III. Detailed Notes On All Funds

H. Short-term Obligations

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

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

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

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

Per Senate Substitute for House Bill No. 2002, Section 65 of the 2017 Session, on July 1, 2017, receivables are to be posted to the State Treasurer's receivables for the Correctional Institutions Building Fund by an amount certified by the director of budget which is to be 80 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2018, a receivable was posted for $4.0 million and was reduced to zero in January 2018.

Per Senate Substitute for House Bill No. 2002, Section 65 of the 2017 Session, on July 1, 2017, receivables are to be posted to the State Treasurer's receivables for the State Economic Development Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2018, a receivable was posted for $31.9 million and was reduced to zero in January 2018.

III. Detailed Notes On All Funds

Per Senate Substitute for House Bill No. 2002, Section 65 of the 2017 Session, on July 1, 2017, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the director of budget which is to be 75 percent of the amount approved for expenditure during the fiscal year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2018, a receivable was posted for $186,427 and was reduced to zero in December 2017.

Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for State Building Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2018, $31.5 million was posted to the Kansas Educational Building Fund and $15.8 million to the State Institutions Building Funds. The receivables were reduced to zero in June 2018.

I. Long-term Obligations

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

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

III. Detailed Notes On All Funds

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

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

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

III. Detailed Notes On All Funds

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

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

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

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, 2018. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their entire term. However, these rates will vary. This will require interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments to also vary.

(expressed in thousands)

Fiscal Year Ended June 30	Principal	Interest	Hedging Derivative Instruments (Net)	Total
2019	$ 49,945	$ 4,081	$ 2,673	$ 56,699
2020	48,265	3,257	1,673	53,195
2021	0	3,105	1,038	4,143
2022	32,010	2,545	1,046	35,601
2023	33,315	1,846	821	35,982
2024-2027	81,676	1,293	903	83,872
Total	$ 245,211	$ 16,127	$ 8,154	$ 269,492

General Obligation Bonds

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

Revenue Bonds

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

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

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

III. Detailed Notes On All Funds

The coupon interest rate on outstanding bonds varies from 3.00 percent to 5.50 percent. In addition, various bonds were issued as variable rate instruments whose rates change on a weekly basis. During the year, interest rates ranged from 0.94 percent to 2.11 percent on the weekly adjustable bonds. In July 2017, KDOT defeased Transportation Revolving Fund Bonds Series 2009-TR using existing resources. These bonds were deposited in an irrevocable trust with a third-party escrow agent to provide for all future debt service payments on the 2009-TR Bond Series. In September 2017, KDOT issued Highway Revenue Bonds Series 2017A. The purpose of these bonds was to pay a portion of the costs of construction, reconstruction, maintenance or improvement of highways in the State. The bonds were issued with a $42.2 million premium and have interest rates of 5.0% and annual maturities through September 2037.

Sales Tax Limited Obligation Bonds

Sales tax limited obligation bonds (STAR bonds) have been issued for various local governments throughout the state. Pursuant to issuance of the STAR bonds, the State and local governments have entered into Redevelopment District Tax Distribution Agreements. The agreements provide that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally from the State's and the local governments' respective share of sales taxes generated within the related Districts. These bonds are special limited obligations of the State, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by the State. Accordingly, such STAR bonds are not included in the State's June 30, 2018 balance sheet. The State's portion of the STAR bonds at June 30, 2018 total $301.1 million.

Special Obligation and Private Activity Bonds

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special limited obligations of KDFA, where neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2018, balance sheet. KDFA's special obligation bonds at June 30, 2018, total $3.3 billion.

Private activity bonds are special limited obligations of KDFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on KDFA's June 30, 2018, balance sheet. KDFA's private activity bonds at June 30, 2018, total $1.4 billion.

Notes Payable

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

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 42 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Nine of these agreements provide for long-term (fifty-year) repayment with interest of the costs incurred by the Federal Government in construction of the water supply storage space. The Kansas Water Office is authorized by K.S.A. 82a-934 to enter into such agreements, subject to legislative approval through appropriations. Generally, however, receipts from the sale of water to local municipal and industrial water supply users are adequate to make the annual payments due under the long-term contracts with the Federal Government. Portions of the storage in some reservoirs have been designated as "future use" storage, and as such; the State is not required to make payments on that portion of storage until it is needed by users. The State has not recorded a liability at June 30, 2018, for portions of the storage designated as "future use" storage.

III. Detailed Notes On All Funds

Lease Commitments

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

Operating Leases

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2018 are as follows (expressed in thousands):

Fiscal Year		
2019	$	10,348
2020		9,541
2021		10,368
2022		7,536
2023		7,539
2024-2028		31,463
2029-2033		25,185
2034-2038		9,328
2039-2044		1,607
Total future minimum lease payments	$	112,915
Rent expenditures/expenses for operating leases for the year ended June 30, 2018	$	10,784

Capital Leases

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

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

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

III. Detailed Notes On All Funds

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

	Governmental Activities
Land (non-depreciable)	$ 14,819
Buildings	139,993
Equipment	9,532
Less: Accumulated depreciation	(36,468)
Total	$ 127,876

Master Lease Purchase Program

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

Defeasance of Debt

Primary Government

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

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

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

III. Detailed Notes On All Funds

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

Component Unit

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

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

Arbitrage Rebate Payable

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

Derivative Instruments

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

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

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

III. Detailed Notes On All Funds

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

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

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

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

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

III. Detailed Notes On All Funds

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

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

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

KDOT derivative instruments detailed discussion

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

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2018, are shown above. KDOT's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

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

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

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

III. Detailed Notes On All Funds

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

Credit risk. As of June 30, 2018, KDOT has no credit risk exposure on the swap transactions. This is due to the swaps having negative mark-to-market values, meaning the counterparties are exposed to KDOT in the amount of the derivatives' mark-to-market values. However, should interest rates change and the mark-to-market values of the swaps become positive, KDOT would be exposed to credit risk.

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

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

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