

State of Kansas
Notes to the Financial Statements
June 30, 2019

III. Detailed Notes On All Funds

H. Short-term Obligations

Short-term obligations at June 30, 2019, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2018 Beginning Balance	Additions	Deletions	6/30/2019 Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 600,000	\$ 600,000	\$ 0
Accrued receivables:				
Expanded Lottery Act Revenues Fund	0	86,723	86,723	0
Children's Initiatives Fund	0	29,323	29,323	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	190	190	0
Kansas Educational Building Fund	0	32,851	32,851	0
State Institutions Building Fund	0	16,488	16,488	0
Total short-term obligations	\$ 0	\$ 801,449	\$ 801,449	\$ 0

III. Detailed Notes On All Funds

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 \$600 million was issued on July 2, 2018, and redeemed on June 3, 2019.

Per Senate Substitute for House Bill No. 2002, Section 66 of the 2017 Session, on July 2, 2018, 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 2019, a receivable was posted for \$86.7 million and was reduced to zero in June 2019.

Per Senate Substitute for House Bill No. 2002, Section 66 of the 2017 Session, on July 2, 2018, 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 2019 a receivable was posted for \$29.3 million and was reduced to zero in May 2019.

Per Senate Substitute for House Bill No. 2002, Section 66 of the 2017 Session, on July 2, 2018, 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 2019, a receivable was posted for \$4.0 million and was reduced to zero in January 2019.

Per Senate Substitute for House Bill No. 106, Section 51(b) of the 2017 Session, on July 2, 2018, 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 2019, a receivable was posted for \$31.9 million and was reduced to zero in January 2019.

Per Senate Substitute for House Bill No. 2002, Section 66 of the 2017 Session, on July 2, 2018, 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 2019, a receivable was posted for \$190,204 and was reduced to zero in May 2019.

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 2019, \$32.9 million was posted to the Kansas Educational Building Fund and \$16.5 million to the State Institutions Building Funds. The receivables were reduced to zero in June 2019.

State of Kansas
Notes to the Financial Statements
June 30, 2019

III. Detailed Notes On All Funds

I. Long-term Obligations

A summary of long-term obligations at June 30, 2019, for the fiscal year then ended is as follows (expressed in thousands):

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	\$ 4,475,048	\$ 189,009	\$ 894,094	\$ 5,558,151
Notes payable	10,685	0	0	10,685
Other component units of university system	0	0	729,963	729,963
Capital leases payable	139,206	0	66,233	205,439
Arbitrage rebate payable	1	40	20	61
Claims	92,814	296,058	0	388,872
Judgments	0	0	0	0
Special assessment payable	115	0	0	115
KPERS Employee liability	255,304	0	0	255,304
Compensated absences	111,381	109	88,648	200,138
Total OPEB liability	51,485	74	39,508	91,067
Net pension liability	1,891,987	6,076	217,080	2,115,143
Pollution remediation	76,320	0	0	76,320
Other	0	9,174	142,520	151,694
Total long-term obligations	<u>\$ 7,104,346</u>	<u>\$ 500,540</u>	<u>\$ 2,178,066</u>	<u>\$ 9,782,952</u>

State of Kansas
Notes to the Financial Statements
June 30, 2019

III. Detailed Notes On All Funds

Long-term obligations at June 30, 2019, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2018 Beginning Balance	Additions	Deletions	6/30/2019 Ending Balance	Amounts Due In One Year
Governmental Activities									
Revenue bonds payable:									
KDFA series 2004 C	2004	3.43 - 5.50%	2034	\$ 500,000	\$ 378,300	\$ 0	\$ 15,515	\$ 362,785	\$ 16,345
KDFA series 2007 K-1, 2A, 2B, & 3	2008	4.00 - 5.25%	2028	59,455	5,900	0	2,885	3,015	3,015
KDFA series 2008 L-1, 2, & 3	2009	2.00 - 5.25%	2029	43,265	2,075	0	2,075	0	0
KDFA series 2009 A	2009	2.50 - 5.00%	2035	3,825	3,330	0	135	3,195	140
KDFA series 2009 B	2009	5.00%	2019	515	115	0	115	0	0
KDFA series 2009 A & 2009 B	2009	3.30 - 5.50%	2022	10,080	7,141	0	7,141	0	0
KDFA series 2009 F	2009	3.00 - 5.00%	2019	49,425	7,085	0	7,085	0	0
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2035	89,765	65,525	0	3,455	62,070	2,650
KDFA series 2009 N	2010	3.88 - 5.80%	2025	10,050	7,025	0	850	6,175	895
KDFA series 2010 C	2010	5.00%	2020	52,755	13,800	0	6,730	7,070	7,070
KDFA series 2010 E-1 & E-2	2010	2.00 - 6.12%	2035	84,160	55,065	0	7,615	47,450	7,525
KDFA series 2010 F	2010	1.58 - 6.25%	2032	10,580	8,820	0	480	8,340	505
KDFA series 2010 O-2	2011	2.70 - 6.10%	2030	39,945	30,275	0	2,090	28,185	2,155
KDFA series 2011 B	2012	2.00 - 4.13%	2031	53,780	38,605	0	2,350	36,255	2,465
KDFA series 2011 K	2012	3.00 - 5.00%	2023	109,135	89,155	0	6,195	82,960	13,965
KDFA series 2013 A-1, 2 & 3	2014	4.00 - 5.00%	2033	71,885	56,200	0	3,815	52,385	3,990
KDFA Series 2013 B	2014	3.00 - 5.00%	2024	40,555	18,820	0	5,660	13,160	5,880
KDFA Series 2015 A	2015	3.20 - 5.00%	2035	230,475	219,005	0	11,405	207,600	18,025
KDFA Series 2015 G	2015	4.84 - 5.00%	2035	203,585	196,335	0	7,600	188,735	7,980
KDFA Series 2015 H	2016	1.44 - 4.927%	2045	1,005,180	966,550	0	20,710	945,840	21,175
KDFA Series 2016 H	2017	2.00 - 5.0%	2029	51,500	51,165	0	1,010	50,155	3,940
KDOT series 2004 A	2004	4.50 - 5.50%	2019	250,000	39,460	0	39,460	0	0
KDOT series 2004 C*	2005	Variable	2025	147,000	147,000	0	0	147,000	0
KDOT series 2009 A	2010	2.25 - 5.00%	2021	176,680	69,680	0	19,630	50,050	27,050
KDOT series 2010 A	2011	4.60%	2036	325,000	325,000	0	0	325,000	0
KDOT series 2012 B	2013	5.00%	2023	144,885	144,885	0	0	144,885	31,000
KDOT series 2012 C	2013	4.00 - 5.00%	2033	200,000	178,400	0	7,600	170,800	7,800
KDOT series 2014 A	2015	5.00%	2031	250,000	250,000	0	0	250,000	0
KDOT series 2014 B	2015	Variable	2020	212,875	98,211	0	49,946	48,265	48,265
KDOT series 2015 A	2016	2.75 - 5.00%	2025	190,875	190,875	0	0	190,875	0
KDOT series 2015 B	2016	5.00%	2036	400,000	400,000	0	0	400,000	0
KDOT series 2017 A	2018	5.00%	2038	200,000	200,000	0	0	200,000	1,000
KDOT series 2018 A	2019	5.00%	2038	173,035	0	173,035	0	173,035	650
				5,390,265	4,263,802	173,035	231,552	4,205,285	233,485
Plus deferred amounts:									
Net unamortized premium (discount)				0	279,919	26,962	37,118	269,763	0
Total revenue bonds payable				\$ 10,780,530	4,543,721	199,997	268,670	4,475,048	233,485
Notes payable:									
Water supply storage in federal reservoirs				29,189	11,932	0	1,247	10,685	790
Total notes payable				\$ 29,189	11,932	0	1,247	10,685	790
Arbitrage rebate payable					23	0	22	1	0
Capital leases payable					136,728	12,403	9,925	139,206	10,054
Claims					93,548	392,415	393,149	92,814	35,077
Judgments					17,432	0	17,432	0	0
Special assessment payable					2,341	0	2,226	115	11
KPERS Employee liability					0	256,784	1,480	255,304	5,965
Compensated absences					109,249	54,096	51,964	111,381	60,915
Total OPEB liability					55,638	11,608	15,761	51,485	0
Net pension liability					2,021,444	143,261	272,718	1,891,987	0
Pollution remediation					91,863	0	15,543	76,320	14,873
Total governmental activities					\$ 7,083,919	\$ 1,070,564	\$ 1,050,137	\$ 7,104,346	\$ 361,170

State of Kansas
Notes to the Financial Statements
June 30, 2019

III. Detailed Notes On All Funds

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2018 Beginning Balance	Additions	Deletions	6/30/2019 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	\$ 153,875	\$ 0	\$ 23,160	\$ 130,715	\$ 26,485
KDFA series 2011 SRF DW 2	2011	2.00-4.20%	2031	49,880	49,880	0	49,880	0	0
KDFA series 2008 G	2009	4.60 - 5.05%	2023	14,200	340	0	340	0	0
KDFA series 2018 SRF-1	2018	2.16%	2019	5,600	5,600	0	5,600	0	0
KDFA series 2019 SRF-1	2019	5.00%	2031	47,445	0	47,445	0	47,445	5,935
Plus deferred amounts:									
Net unamortized premium (discount)				0	4,104	7,729	984	10,849	2,523
Total revenue bonds payable				<u>\$ 311,990</u>	<u>213,799</u>	<u>55,174</u>	<u>79,964</u>	<u>189,009</u>	<u>34,943</u>
Arbitrage rebate payable					56	40	56	40	0
Claims and judgments					279,871	16,187	0	296,058	42,769
Compensated absences					104	92	87	109	89
Other					10,409	0	1,235	9,174	3
Total OPEB liability					73	25	24	74	0
Net pension liability					6,460	847	1,231	6,076	0
Total business-type activities					<u>\$ 510,772</u>	<u>\$ 72,365</u>	<u>\$ 82,597</u>	<u>\$ 500,540</u>	<u>\$ 77,804</u>
	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2018 Beginning Balance	Additions	Deletions	6/30/2019 Ending Balance	Amounts Due In One Year
Component Units									
Revenue bonds payable:									
KDFA series 2001 W-1	2002	3.00 - 5.00%	2022	\$ 1,720	\$ 490	\$ 0	\$ 115	\$ 375	\$ 120
KDFA series 2002 H	2003	2.50 - 4.70%	2022	3,765	990	0	230	760	240
KDFA series 2005 D	2005	3.79 - 5.18%	2022	30,160	5,425	0	1,270	4,155	1,335
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	975	0	975	0	0
KDFA series 2009 G	2009	2.50 - 4.75%	2024	825	380	0	55	325	60
KDFA series 2009 H-1 & H-2	2009	2.50 - 7.30%	2035	13,460	11,730	0	475	11,255	495
KDFA series 2009 J-1 & J-2	2009	2.50 - 7.00 %	2030	3,880	3,130	0	205	2,925	215
KDFA series 2009 K-1 & K-2	2010	2.63 - 5.63%	2040	6,140	5,405	0	145	5,260	150
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2030	27,150	18,350	0	1,495	16,855	1,570
KDFA series 2010 A	2010	2.00 - 4.05%	2030	23,700	16,755	0	1,205	15,550	1,255
KDFA series 2010 B	2010	2.50 - 3.75%	2027	21,650	13,270	0	1,320	11,950	1,385
KDFA series 2010 G-1 & G-2	2010	2.00 - 6.60%	2040	20,050	18,990	0	555	18,435	575
KDFA series 2010 J	2010	0.75 - 4.45%	2030	14,765	9,955	0	670	9,285	695
KDFA series 2010 K-1 & K-2	2010	2.00 - 6.20%	2035	15,050	8,870	0	750	8,120	775
KDFA series 2010 M-1 & M-2	2010	2.00 - 5.10%	2026	14,865	12,225	0	1,375	10,850	1,415
KDFA series 2010 P-1 & P-2	2011	2.00 - 5.00%	2031	15,930	11,255	0	740	10,515	755
KDFA series 2010 U-1 & U-2	2011	1.80 - 6.20%	2029	25,180	13,320	0	1,145	12,175	1,150
KDFA series 2011 C	2011	2.00 - 4.50%	2036	13,450	10,720	0	430	10,290	440
KDFA series 2011 D-1, 2 & 3	2011	2.00 - 4.40%	2024	9,465	3,780	0	650	3,130	660
KDFA series 2011 G	2012	0.50 - 4.13%	2041	16,300	13,350	0	400	12,950	410
KDFA series 2012 A	2012	3.00 - 5.00%	2024	27,610	14,680	0	2,550	12,130	2,675
KDFA series 2012 D	2012	2.00 - 4.50%	2029	43,230	37,520	0	2,575	34,945	3,235
KDFA series 2012 F	2013	2.00 - 5.00%	2033	17,205	13,950	0	720	13,230	760
KDFA series 2012 H	2012	2.00 - 5.00%	2034	35,970	30,440	0	1,415	29,025	1,485
KDFA series 2014 A-1 & 2	2014	3.00 - 4.25%	2035	35,175	30,950	0	1,510	29,440	1,555
KDFA series 2014 B	2014	0.50%	2019	2,423	489	0	489	0	0
KDFA series 2014 C-1, 2, 3, 4 & 5	2014	3.00 - 5.00%	2039	56,655	51,560	0	2,050	49,510	2,155
KDFA series 2014 D-1, 2, 3 & 4	2014	3.00 - 5.00%	2035	133,550	121,985	0	4,435	117,550	4,655
KDFA series 2013 G-1 & 2	2014	4.00 - 5.00%	2038	77,335	69,040	0	2,880	66,160	2,315
KDFA series 2015 B-1, 2 & 3	2015	3.00 - 5.00%	2037	61,865	55,755	0	2,005	53,750	2,105
KDFA series 2016 A	2016	2.00 - 4.00%	2040	97,815	91,610	0	3,345	88,265	3,445
KDFA series 2016 B-1, 2 & 3	2016	2.00 - 4.00%	2041	31,115	29,315	0	1,195	28,120	1,230
KDFA series 2016 C	2016	2.00 - 4.00%	2041	45,330	44,050	0	1,310	42,740	1,335
Series 2015 K	2016	0.61%	2021	1,500	1,006	0	249	757	251
2015 M FCIP	2016	0.75%	2023	2,136	1,537	0	303	1,234	305
KDFA series 2016 J	2017	2.00 - 5.00%	2036	9,245	8,840	0	265	8,575	275
KDFA series 2017 A	2017	3.00 - 5.00%	2042	67,510	63,465	0	2,985	60,480	3,130
KDFA series 2017 B	2017	2.52%	2032	2,884	2,884	0	174	2,710	179
KDFA series 2017 D	2018	3.00 - 5.50%	2038	36,075	35,815	0	695	35,120	1,825
KDFA series 2017 E	2018	1.97%	2025	8,100	7,600	0	1,025	6,575	1,045
Plus deferred amounts:									
Net unamortized premium (discount)				0	36,969	13,742	3,693	47,018	0
Total revenue bonds payable				<u>\$ 1,092,903</u>	<u>930,425</u>	<u>13,742</u>	<u>50,073</u>	<u>894,094</u>	<u>47,660</u>
Other component units of university system					752,267	12,396	34,700	729,963	22,195
Arbitrage rebate payable					20	0	0	20	0
Capital leases					70,145	0	3,912	66,233	5,536
Compensated absences					85,404	72,210	68,966	88,648	71,066
Other					170,568	62,335	90,383	142,520	10,746
Total OPEB liability					40,022	11,065	11,579	39,508	0
Net pension liability					246,569	12,901	42,390	217,080	0
Total component units					<u>\$ 2,295,420</u>	<u>\$ 184,649</u>	<u>\$ 302,003</u>	<u>\$ 2,178,066</u>	<u>\$ 157,203</u>

State of Kansas
Notes to the Financial Statements
June 30, 2019

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, 2019, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
Revenue bonds:						
2020	\$ 233,485	\$ 178,266	\$ 32,420	\$ 9,415	\$ 47,659	\$ 33,459
2021	237,905	157,607	29,245	7,427	48,378	31,356
2022	247,760	147,767	24,815	5,965	49,396	29,258
2023	257,060	138,727	14,755	4,777	51,089	27,100
2024	209,140	130,137	15,990	4,064	50,973	24,995
2025-2029	1,094,805	530,979	44,435	11,807	233,074	95,287
2030-2034	1,065,710	316,948	16,500	1,156	190,507	55,135
2035-2039	533,795	129,890	0	0	135,235	22,378
2040-2044	264,625	55,395	0	0	40,766	3,554
2045-2049	61,000	3,005	0	0	0	0
Unamortized premium	269,763	0	10,849	0	47,018	0
Totals	<u>4,475,048</u>	<u>1,788,721</u>	<u>189,009</u>	<u>44,611</u>	<u>894,094</u>	<u>322,522</u>
Notes payable:						
2020	790	413	0	0	0	0
2021	820	377	0	0	0	0
2022	851	347	0	0	0	0
2023	883	316	0	0	0	0
2024	917	284	0	0	0	0
2025-2029	4,796	887	0	0	0	0
2030-2034	1,628	96	0	0	0	0
Totals	<u>10,685</u>	<u>2,720</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
KPERS Employee liability						
2020	5,965	19,835	0	0	0	0
2021	6,435	19,365	0	0	0	0
2022	6,942	18,858	0	0	0	0
2023	7,489	18,311	0	0	0	0
2024	8,079	17,721	0	0	0	0
2025-2029	51,002	77,998	0	0	0	0
2030-2034	74,521	54,479	0	0	0	0
2035-2039	94,871	21,125	0	0	0	0
Totals	<u>255,304</u>	<u>247,692</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital leases payable	139,206	47,965	0	0	66,233	51,278
Long-term debt without scheduled						
Debt service:						
Arbitrage rebate payable	1	0	40	0	20	0
Claims and judgments	92,814	0	296,058	0	0	0
Special Assessments Payable	115	0	0	0	0	0
Compensated absences	111,381	0	109	0	88,648	0
Other post employment benefits	51,485	0	74	0	39,508	0
Net pension liability	1,891,987	0	6,076	0	217,080	0
Pollution remediation	76,320	0	0	0	0	0
Component units of university system	0	0	0	0	729,963	0
Other	0	0	9,174	0	142,520	0
Total long-term obligations	<u>\$ 7,104,346</u>	<u>\$ 2,087,098</u>	<u>\$ 500,540</u>	<u>\$ 44,611</u>	<u>\$ 2,178,066</u>	<u>\$ 373,800</u>

State of Kansas
Notes to the Financial Statements
June 30, 2019

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, 2019. 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
2020	\$ 48,265	\$ 3,275	\$ 2,136	\$ 53,676
2021	0	3,097	1,684	4,781
2022	32,010	2,565	1,550	36,125
2023	33,315	1,887	1,154	36,356
2024	34,675	1,167	761	36,603
2025-2028	47,000	179	353	47,532
Total	<u>\$ 195,265</u>	<u>\$ 12,170</u>	<u>\$ 7,638</u>	<u>\$ 215,073</u>

General Obligation Bonds

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

Revenue Bonds

Kansas Turnpike Authority (KTA) has three 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 twelve 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. 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 fixed rate 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 1.72 percent to 2.26 percent on the weekly adjustable bonds.

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, 2019 balance sheet. The State's portion of the STAR bonds at June 30, 2019 total \$347.3 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, 2019, balance sheet. KDFA's special obligation bonds at June 30, 2019, total \$3.1 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, 2019, balance sheet. KDFA's private activity bonds at June 30, 2019, 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 43 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Seven 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, 2019, 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

State of Kansas
Notes to the Financial Statements
June 30, 2019

III. Detailed Notes On All Funds

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, 2019 are as follows (expressed in thousands):

Fiscal Year		\$	
2020		\$	7,703
2021			6,719
2022			5,858
2023			5,444
2024			4,707
2025-2029			16,946
2030-2034			11,982
2035-2039			8,718
Total future minimum lease payments		\$	68,077
Rent expenditures/expenses for operating leases for the year ended June 30, 2019			
		\$	8,393

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, 2019 (expressed in thousands):

Year Ending June 30	Governmental Activities	
	Principal	Interest
2020	\$ 10,054	\$ 5,966
2021	10,214	5,540
2022	10,362	5,101
2023	9,610	4,662
2024	9,229	4,280
2025-2029	49,746	15,586
2030-2034	34,035	5,564
2035-2039	4,216	1,150
2040-2045	1,740	116
Total	\$ 139,206	\$ 47,965

State of Kansas
Notes to the Financial Statements
June 30, 2019

III. Detailed Notes On All Funds

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2019, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	\$ 16,615
Buildings	151,318
Equipment	8,257
Less: Accumulated depreciation	<u>(39,830)</u>
Total	<u>\$ 136,360</u>

KPERS Employee Liability

The 2017 Kansas Legislature passed Senate Substitute for Substitute for House Bill 2052 which authorized a decrease of \$64.1 million of the amount appropriated for the fiscal year ended June 30, 2017, for payment of the employer contribution for eligible employers in Section 37 of the bill. Section 43 of House Bill 2052 directs payment of the delayed employer contribution to be made in level annual amounts of \$6.4 million at an interest rate of 7.75% over 20 years beginning in fiscal year 2018. 2017 House Bill 2002, Section 108, provides the appropriation to the Kansas Department of Education for payment of the fiscal year 2019 amount due in fiscal year 2019. As of June 30, 2019, the unpaid balance is \$61.3 million.

2017 Senate Bill 19, Section 2, included the state general fund appropriation for the Kansas Department of Education that was reduced by \$194.0 for the fiscal year 2019 KPERS School employer contributions. Senate Substitute for House Bill 2002, Section 232, stipulates that repayment of the reduced contributions is to be amortized over twenty years at a level dollar amount commencing in fiscal year 2020. The level dollar amount was computed to be \$19.4 million per year at an interest rate of 8.0%. House Substitute for Senate Bill 25, Section 90 provides the appropriation authority to Kansas Department of Education for payment of \$19.4 million in fiscal year 2020.

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, 2019, and changes for the fiscal year then ended are as follows (expressed in thousands):

State of Kansas
Notes to the Financial Statements
June 30, 2019

III. Detailed Notes On All Funds

Bond Issue	6/30/2018 Beginning Balance	Current Year Deceased	Payments	6/30/2019 Ending Balance
Governmental Activities				
KDFA Series 2008L	\$ 25,565	\$ 0	\$ 25,565	\$ 0
KDOT Highway Revenue	200,000	0	200,000	0
KDOT 2009 TR	11,805	0	11,805	0
Total governmental activities	<u>\$ 237,370</u>	<u>\$ 0</u>	<u>\$ 237,370</u>	<u>\$ 0</u>

Bond Issue	6/30/2018 Beginning Balance	Current Year Deceased	Payments	6/30/2019 Ending Balance
Business-type Activities				
KDFA 2005 II	\$ 9,655	\$ 0	\$ 9,655	\$ 0
Total business-type activities	<u>\$ 9,655</u>	<u>\$ 0</u>	<u>\$ 9,655</u>	<u>\$ 0</u>

Component Unit

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain revenue and lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2019, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2018 Beginning Balance	Current Year Deceased	Payments	6/30/2019 Ending Balance
Business-type Activities				
KDFA 2005 II	\$ 9,655	\$ 0	\$ 9,655	\$ 0
Total business-type activities	<u>\$ 9,655</u>	<u>\$ 0</u>	<u>\$ 9,655</u>	<u>\$ 0</u>

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$1 thousand for Governmental Activities, \$40 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, 2019, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2019 financial statements are as follows debit (credit) (expressed in thousands):

	<u>Change in Fair Value</u>		<u>Fair Value at June 30, 2019</u>		<u>Notional</u>
	<u>Classification</u>	<u>Amount</u>	<u>Classification</u>	<u>Amount</u>	
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ (1,384)	Debt	\$ (6,675)	\$ 170,210
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	(621)	Investment	(6,836)	75,000

III. Detailed Notes On All Funds

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 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,

State of Kansas
Notes to the Financial Statements
June 30, 2019

III. Detailed Notes On All Funds

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, 2019 (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	3.164% Contractual; 0.8192% GASB 53 At-the-Market	67% of USD-LIBOR	\$ (51)	Goldman Sachs Bank USA	A1/A+/A
* Series 2014 B	112,139	36,863	3/1/2012	9/1/2019	3.164% Contractual; 0.8183% GASB 53 At-the-Market	67% of USD-LIBOR	(30)	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% of USD-LIBOR + 0.29%	(6,594)	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	(6,836)	Goldman Sachs Bank USA	A1/A+/A
							Total Fair Value \$	(13,511)	

* - Considered fair value hedge

** - Considered 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, 2019, are shown above. KDOT's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

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

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

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

KDOT Series 2004C Swaps - In connection with the issuance of \$147 million of variable-rate KDOT Series 2004B and 2004C Highway Revenue Bonds, on November 12, 2004, KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$147 million 20-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.571 percent and receives 63.5 percent of LIBOR plus

III. Detailed Notes On All Funds

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, 2019, 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.