 609,726	$ 2,301,676	$ 10,047,165

III. Detailed Notes On All Funds

Long-term obligations at June 30, 2016, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2015 Beginning Balance	Prior Period Adjustment	Additions	Deletions	6/30/2016 Ending Balance	Amounts Due In One Year
Governmental Activities										
Revenue bonds payable:										
KDFA series 2004 C	2004	3.43 - 5.50%	2034	$ 500,000	$ 420,600	$ 0	$ 0	$ 13,440	$ 407,160	$ 14,085
KDFA series 2006 A	2006	4.00 - 5.00%	2027	209,490	29,425	0	0	9,380	20,045	9,815
KDFA series 2006 L-1, 2, 3	2007	4.00 - 4.25%	2026	13,210	1,715	0	0	840	875	875
KDFA series 2007 F	2007	4.00 - 4.97%	2017	34,505	8,280	0	0	4,040	4,240	4,240
KDFA series 2007 K-1, 2A, 2B, & 3	2008	4.00 - 5.25%	2028	59,455	13,820	0	0	2,530	11,290	2,635
KDFA series 2008 L-1, 2, & 3	2009	2.00 - 5.25%	2029	43,265	33,385	0	0	1,840	31,545	1,915
KDFA series 2009 A	2009	2.50 - 5.00%	2035	3,825	3,705	0	0	120	3,585	125
KDFA series 2009 B	2009	5.00%	2019	515	420	0	0	95	325	100
KDFA series 2009 F	2009	3.00 - 5.00%	2019	49,425	26,685	0	0	6,240	20,445	6,550
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2035	89,765	75,645	0	0	3,600	72,045	3,195
KDFA series 2009 N	2010	3.88 - 5.80%	2025	10,050	9,340	0	0	735	8,605	770
KDFA series 2010 C	2010	5.00%	2020	52,755	32,130	0	0	5,815	26,315	6,105
KDFA series 2010 E-1 & E-2	2010	2.00 - 6.12%	2035	84,160	74,285	0	0	5,945	68,340	5,970
KDFA series 2010 F	2010	1.58 - 6.25%	2032	18,400	12,640	0	0	1,855	10,785	1,500
KDFA series 2010 O-1 & O-2	2011	2.70 - 6.10%	2030	43,455	36,205	0	0	1,925	34,280	1,975
KDFA series 2011 B	2012	2.00 - 4.13%	2031	53,780	45,140	0	0	2,105	43,035	2,170
KDFA series 2011 K	2012	3.00 - 5.00%	2023	109,135	97,645	0	0	1,265	96,380	1,330
KDFA series 2013 A-1, 2 & 3	2014	4.00 - 5.00%	2033	71,885	66,735	0	0	3,370	63,365	3,510
KDFA Series 2013 B	2014	3.00 - 5.00%	2024	40,555	34,200	0	0	4,880	29,320	5,125
KDFA Series 2015 A	2015	3.20 - 5.00%	2035	230,475	230,475	0	0	830	229,645	4,455
KDFA Series 2015 G	2015	4.84 - 5.00%	2035	203,585	203,585	0	0	0	203,585	0
KDFA Series 2015 H	2016	1.44 - 4.927%	2045	1,005,180	0	0	1,005,180	0	1,005,180	18,300
KDOT series 2004 A	2004	4.50 - 5.50%	2019	250,000	76,235	0	0	0	76,235	0
KDOT series 2004 B	2005	4.30 - 5.00%	2025	200,000	200,000	0	0	200,000	0	0
KDOT series 2004 C*	2005	Variable	2025	147,000	147,000	0	0	0	147,000	0
KDOT series 2009 A	2010	2.25 - 5.00%	2021	176,680	176,680	0	0	20,445	156,235	61,965
KDOT series 2010 A	2011	4.60%	2036	325,000	325,000	0	0	0	325,000	0
KDOT series 2012 A	2013	Variable	2016	151,365	38,225	0	0	38,225	0	0
KDOT series 2012 B	2013	5.00%	2023	144,885	144,885	0	0	0	144,885	0
KDOT series 2012 C	2013	4.00 - 5.00%	2033	200,000	200,000	0	0	7,000	193,000	7,200
KDOT series 2014 A	2015	5.00%	2031	250,000	250,000	0	0	0	250,000	0
KDOT series 2014 B	2015	Variable	2020	212,875	212,875	0	0	37,000	175,875	38,145
KDOT series 2015 A	2016	2.75 - 5.00%	2025	190,875	0	0	190,875	0	190,875	0
KDOT series 2015 B	2016	5.00%	2036	400,000	0	0	400,000	0	400,000	0
Series 2015 L Private Placement	2016	2.32%	2031	16,600	0	0	16,600	16,600	0	0
									4,449,495	202,055
Less bonds payable on demand*				(705,985)	(147,000)	0	0	0	(147,000)	0
Plus deferred amounts:										
Net unamortized premium (discount)				0	212,151	0	122,880	33,574	301,457	0
Total revenue bonds payable				$ 4,886,165	3,292,111	0	1,735,535	423,694	4,603,952	202,055
Notes payable:										
Water supply storage in federal reservoirs				29,189	18,093	0	0	1,046	17,047	894
Total notes payable				$ 29,189	18,093	0	0	1,046	17,047	894
Arbitrage rebate payable					184	0	72	19	237	0
Capital leases payable					80,809	0	66,962	10,063	137,708	8,467
Claims					100,255	0	43,415	56,309	87,361	42,176
Judgments					48,721	0	17,208	34,145	31,784	25,552
Compensated absences					113,015	0	59,948	60,744	112,219	57,731
Other post employment benefits					59,504	0	0	55,238	4,266	0
Net pension liability					1,750,877	146,999	190,646	10,386	2,078,136	0
Pollution remediation					48,747	0	14,306	0	63,053	16,817
Total governmental activities					$ 5,512,316	$ 146,999	$ 2,128,092	$ 651,644	$ 7,135,763	$ 353,692

III. Detailed Notes On All Funds

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2015 Beginning Balance	Additions	Deletions	6/30/2016 Ending Balance	Amounts Due In One Year
Business-type Activities									
Revenue bonds payable:									
KDFA series 2001 I & II	2002	5.00 - 5.50%	2018	$ 124,540	$ 31,000	$ 0	$ 28,390	$ 2,610	$ 2,610
KDFA series 2004 II	2004	4.92 - 5.25%	2023	45,140	2,915	0	2,915	0	0
KDFA series 2004 1 & 2	2005	3.00 - 5.00%	2019	176,010	940	0	940	0	0
KDFA series 2005 CW I & II	2006	3.00 - 5.00%	2027	118,860	36,980	0	13,025	23,955	5,755
KDFA series 2009 DW 1 & 2	2010	1.50 - 5.60%	2029	73,040	36,070	0	1,030	35,040	1,100
KDFA series 2010 SRF 1,2 & 3 (CW & DV	2011	1.68 - 5.95%	2030	213,950	183,325	0	8,935	174,390	8,080
KDFA series 2011 SRF DW 1 & 2	2011	2.00-4.20%	2031	53,380	52,655	0	1,380	51,275	1,395
KDFA series 2005 TR	2006	3.00 - 5.00%	2026	32,690	15,395	0	15,395	0	0
KDFA series 2006 TR	2007	4.00 - 5.00%	2027	24,755	10,670	0	2,070	8,600	1,585
KDFA series 2008 G	2009	4.60 - 5.05%	2023	14,200	996	0	209	787	219
KDFA series 2009 TR	2009	2.50 - 4.78%	2028	30,950	19,495	0	1,550	17,945	2,140
KDFA series 2014 SRF-1	2015	0.50%	2016	5,200	5,200	0	5,200	0	0
KDFA series 2015 SRF-1 (CW & DW)	2016	0.25 - 0.50%	2017	4,500	0	4,500	0	4,500	4,500
Plus deferred amounts:									
Net unamortized premium (discount)				0	11,415	0	2,940	8,475	2,188
Total revenue bonds payable				$ 917,215	407,056	4,500	83,979	327,577	29,572
Arbitrage rebate payable					237	103	0	340	0
Claims and judgments					258,093	19,791	14,400	263,484	18,289
Compensated absences					92	0	0	92	76
Other					11,680	52	0	11,732	0
Other post employment benefits					424	0	398	26	0
Net pension liability					5,520	1,864	909	6,475	0
Total business-type activities					$ 683,102	$ 26,310	$ 99,686	$ 609,726	$ 47,937

III. Detailed Notes On All Funds

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2015 Beginning Balance	Additions	Deletions	6/30/2016 Ending Balance	Amounts Due In One Year
Component Units									
Revenue bonds payable:									
KDFA series 2001 B	2001	3.65 - 5.20%	2021	$ 2,805	$ 1,135	$ 0	$ 165	$ 970	$ 175
KDFA series 2001 W-1	2002	3.00 - 5.00%	2022	44,470	800	0	100	700	100
KDFA series 2002 H	2003	2.50 - 4.70%	2022	3,765	1,635	0	205	1,430	215
KDFA series 2002 N-2	2003	3.00 - 5.25%	2018	52,075	1,025	0	325	700	340
KDFA series 2003 A-2	2003	1.80 - 5.50%	2023	1,385	115	0	115	0	0
KDFA series 2003 C	2003	4.67 - 5.00%	2024	2,305	2,305	0	0	2,305	0
KDFA series 2003 D-2	2003	2.00 - 4.13%	2018	1,150	365	0	365	0	0
KDFA series 2005 D	2005	3.79 - 5.18%	2022	66,530	16,960	0	7,480	9,480	1,980
KDFA series 2005 E-1 & E-2	2005	3.00 - 5.00%	2030	19,360	680	0	680	0	0
KDFA series 2005 F	2006	3.25 - 4.40%	2026	8,930	6,160	0	450	5,710	475
KDFA series 2005 G	2006	3.30 - 4.60%	2026	7,205	5,180	0	5,180	0	0
KDFA series 2006 B	2006	3.50 - 4.13%	2021	9,790	7,875	0	1,185	6,690	1,230
KDFA series 2007 E	2007	3.75 - 4.30%	2027	6,275	4,340	0	290	4,050	300
KDFA series 2007 H	2008	3.60 – 4.50%	2037	17,855	15,225	0	15,225	0	0
KDFA series 2007 M	2008	3.50 – 4.60%	2027	18,220	13,000	0	860	12,140	895
KDFA series 2008 A	2008	3.00 – 4.00%	2016	20,000	2,500	0	2,500	0	0
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	16,435	0	865	15,570	895
KDFA series 2009 C	2009	3.00 - 5.00%	2017	20,000	5,000	0	2,500	2,500	2,500
KDFA series 2009 G	2009	2.50 - 4.75%	2024	825	540	0	50	490	55
KDFA series 2009 H-1 & H-2	2009	2.50 - 7.30%	2035	14,630	13,050	0	425	12,625	440
KDFA series 2009 J-1 & J-2	2009	2.50 - 7.00 %	2030	4,545	3,700	0	185	3,515	190
KDFA series 2009 K-1 & K-2	2010	2.63 - 5.63%	2040	6,140	5,795	0	125	5,670	130
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2030	27,150	22,435	0	1,300	21,135	1,360
KDFA series 2010 A	2010	2.00 - 4.05%	2030	23,700	20,105	0	1,070	19,035	1,115
KDFA series 2010 B	2010	2.50 - 3.75%	2027	21,650	16,890	0	1,155	15,735	1,205
KDFA series 2010 G-1 & G-2	2010	2.00 - 6.60%	2040	21,565	20,560	0	510	20,050	525
KDFA series 2010 H	2010	2.00%	2016	1,530	250	0	250	0	0
KDFA series 2010 J	2010	0.75 - 4.45%	2030	14,765	11,845	0	610	11,235	630
KDFA series 2010 K-1 & K-2	2010	2.00 - 6.20%	2035	15,050	10,605	0	310	10,295	705
KDFA series 2010 M-1 & M-2	2010	2.00 - 5.10%	2026	20,990	16,140	0	1,275	14,865	1,305
KDFA series 2010 P-1 & P-2	2011	2.00 - 5.00%	2031	15,930	13,370	0	685	12,685	705
KDFA series 2010 U-1 & U-2	2011	1.80 - 6.20%	2029	25,180	18,500	0	1,710	16,790	1,725
KDFA series 2011 C	2011	2.00 - 4.50%	2036	13,450	11,935	0	395	11,540	405
KDFA series 2011 D-1, 2 & 3	2011	2.00 - 4.40%	2024	9,465	6,375	0	840	5,535	860
KDFA series 2011 G	2012	0.50 - 4.13%	2041	16,300	14,500	0	375	14,125	385
KDFA series 2012 A	2012	3.00 - 5.00%	2024	27,610	21,620	0	2,205	19,415	2,315
KDFA series 2012 D	2012	2.00 - 4.50%	2029	49,200	44,145	0	1,755	42,390	2,390
KDFA series 2012 F	2013	2.00 - 5.00%	2033	17,205	15,960	0	650	15,310	665
KDFA series 2012 H	2012	2.00 - 5.00%	2034	35,970	34,270	0	1,205	33,065	1,275
KDFA series 2014 A-1 & 2	2014	3.00 - 4.25%	2035	35,175	34,790	0	950	33,840	1,425
KDFA series 2014 B	2014	0.50%	2019	2,423	1,943	0	482	1,461	485
KDFA series 2014 C-1, 2, 3, 4 &	2014	3.00 - 5.00%	2039	56,655	56,620	0	1,245	55,375	1,860
KDFA seres 2014 D-1, 2, 3 & 4	2014	3.00 - 5.00%	2035	133,550	132,280	0	2,015	130,265	4,055
KDFA series 2013 G-1 & 2	2014	4.00 - 5.00%	2038	77,335	76,815	0	2,455	74,360	2,590
KDFA series 2015 B-1, 2 & 3	2015	3.00 - 5.00%	2037	61,865	61,865	0	2,385	59,480	1,820
KDFA series 2016 A	2016	2.00 - 4.00%	2040	97,815	0	97,815	0	97,815	2,930
KDFA series 2016 B-1, 2 & 3	2016	2.00 - 4.00%	2041	31,115	0	31,115	0	31,115	520
KDFA series 2016 C	2016	2.00 - 4.00%	2041	45,330	0	45,330	0	45,330	0
Series 2015 K	2016	0.61%	2021	1,500	0	1,500	0	1,500	246
2015 M FCIP	2016	0.75%	2023	2,136	0	2,136	0	2,136	298
Plus deferred amounts:									
Net unamortized premium (discount)				0	36,537	6,411	3,136	39,812	0
Total revenue bonds payable				$ 1,252,539	825,775	184,307	68,243	941,839	43,719
Other component units of university system					406,927	450,579	66,703	790,803	31,259
Arbitrage rebate payable					404	103	478	29	0
Capital leases					7,752	-	1,252	6,500	1,308
Compensated absences					78,459	68,992	63,028	84,423	70,007
Other					221,062	359	13,175	208,246	13,732
Other post employment benefits					71,015	588	69,787	1,816	0
Net pension liability					240,024	46,043	18,047	268,020	0
Total component units					$ 1,851,418	$ 750,971	$ 300,713	$ 2,301,676	$ 160,025

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, 2016, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
Revenue bonds:						
2017	$ 202,055	$ 200,030	$ 27,384	$ 14,849	$ 43,719	$ 36,703
2018	216,380	192,589	25,639	13,620	45,105	34,420
2019	223,400	183,486	35,912	12,381	44,571	32,646
2020	229,925	172,791	29,198	10,929	45,681	30,799
2021	224,980	162,370	32,180	9,544	47,495	28,794
2022-2026	1,071,485	660,007	117,239	27,125	237,295	113,157
2027-2031	965,150	423,921	51,550	6,337	195,590	67,792
2032-2036	859,630	205,304	0	0	154,220	34,445
2037-2041	229,150	90,870	0	0	76,995	9,987
2042-2046	227,340	28,676	0	0	11,356	920
Less bonds payable on demand	(147,000)	(40,729)	0	0	0	0
Unamortized premium	301,457	0	8,475	0	39,812	0
Totals	4,603,952	2,279,315	327,577	94,785	941,839	389,663
Notes payable:						
2017	894	544	0	0	0	0
2018	1,024	649	0	0	0	0
2019	1,062	610	0	0	0	0
2020	1,102	570	0	0	0	0
2021	1,144	529	0	0	0	0
2022-2026	5,956	1,962	0	0	0	0
2027-2031	5,432	796	0	0	0	0
2032-2036	433	37	0	0	0	0
Totals	17,047	5,697	0	0	0	0
Capital leases payable	137,708	52,706	0	0	6,500	796
Long-term debt without scheduled						
Debt service:						
Arbitrage rebate payable	237	0	340	0	29	0
Claims and judgments	119,145	0	263,484	0	0	0
Compensated absences	112,219	0	92	0	84,423	0
Other post employment benefits	4,266	0	26	0	1,816	0
Net pension liability	2,078,136	0	6,475	0	268,020	0
Pollution remediation	63,053	0	0	0	0	0
Component units of university system	0	0	0	0	790,803	0
Other	0	0	11,732	0	208,246	0
Total long-term obligations	$ 7,135,763	$ 2,337,718	$ 609,726	$ 94,785	$ 2,301,676	$ 390,459

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 as of June 30, 2016. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their entire term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary.

(expressed in thousands)

Fiscal Year Ended June 30	Principal	Interest	Hedging Derivative Instruments (Net)	Total
2017	38,145	1,504	6,652	46,301
2018	39,520	1,293	5,545	46,358
2019	49,945	997	4,283	55,225
2020	48,265	663	2,878	51,806
2021	0	603	2,148	2,751
2022-2025	147,000	1,104	4,739	152,843
Total	$ 322,875	$ 6,164	$ 26,245	$ 355,284

General Obligation Bonds

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

Revenue Bonds

Kansas Turnpike Authority (KTA) has five outstanding series of Turnpike Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of the Kansas Turnpike. Principal and interest payments on these bond issues are paid from revenues collected from the operations of KTA, including toll revenues. Please reference Note III, Section I, Long-term Obligations, for KTA revenue bonds and future principal and interest payments.

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

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

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The coupon interest rate on outstanding bonds varies from 2.25 percent to 5.50 percent. In addition, various bonds were issued as variable rate instruments whose rates change on a weekly basis. During the year, interest rates ranged from 0.01 percent to 0.52 percent on the weekly adjustable bonds. The Series 2004 C bonds are demand obligations and are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, various liquidity providers have agreed to purchase the bonds and hold them for a maximum of 180 days. The contract with the liquidity provider has an expiration date of September 2017 and requires an annual commitment fee of 0.325%.

Sales Tax Limited Obligation Bonds

Sales tax limited obligation bonds (STAR bonds) have been issued for various local governments throughout the state. Pursuant to issuance of the STAR bonds, the State and local governments have entered into Redevelopment District Tax Distribution Agreements. The agreements provide that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally from the State's and the local governments' respective share of sales taxes generated within the related Districts. These bonds are special limited obligations of the State, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by the State. Accordingly, such STAR bonds are not included in the State's June 30, 2016 balance sheet. The State's portion of the STAR bonds at June 30, 2016 total $278.2 million.

Special Obligation and Private Activity Bonds

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special limited obligations of KDFA, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2016, balance sheet. KDFA's special obligation bonds at June 30, 2016, total $3.6 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, 2016, balance sheet. KDFA's private activity bonds at June 30, 2016, 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, the Unemployment Insurance Fund and finance the Expanded Lottery operations. These internal loans are recorded as loans receivable in the State treasury's cash balance in Note III, Section A, Deposits and Investments, and in corresponding amounts of notes payable in Note III, Section I, Long-term Obligations.

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 40 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, 2016, for portions of the storage designated as "future use" storage.

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Lease Commitments

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

Operating Leases

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2016 are as follows (expressed in thousands):

Fiscal Year	
2017	10,427
2018	9,869
2019	9,290
2020	8,708
2021	9,797
2022-2026	33,504
2027-2031	22,875
2032-2036	15,786
2037-2041	4,820
Total future minimum lease payments	$ 125,076
Rent expenditures/expenses for operating leases for the year ended June 30, 2016	$ 9,825

Capital Leases

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

The following schedule presents future minimum lease payments as of June 30, 2016 (expressed in thousands):

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Year Ending June 30	Governmental Activities Principal	Governmental Activities Interest
2017	$ 8,467	$ 5,767
2018	8,437	5,473
2019	8,376	5,123
2020	8,372	4,765
2021	8,364	4,398
2022-2026	39,099	16,798
2027-2031	38,164	8,268
2032-2036	16,316	1,832
2037-2046	2,113	282
Total	$ 137,708	$ 52,706

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2016, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	$ 14,203
Buildings	128,010
Equipment	31,265
Less: Accumulated depreciation	(54,589)
Total	$ 118,889

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, 2016, and changes for the fiscal year then ended are as follows (expressed in thousands):

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Bond Issue	6/30/2015 Beginning Balance	Current Year Defeased	Payments	6/30/2016 Ending Balance
Governmental Activities				
KDOT Series 2004 B	$ 0	$ 200,000	$ 0	$ 200,000
KDFA Series 2006A	117,740	0	0	117,740
KDFA Series 2006L	5,835	0	0	5,835
KDFA Series 2007K	30,645	0	0	30,645
Total governmental activities	$ 154,220	$ 200,000	$ 0	$ 354,220

During fiscal year 2016, the governmental activity bond issue, $200 million KDOT Series 2004B was advanced refunded by the issuance of the KDFA Series 2015A for $190.9 million. The advance refunding resulted in an economic gain of $28 million and aggregate debt service reduction of $17 million.

Bond Issue	6/30/2015 Beginning Balance	Current Year Defeased	Payments	6/30/2016 Ending Balance
Business-type Activities				
KDFA Series 2000 II	$ 0	$ 17,390	$ 0	$ 17,390
KDFA Series 2004 2	2,195	0	2,195	0
KDFA Series 2004 DW 1&2	13,580	0	13,580	0
KDFA 2005 II	0	1,675	0	1,675
KDFA Series 2005 CW II	11,315	0	11,315	0
KDFA Series 2009 DW 1&2	29,515	0	560	28,955
Total business-type activities	$ 56,605	$ 19,065	$ 27,650	$ 48,020

During fiscal year 2016, the business activity bond issue, $17.4 million KDFA Series 2000 II and $1.7 million KDFA Series 2005 II was advance refunded by cash funds provided from loan principal prepayments. Overall the advance refunding reduced debt service payments, including interest, over the life of the debt by $0.2 million.

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, 2016, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2015 Beginning Balance	Current Year Defeased	Payments	6/30/2016 Ending Balance
Component Units				
KDFA Series 2003 A-1 & 2	$ 1,225	$ 0	$ 0	$ 1,225
KDFA Series 2004 D	515	0	95	420
KDFA Series 2005 A	1,035	0	35	1,000
KDFA Series 2007 A	8,005	0	670	7,335
KDFA series 2007 H	0	15,225	0	15,225
Total component units	$ 10,780	$ 15,225	$ 800	$ 25,205

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of $237 thousand for Governmental Activities, $340 thousand for Business-type Activities, and $29 thousand for Component Units.

III. Detailed Notes On All Funds

Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2016, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2016 financial statements are as follows debit (credit) (expressed in thousands):

	Change in Fair Value		Fair Value at June 30, 2016		
	Classification	**Amount**	**Classification**	**Amount**	**Notional**
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	$ 2,911	Debt	$ (14,983)	$ 247,875
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	3,316	Investment	(12,355)	75,000

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

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

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

(i) Mitigate the effect of fluctuations in variable interest rates. This is the primary function of the swaps employed where KDOT pays a fixed rate, and receives a floating rate. In an interest rate environment whose level is generally higher than the rate at which KDOT is fixed, the swap would result in a positive value to KDOT. Correspondingly, in a lower rate environment than the rate at which KDOT is fixed, the swap would result in a negative value to KDOT. The value primarily depends on the overall level of interest rates on the reporting date compared to what KDOT pays. The overall level of long term interest rates from period to period is the primary driver of changes in value recorded from the investment derivatives where KDOT pays fixed and receives a floating rate. Interest rates have trended lower since inception of the pay fixed swaps. Therefore, the mark-to-market value is generally more negative to KDOT.

(ii) Reduce interest expense from expected benefit resulting from the difference between short and long term rates. This is the function of a swap where KDOT receives floating amounts based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which KDOT pays on the variable bonds. Therefore, when shorter term interest rates came close to, or exceeded longer term rates, KDOT entered into a swap whose receipts

III. Detailed Notes On All Funds

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

(iii) <u>Reduce interest expense from expected benefit resulting from the difference between tax-exempt and taxable rates</u>. 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, 2016 (expressed in thousands):

Associated KDOT Bonds	Initial Notional	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Rating
Series 2014 B *	$ 200,000	$ 109,920	10/23/2002	9/1/2019	3.1640%Contractual; 0.8192%GASB 64 At-the-Market	67%of USD-LIBOR	$ (1,191)	Goldman Sachs Bank USA	A1/A-/A
Series 2014 B *	112,139	65,955	3/1/2012	9/1/2019	3.1640%Contractual; 0.8183%GASB 64 At-the-Market	67%of USD-LIBOR	(712)	The Bank of New York Mellon	Aa2/AA-/AA-
Series 2004 C*	147,000	72,000	11/23/2004	9/1/2024	3.571%	63.5%USD-LIBOR + 0.29%	(13,080)	Goldman Sachs Bank USA	A1/A-/A
Series 2004 C**	75,000	75,000	7/1/2007	9/1/2024	3.571%	62.329%of 10 Year CMS	(12,355)	Goldman Sachs Bank USA	A1/A-/A
						Total Termination Value	$(27,338)		

*- considered a fair value hedge
**- considered an investment derivative

KDOT derivative instruments detailed discussion

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

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2016, are shown above. KDOT's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

KDOT Series 2014 B Swaps (Formerly 2002 B and C Swaps)- In connection with the issuance of $320 million of variable-rate KDOT Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002, KDOT competitively bid a floating-to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded $200 million of notional principal and Salomon Smith Barney was awarded $120 million of notional principal. The executed transaction consisted of a $320 million 17-year amortizing interest rate swap under which KDOT pays Goldman/Citibank a fixed rate of 3.164 percent and receives 67 percent of LIBOR. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the traditional tax-exempt cash market.

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

On September 2, 2014, KDOT issued Series 2014B Bonds to refund the outstanding principal amounts of the Series 2002B & C Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship and a subsequent new hedging relationship is entered into between the swap and the new bonds. This can result in a hybrid instrument that consists of an at-the market fixed rate swap with a pay fixed rate computed on the date of the refunding and an imputed borrowing that is considered a cost of refunding. This is amortized over the shorter of the life of the new bonds or refunded bonds.

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

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

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

Credit risk. As of June 30, 2016, KDOT has no credit risk exposure on the rest of the swap transactions. This is due to the swaps having 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

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variable bond rate KDOT pays on its bonds. KDOT is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate KDOT pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

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