

State of Kansas
Notes to the Financial Statements
June 30, 2020

III. Detailed Notes On All Funds

H. Short-term Obligations

Short-term obligations at June 30, 2020, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2019			6/30/2020
	Beginning Balance	Additions	Deletions	Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 275,000	\$ 275,000	\$ 0
Accrued receivables:				
Expanded Lottery Act Revenues Fund	0	88,694	88,694	0
Children's Initiatives Fund	0	21,634	21,634	0
Correctional Institutions Building Fund	0	3,993	3,993	0
State Economic Development Initiatives Fund	0	31,929	31,929	0
Kansas Endowment for Youth Fund	0	192	192	0
Kansas Educational Building Fund	0	38,364	38,364	0
State Institutions Building Fund	0	19,023	19,023	0
Total short-term obligations	\$ 0	\$ 478,829	\$ 478,829	\$ 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 \$275 million was issued on July 1, 2019, and redeemed on June 24, 2020.

Per House Substitute for Senate Bill 25, Section 62(p) of the 2019 Session, on July 1, 2019, 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 2020, a receivable was posted for \$88.7 million and was reduced to zero in June 2020.

Per House Substitute for Senate Bill 25, Section 62(q) of the 2019 Session, on July 1, 2019, 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 2020 a receivable was posted for \$21.6 million and was reduced to zero in June 2020.

Per House Substitute for Senate Bill 25, Section 62(i) of the 2019 Session, on July 1, 2019, 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 2020, a receivable was posted for \$4.0 million and was reduced to zero in June 2020.

Per House Substitute for Senate Bill 25, Section 62(h) of the 2019 Session, on July 1, 2019, 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 75 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2020, a receivable was posted for \$31.9 million and was reduced to zero in June 2020.

Per House Substitute for Senate Bill 25, Section 62(r) of the 2019 Session, on July 1, 2019, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the

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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 2020, a receivable was posted for \$192,175 and was reduced to zero in June 2020.

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 Kansas Education Building Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2020, \$38.4 million was posted to the Kansas Educational Building Fund. The receivables were reduced to zero in June 2020.

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 Institutions Building Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2020, \$19.0 million was posted to the State Institutions Building Fund. The receivables were reduced to zero in June 2020.

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I. Long-term Obligations

A summary of long-term obligations at June 30, 2020, for the fiscal year then ended is as follows (expressed in thousands):

	Governmental Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	\$ 4,223,119	\$ 124,573	\$ 872,295	\$ 5,219,987
Notes payable	8,314	0	0	8,314
Other component units of university system	0	0	688,015	688,015
Capital leases payable	238,007	0	58,000	296,007
Arbitrage rebate payable	0	63	6	69
Claims	142,186	291,260	0	433,446
Judgments	0	0	0	0
Special assessment payable	115	0	0	115
KPERS Employer liability	249,339	0	0	249,339
Compensated absences	119,150	137	100,416	219,703
Total OPEB liability	49,710	114	41,429	91,253
Net pension liability	1,898,115	6,051	201,091	2,105,257
Pollution remediation	77,059	0	0	77,059
Other	0	8,977	131,817	140,794
Total long-term obligations	\$ 7,005,114	\$ 431,175	\$ 2,093,069	\$ 9,529,358

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Long-term obligations at June 30, 2020, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	June 30, 2019 Beginning Balance	Additions	Deletions	June 30, 2020 Ending Balance	Amounts Due In One Year
Governmental Activities									
Revenue bonds payable:									
KDFA series 2004 C	2004	3.43 - 5.50%	2034	\$ 500,000	\$ 362,785	\$ 0	\$ 16,345	\$ 346,440	\$ 17,215
KDFA series 2007 K-1, 2A, 2B, & 3	2008	4.00 - 5.25%	2028	59,455	3,015	0	3,015	0	0
KDFA series 2009 A	2009	2.50 - 5.00%	2035	3,825	3,195	0	3,195	0	0
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2035	89,765	62,070	0	62,070	0	0
KDFA series 2009 N	2010	3.88 - 5.80%	2025	10,050	6,175	0	6,175	0	0
KDFA series 2010 C	2010	5.00%	2020	52,755	7,070	0	7,070	0	0
KDFA series 2010 E-1 & E-2	2010	2.00 - 6.12%	2035	84,160	47,450	0	7,525	39,925	7,845
KDFA series 2010 F	2010	1.58 - 6.25%	2032	10,580	8,340	0	505	7,835	525
KDFA series 2010 O-2	2011	2.70 - 6.10%	2030	39,945	28,185	0	2,155	26,030	2,220
KDFA series 2011 B	2012	2.00 - 4.13%	2031	53,780	36,255	0	2,465	33,790	2,590
KDFA series 2011 K	2012	3.00 - 5.00%	2023	109,135	82,960	0	13,965	68,995	22,185
KDFA series 2013 A-1, 2 & 3	2014	4.00 - 5.00%	2033	71,885	52,385	0	3,990	48,395	4,195
KDFA Series 2013 B	2014	3.00 - 5.00%	2024	40,555	13,160	0	5,880	7,280	2,225
KDFA Series 2015 A	2015	3.20 - 5.00%	2035	230,475	207,600	0	18,025	189,575	18,560
KDFA Series 2015 G	2015	4.84 - 5.00%	2035	203,585	188,735	0	7,980	180,755	8,380
KDFA Series 2015 H	2016	1.44 - 4.927%	2045	1,005,180	945,840	0	21,175	924,665	21,730
KDFA Series 2016 H	2017	2.00 - 5.00%	2029	51,500	50,155	0	3,940	46,215	4,695
KDFA Series 2019 F-1, 2 & 3	2020	3.00 - 5.00%	2035	68,980	0	68,980	380	68,600	4,710
KDFA Series 2019 G	2020	2.00 - 2.15%	2025	5,470	0	5,470	130	5,340	1,025
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	50,050	0	27,050	23,000	23,000
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	31,000	113,885	38,000
KDOT series 2012 C	2013	4.00 - 5.00%	2033	200,000	170,800	0	7,800	163,000	50,000
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	48,265	0	48,265	0	0
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	1,000	199,000	8,945
KDOT series 2018 A	2019	5.00%	2038	173,035	173,035	0	650	172,385	1,405
				5,111,430	4,205,285	74,450	301,750	3,977,985	239,450
Plus deferred amounts:									
Net unamortized premium (discount)				0	269,763	11,318	35,947	245,134	0
Total revenue bonds payable				\$ 10,222,860	4,475,048	85,768	337,697	4,223,119	239,450
Notes payable:									
Water supply storage in federal reservoirs				29,189	10,685	0	2,371	8,314	645
Total notes payable				\$ 29,189	10,685	0	2,371	8,314	645
Arbitrage rebate payable					1	0	1	0	0
Capital leases payable					139,206	110,575	11,774	238,007	13,862
Claims					92,814	431,597	382,225	142,186	29,733
Special assessment payable					115	0	0	115	10
KPERS Employer liability					255,304	0	5,965	249,339	6,435
Compensated absences					111,381	68,684	60,915	119,150	55,661
Total OPEB liability					51,485	12,253	14,028	49,710	0
Net pension liability					1,891,987	345,149	339,021	1,898,115	0
Pollution remediation					76,320	739	0	77,059	14,767
Total governmental activities				\$ 7,104,346	\$ 1,054,765	\$ 1,153,997	\$ 7,005,114	\$ 360,563	

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	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	June 30, 2019 Beginning Balance	Additions	Deletions	June 30, 2020 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	\$ 130,715	\$ 0	\$ 130,715	\$ 0	\$ 0
KDFA series 2019 SRF-1	2019	5.00%	2031	47,445	47,445	0	5,935	41,510	0
KDFA series 2019 SRF (CW&DW)	2020	5.00%	2030	68,730	0	68,730	0	68,730	27,245
Plus deferred amounts:									
Net unamortized premium (discount)				0	10,849	4,579	1,095	14,333	3,585
Total revenue bonds payable				<u>\$ 311,040</u>	<u>189,009</u>	<u>73,309</u>	<u>137,745</u>	<u>124,573</u>	<u>30,830</u>
Arbitrage rebate payable					40	23	0	63	0
Claims and judgments					296,058	253	5,051	291,260	38,189
Compensated absences					109	117	89	137	92
Other					9,174	0	197	8,977	0
Total OPEB liability					74	41	1	114	0
Net pension liability					6,076	1,159	1,184	6,051	0
Total business-type activities				<u>\$ 500,540</u>	<u>\$ 74,902</u>	<u>\$ 144,267</u>	<u>\$ 431,175</u>	<u>\$ 69,111</u>	
Component Units									
Revenue bonds payable:									
KDFA series 2001 W-1	2002	3.00 - 5.00%	2022	\$ 1,720	\$ 375	\$ 0	\$ 120	\$ 255	\$ 125
KDFA series 2002 H	2003	2.50 - 4.70%	2022	3,765	760	0	240	520	250
KDFA series 2005 D	2005	3.79 - 5.18%	2022	20,980	4,155	0	1,335	2,820	1,405
KDFA series 2008 D	2008	5.10%	2038	1,600	1,600	0	0	1,600	0
KDFA series 2009 G	2009	2.50 - 4.75%	2024	825	325	0	60	265	265
KDFA series 2009 H-1 & H-2	2009	2.50 - 7.30%	2035	13,460	11,255	0	11,255	0	0
KDFA series 2009 J-1 & J-2	2009	2.50 - 7.00%	2030	3,880	2,925	0	2,925	0	0
KDFA series 2009 K-1 & K-2	2010	2.63 - 5.63%	2040	6,140	5,260	0	4,760	500	160
KDFA series 2009 M-1 & M-2	2010	3.00 - 6.31%	2030	27,150	16,855	0	16,855	0	0
KDFA series 2010 A	2010	2.00 - 4.05%	2030	23,700	15,550	0	15,550	0	0
KDFA series 2010 B	2010	2.50 - 3.75%	2027	21,650	11,950	0	11,950	0	0
KDFA series 2010 G-1 & G-2	2010	2.00 - 6.60%	2040	20,050	18,435	0	575	17,860	595
KDFA series 2010 J	2010	0.75 - 4.45%	2030	14,765	9,285	0	9,285	0	0
KDFA series 2010 K-1 & K-2	2010	2.00 - 6.20%	2035	15,050	8,120	0	8,120	0	0
KDFA series 2010 M-1 & M-2	2010	2.00 - 5.10%	2026	14,865	10,850	0	10,850	0	0
KDFA series 2010 P-1 & P-2	2011	2.00 - 5.00%	2031	11,980	10,515	0	755	9,760	770
KDFA series 2010 U-1 & U-2	2011	1.80 - 6.20%	2029	25,180	12,175	0	1,150	11,025	1,155
KDFA series 2011 C	2011	2.00 - 4.50%	2036	13,450	10,290	0	440	9,850	455
KDFA series 2011 D-1, 2 & 3	2011	2.00 - 4.40%	2024	7,725	3,130	0	660	2,470	685
KDFA series 2011 G	2012	0.50 - 4.13%	2041	16,300	12,950	0	12,950	0	0
KDFA series 2012 A	2012	3.00 - 5.00%	2024	27,610	12,130	0	2,675	9,455	2,810
KDFA series 2012 D	2012	2.00 - 4.50%	2029	41,830	34,945	0	34,945	0	0
KDFA series 2012 F	2013	2.00 - 5.00%	2033	17,205	13,230	0	760	12,470	795
KDFA series 2012 H	2012	2.00 - 5.00%	2034	35,970	29,025	0	1,485	27,540	1,570
KDFA series 2014 A-1 & 2	2014	3.00 - 4.25%	2035	35,175	29,440	0	1,555	27,885	1,495
KDFA series 2014 C-1, 2, 3, 4 & 5	2014	3.00 - 5.00%	2039	56,655	49,510	0	2,155	47,355	2,670
KDFA series 2014 D-1, 2, 3 & 4	2014	3.00 - 5.00%	2035	133,550	117,550	0	4,655	112,895	4,900
KDFA series 2013 G-1 & 2	2014	4.00 - 5.00%	2038	74,370	66,160	0	2,315	63,845	2,435
KDFA series 2015 B-1, 2 & 3	2015	3.00 - 5.00%	2037	61,865	53,750	0	2,105	51,645	2,205
KDFA series 2016 A	2016	2.00 - 4.00%	2040	97,815	88,265	0	3,445	84,820	3,580
KDFA series 2016 B-1, 2 & 3	2016	2.00 - 4.00%	2041	30,860	28,120	0	1,230	26,890	1,275
KDFA series 2016 C	2016	2.00 - 4.00%	2041	45,330	42,740	0	1,335	41,405	1,385
Series 2015 K	2016	0.61%	2021	1,500	757	0	251	506	252
2015 M FCIP	2016	0.75%	2023	2,136	1,234	0	305	929	307
KDFA series 2016 J	2017	2.00 - 5.00%	2036	9,245	8,575	0	275	8,300	290
KDFA series 2017 A	2017	3.00 - 5.00%	2042	67,510	60,480	0	3,130	57,350	2,320
KDFA series 2017 B	2017	2.52%	2032	2,884	2,710	0	270	2,440	92
KDFA series 2017 D	2018	3.00 - 5.50%	2038	36,075	35,120	0	1,825	33,295	1,700
KDFA series 2017 E	2018	1.97%	2025	8,100	6,575	0	1,045	5,530	1,065
KDFA series 2019 C-1, 2 & 3	2020	3.00 - 5.00%	2041	31,155	0	31,155	990	30,165	715
KDFA series 2020 A	2020	2.02%	2026	8,440	0	8,440	0	8,440	1,540
KDFA series 2020 B-1, 2, 3, 4, 5, 6 & 7	2020	2.00 - 5.00%	2035	76,525	0	76,525	145	76,380	8,635
KDFA series 2020 C	2020	3.125 - 5.00%	2039	10,480	0	10,480	0	10,480	370
KDFA series 2020 F	2020	2.00 - 4.00%	2030	8,270	0	8,270	0	8,270	720
KDFA series 2020 H-1 & 2	2020	2.125 - 5.00%	2034	11,220	0	11,220	0	11,220	740
Plus deferred amounts:									
Net unamortized premium (discount)				0	47,018	10,806	1,964	55,860	0
Total revenue bonds payable				<u>\$ 1,196,010</u>	<u>894,094</u>	<u>156,896</u>	<u>178,695</u>	<u>872,295</u>	<u>49,731</u>
Other component units of university system					729,963	37,104	79,052	688,015	34,115
Arbitrage rebate payable					20	0	14	6	0
Capital leases					66,233	0	8,233	58,000	5,472
Compensated absences					88,648	81,704	69,936	100,416	67,243
Other					142,520	42	10,745	131,817	10,787
Total OPEB liability					39,508	12,237	10,316	41,429	0
Net pension liability					217,080	18,619	34,608	201,091	0
Total component units				<u>\$ 2,178,066</u>	<u>\$ 306,602</u>	<u>\$ 391,599</u>	<u>\$ 2,093,069</u>	<u>\$ 167,348</u>	

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The following table presents annual debt service requirements for those long-term debts outstanding, including bonds payable on demand, at June 30, 2020, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
Revenue bonds:						
2021	\$ 239,450	\$ 180,703	\$ 27,245	\$ 5,863	\$ 49,731	\$ 13,241
2022	248,685	169,688	15,580	4,264	50,666	12,210
2023	258,035	158,343	11,815	3,371	52,509	11,115
2024	210,165	147,654	13,105	2,780	52,568	10,093
2025	218,525	138,297	5,795	2,125	47,538	9,034
2026-2030	1,096,800	534,339	31,140	6,337	221,066	34,334
2031-2035	1,030,125	280,369	5,560	278	192,597	19,627
2036-2040	398,535	109,565	0	0	119,830	6,051
2041-2045	277,665	42,356	0	0	29,931	328
2046-2050	0	0	0	0	0	0
Unamortized premium	245,134	0	14,333	0	55,859	0
Totals	<u>4,223,119</u>	<u>1,761,314</u>	<u>124,573</u>	<u>25,018</u>	<u>872,295</u>	<u>116,033</u>
Notes payable:						
2021	645	327	0	0	0	0
2022	670	302	0	0	0	0
2023	696	276	0	0	0	0
2024	723	248	0	0	0	0
2025	752	220	0	0	0	0
2026-2030	4,056	631	0	0	0	0
2031-2035	772	31	0	0	0	0
Totals	<u>8,314</u>	<u>2,035</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
KPERS Employer liability						
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	8,715	17,085	0	0	0	0
2026-2030	55,020	73,980	0	0	0	0
2031-2035	80,394	48,606	0	0	0	0
2036-2040	76,265	13,932	0	0	0	0
Totals	<u>249,339</u>	<u>227,858</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital leases payable	238,007	102,718	0	0	58,000	263,400
Long-term debt without scheduled						
Debt service:						
Arbitrage rebate payable	0	0	63	0	6	0
Claims and judgments	142,186	0	291,260	0	0	0
Special Assessments Payable	115	0	0	0	0	0
Compensated absences	119,150	0	137	0	100,416	0
Other post employment benefits	49,710	0	114	0	41,429	0
Net pension liability	1,898,115	0	6,051	0	201,091	0
Pollution remediation	77,059	0	0	0	0	0
Component units of university system	0	0	0	0	688,015	0
Other	0	0	8,977	0	131,817	0
Total long-term obligations	<u>\$ 7,005,114</u>	<u>\$ 2,093,925</u>	<u>\$ 431,175</u>	<u>\$ 25,018</u>	<u>\$ 2,093,069</u>	<u>\$ 379,433</u>

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Included in the debt service requirements to maturity table above are variable rate debt maturities for the Kansas Department of Transportation. For those variable rate bonds the following table represents the aggregate debt service requirements and net receipts/payments on associated hedging derivative instruments as of June 30, 2020. 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
2021	\$ 0	\$ 764	\$ 2,287	\$ 3,051
2022	32,010	653	2,071	34,734
2023	33,315	500	1,555	35,370
2024	34,675	324	1,001	36,000
2025	47,000	50	380	47,430
Total	\$ 147,000	\$ 2,291	\$ 7,294	\$ 156,585

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 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. 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 monthly basis. During the year, interest rates ranged from 0.421 percent to 2.182 percent on the monthly 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, 2020 balance sheet. The State's portion of the STAR bonds at June 30, 2020 total \$341.7 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 KDFFA, 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 KDFFA or the State. Accordingly, such special obligation bonds are not included in KDFFA's June 30, 2020, balance sheet. KDFFA's special obligation bonds at June 30, 2020, total \$2.9 billion.

Private activity bonds are special limited obligations of KDFFA 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 KDFFA's June 30, 2020, balance sheet. KDFFA's private activity bonds at June 30, 2020, total \$1.1 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 44 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Four 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, 2020, for portions of the storage designated as "future use" storage.

Lease Commitments

The State leases office buildings, space, and equipment. Although the lease terms vary under a variety of agreements, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered non-cancelable for financial reporting purposes.

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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, 2020 are as follows (expressed in thousands):

Fiscal Year		
2021	\$	7,947
2022		7,086
2023		6,672
2024		5,976
2025		4,907
2026-2030		17,466
2031-2035		11,682
2036-2040		6,426
Total future minimum lease payments	<u>\$</u>	<u>68,162</u>
Rent expenditures/expenses for operating leases for the year ended June 30, 2020	<u>\$</u>	<u>8,193</u>

Capital Leases

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

The following schedule presents future minimum lease payments as of June 30, 2020 (expressed in thousands):

Year Ending June 30	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 13,862	\$ 10,843
2022	13,947	10,229
2023	13,730	9,608
2024	13,644	9,034
2025	13,538	8,470
2026-2030	73,104	32,815
2031-2035	56,687	16,682
2036-2040	38,708	5,006
2041-2046	787	31
Total	<u>\$ 238,007</u>	<u>\$ 102,718</u>

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Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2020, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	\$ 16,718
Buildings	260,472
Equipment	7,645
Less: Accumulated depreciation	(42,507)
Total	<u>\$ 242,328</u>

KPERS Employer Liability

The 2017 Kansas Legislature passed Senate Substitute for House Bill 2052 which authorized a delay of \$64.1 in fiscal year 2017 employer contributions. 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. House Substitute for Senate Bill 25, Section 90, provides the appropriation to the Kansas Department of Education for payment of the amount due in fiscal year 2020. Senate Bill 66, Section 79, provides the appropriation to the Kansas Department of Education for payment of the amount due in fiscal year 2021. As of June 30, 2020 the unpaid balance is \$59.7 million.

The 2017 Kansas Legislature passed Senate Substitute for House Bill 2002 which directed the lapse of appropriation to the Kansas Department of Education and authorized the delay of \$194.0 million in fiscal year 2019 employer contributions. House Bill 2002, Section 232, amended K.S.A. 74-4920, authorizing repayment of the delayed contributions to be amortized over twenty years at a level annual amount commencing in fiscal year 2020. The level annual amount was computed to be \$19.4 million at an interest rate of 8.0%. House Substitute for Senate Bill 25, Section 90, provides the appropriation to the Kansas Department of Education for payment of the amount due in fiscal year 2020. Senate Bill 66, Section 79, provides the appropriation to the Kansas Department of Education for payment of the amount due in fiscal year 2021. As of June 30, 2020, the unpaid balance is \$189.7 million.

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, 2020, and changes for the fiscal year then ended are as follows (expressed in thousands):

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Bond Issue	6/30/2019 Beginning Balance	Current Year Defeased	Payments	6/30/2020 Ending Balance
Governmental Activities				
KDFA Series 2009 M-1	\$ 0	\$ 32,695	\$ 32,695	\$ 0
KDFA Series 2009 M-2	0	26,725	26,725	0
KDFA Series 2009 N	0	5,280	5,280	0
Total governmental activities	<u>\$ 0</u>	<u>\$ 64,700</u>	<u>\$ 64,700</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, 2020, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2019 Beginning Balance	Current Year Defeased	Payments	6/30/2020 Ending Balance
Component Units				
KDFA series 2009 K-1	\$ 0	\$ 4,610	\$ 4,610	\$ 0
KDFA series 2009 K-1	0	1,650	1,650	0
KDFA series 2009 M-1	0	13,635	13,635	0
KDFA series 2010 M-2	0	10,565	10,565	0
KDFA series 2010 K-2	0	5,800	5,800	0
KDFA series 2012 D	0	31,710	31,710	0
KDFA series 2010 N	0	11,740	11,740	0
Total component units	<u>\$ 0</u>	<u>\$ 79,710</u>	<u>\$ 79,710</u>	<u>\$ 0</u>

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$0 for Governmental Activities, \$63 thousand for Business-type Activities, and \$6 thousand for Component Units.

Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2020, classified by type, and the changes in fair value of such derivative instruments for the year then ended as reported in the 2020 financial statements are as follows debit (credit) (expressed in thousands):

	Change in Fair Value		Fair Value at June 30, 2020		Notional
	Classification	Amount	Classification	Amount	
Governmental activities					
Cash flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ (646)	Debt	\$ (7,239)	\$ 72,000
Investment derivative instruments:					
Pay-fixed interest rate swaps	Investment revenue	(398)	Investment	(7,235)	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. 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, a lower rate environment than the fixed rate 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-term 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 or the steepness of the yield curve. The higher the level of long-term rates compared to shorter term rates, the higher the expected benefit to KDOT. Therefore, the higher the mark-to-market value of the swap. KDOT pays a fixed rate on one part of the swap transaction and the other part of the value of this swap is determined by the prevailing level of interest rates compared to when KDOT entered into the swap transaction. Since interest rates have trended lower since inception, the mark-to-market value will be more negative to KDOT, even though KDOT may be receiving a net benefit from the receipts based on the 10-Year CMS Index. Since the long-term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem such transactions investment instruments.

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

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III. Detailed Notes On All Funds

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2020 (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						Matured 9/1/2019			
* Series 2014 B						Matured 9/1/2019			
* Series 2004 C	\$ 147,000	\$ 72,000	11/23/2004	9/1/2024	3.571%	63.5% of USD-LIBOR + 0.29%	\$ (7,239)	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	(7,235)	Goldman Sachs Bank USA	A1/A+/A+
						Total Fair Value \$	<u>(14,474)</u>		

* - 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, 2020, 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) - 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 September 1, 2019, the interest rate swaps associated with the Series 2014B Bonds matured.

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 by executing the Constant Maturity Swap (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, 2020, 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.

III. Detailed Notes On All Funds

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.