FINANCIAL

SECTION

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INDEPENDENT AUDITORS' REPORT

Legislative Post Audit Committee
Kansas State Legislature

1. We have audited the accompanying combined financial statements arising from cash transactions of the State of Kansas (the "State"), as of June 30, 1999, and for the year then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the State. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As discussed in Note 1 to the financial statements, these financial statements were prepared on a modified basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

4. The combined financial statements referred to above do not include a general fixed assets account group, capital assets of the proprietary fund types, or a budgetary comparison statement, which in our opinion should be included to demonstrate compliance with applicable state statutes and regulations.

5. The State has not implemented Governmental Accounting Standards Board Statement No. 14, *"The Financial Reporting Entity"*, and therefore has not made a determination of whether certain potential component units should be included in the reporting entity. The information needed to quantify the effects of such omissions is not reasonably determinable from the accounts and records of the State.

6. In our opinion, except for the omission of the information discussed in paragraph 5, such combined financial statements present fairly, in all material respects, the assets, liabilities and fund balances arising from cash transactions of the state general fund, special revenue funds, capital projects funds, enterprise funds, internal service funds, and trust and agency funds of the State at June 30, 1999, and the revenues collected and expenditures paid for such funds during the year then ended, on the basis of accounting described in Note 1.

7. The year 2000 supplementary information, as listed in the Table of Contents, is not a required part of the basic general purpose financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue and its effects, and the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established. In addition, we do not provide assurance that the State is or will become year 2000 compliant, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business are or will become year 2000 compliant.

8. As disclosed in Note 1 to the financial statements, the State has elected, effective for the year ended June 30, 1999, to adopt certain provisions of Governmental Accounting Standards Board Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"*.

9. The introductory and statistical sections, as listed in the Table of Contents, are presented for purposes of additional analysis and are not required parts of the combined financial statements of the State. Such additional information has not been subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on it.

10. In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 1999, on our consideration of the State's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants.

Deloitte & Touche LLP

October 29, 1999

Combined Statement of Assets, Liabilities and Fund Balances

On a Modified Cash Basis for All Fund Types and Account Group
(With Comparative Totals for June 30, 1998)
(Expressed in Thousands)

	Governmental Fund Types		
	State General Fund	**Special Revenue Funds**	**Capital Projects Funds**
ASSETS			
State Treasury's Balance	$ 618,112	$ 537,967	$ 71,891
Cash in Agencies' Imprest Funds and Authorized Bank Accounts	586	604	0
Cash with U.S. Treasurer	0	0	0
Municipal Investment Pool Balance	0	0	0
Canteen, Benefit and Members Moneys in Agencies' Custody	0	0	0
Public Employees Retirement Fund Investments (Fair Value)	0	0	0
Investments Owned by Other Funds (Fair Value)	0	486,206	103,095
Accrued Interest Purchased on Investments	0	370	0
Amount to be Provided for Revenue Bond Redemption	0	0	0
Amount to be Provided for Loan Redemption	0	0	0
Amount to be Provided for Miscellaneous Obligations	0	0	0
Amount to be Provided for Kansas Development Finance Authority Financing	0	0	0
Amount to be Provided for Water Supply Storage Assurances	0	0	0
Amount to be Provided for Certificates of Participation and Blanket Financing	0	0	0
TOTAL ASSETS	**$ 618,698**	**$ 1,025,147**	**$ 174,986**
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Unredeemed Warrants and Vouchers Payable	$ 19,969	$ 101,772	$ 12,425
Due Bond Holders for Bonds Defeased with State Treasurer	0	0	0
Due State and Kansas Municipalities	0	0	0
Bonds Payable on Demand	0	0	0
Revenue Bonds Payable	0	0	0
Loans Payable	0	0	0
Miscellaneous Obligations Payable	0	0	0
Kansas Development Finance Authority Financing Payable	0	0	0
Water Supply Storage Assurances	0	0	0
Certificates of Participation and Blanket Financing Payables	0	0	0
Canteen, Benefit and Members Trust Funds	0	0	0
Total Liabilities	19,969	101,772	12,425
FUND BALANCES			
Reserved and Designated Balances:			
Total Unliquidated Encumbrances	41,929	818,646	84,867
Unencumbered Balance of Appropriations Reappropriated	78,236	8,966	13,099
Designated Balances	586	94,898	54,057
Balances of Public Employees Retirement Fund	0	0	0
Total Reserved and Designated Fund Balances	120,751	922,510	152,023
Unencumbered Balance Available to Finance Appropriations	477,978	865	10,538
Total Fund Balances	598,729	923,375	162,561
TOTAL LIABILITIES AND FUND BALANCES	**$ 618,698**	**$ 1,025,147**	**$ 174,986**

The Notes to the Financial Statements are an integral part of the combined financial statements.

Proprietary Fund Types		Fiduciary Fund Type		Totals (Memorandum Only)	
Enterprise Funds	Internal Service Funds	Trust and Agency Funds	Long-Term Obligations Account Group	1999	1998
$ 46,064	$ 71,560	$ 402,489	$ 0	$ 1,748,083	$ 1,923,935
13	0	146	0	1,349	1,319
0	0	524,141	0	524,141	581,868
0	0	504,931	0	504,931	390,340
0	0	5,690	0	5,690	5,074
0	0	9,596,074	0	9,596,074	8,819,346
16,714	0	659,607	0	1,265,622	1,319,952
0	0	99	0	469	123
32,200	0	0	1,148,430	1,180,630	1,136,465
0	7,834	0	6,955	14,789	17,739
0	17,710	0	3,337	21,047	23,244
19,765	0	470	272,946	293,181	278,783
0	0	0	17,492	17,492	17,834
0	0	0	27,714	27,714	24,415
$ 114,756	$ 97,104	$ 11,693,647	$ 1,476,874	$ 15,201,212	$ 14,540,437
$ 4,653	$ 6,020	$ 74,732	$ 0	$ 219,571	$ 218,163
0	0	299,989	0	299,989	287,176
0	0	504,931	0	504,931	390,340
0	0	0	0	0	0
32,200	0	0	1,148,430	1,180,630	1,136,465
0	7,834	0	6,955	14,789	17,739
0	17,710	0	3,337	21,047	23,244
19,765	0	470	272,946	293,181	278,783
0	0	0	17,492	17,492	17,834
0	0	0	27,714	27,714	24,415
0	0	5,690	0	5,690	5,074
56,618	31,564	885,812	1,476,874	2,585,034	2,399,233
21,751	12,681	40,103	0	1,019,977	1,011,605
0	0	0	0	100,301	94,372
36,387	52,859	1,176,942	0	1,415,729	1,503,595
0	0	9,590,790	0	9,590,790	8,814,516
58,138	65,540	10,807,835	0	12,126,797	11,424,088
0	0	0	0	489,381	717,116
58,138	65,540	10,807,835	0	12,616,178	12,141,204
$ 114,756	$ 97,104	$ 11,693,647	$ 1,476,874	$ 15,201,212	$ 14,540,437

Combined Statement of Revenues, Expenditures/Expenses and Changes in Fund Balances

On a Modified Cash Basis for All Fund Types
For the Fiscal Year Ended June 30, 1999
(With Comparative Totals for the Fiscal Year Ended June 30, 1998)
(Expressed in Thousands)

	Governmental Fund Types		
	State General Fund	**Special Revenue Funds**	**Capital Projects Funds**
REVENUES:			
Taxes	$ 3,876,720	$ 562,365	$ 31,581
Agency Earnings	14,141	488,054	2,624
Revenue From the Use of Money and Property	88,023	33,138	4,673
Gifts, Donations and Federal Grants	5	2,098,794	1,427
Reimbursements and Refunds	1,628	179,373	15,909
Other Operating Revenue	24,506	34,393	383
TOTAL REVENUES	4,005,023	3,396,117	56,597
EXPENDITURES/EXPENSES:			
General Government	191,271	227,733	2,911
Human Resources	738,079	1,289,813	4,198
Education	2,710,317	969,166	113,380
Public Safety	278,513	80,641	9,280
Agriculture and Natural Resources	26,324	86,740	0
Highways and Other Transportation	0	919,592	0
Debt Services:			
Principal	0	28,179	29,001
Interest	0	46,453	17,466
TOTAL EXPENDITURES/EXPENSES	$ 3,944,504	$ 3,648,317	$ 176,236
OTHER FINANCING SOURCES (USES):			
Borrowings	$ 0	$ 40,681	$ 45,163
Conversion of Assets	0	1,103	0
Receipts from Agencies for Certificate of Participation and Blanket Financing	0	0	11,973
Payments to Refunded Bond Escrow Agent	0	0	(17,339)
Transfer (Net)	(260,295)	169,998	44,261
Other Financing Sources (Uses)	(508)	(6,371)	(12,398)
TOTAL OTHER FINANCING SOURCES (USES)	(260,803)	205,411	71,660
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES	(200,284)	(46,789)	(47,979)
Fund Balance, July 1	784,174	970,164	210,540
Cumulative Effect of Change in Accounting Principle	14,839	0	0
Fund Balances, June 30	$ 598,729	$ 923,375	$ 162,561

The Notes to the Financial Statements are an integral part of the combined financial statements.

Proprietary Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)		
Enterprise Funds	Internal Service Funds	Trust and Agency Funds	1999	1998	
					1
$ 3,310	$ 0	$ 569,483	$ 5,043,459	$ 5,056,320	2
143,642	109,944	2,097	760,502	899,837	3
39,388	12,533	1,103,801	1,281,556	1,597,929	4
132	0	117,618	2,217,976	1,890,960	5
1,938	7,849	20,077	226,774	194,621	6
2,121	14,811	224,050	300,264	353,073	7
190,531	**145,137**	**2,037,126**	**9,830,531**	**9,992,740**	8
					9
					10
24,107	82,443	1,268,374	1,796,839	1,665,923	11
1,314	11	238,197	2,271,612	2,043,877	12
74,171	55,018	33,254	3,955,306	3,665,852	13
0	11,488	4,001	383,923	347,315	14
3,625	22	14,654	131,365	127,641	15
0	0	0	919,592	900,895	16
					17
6,998	985	17,445	82,608	53,668	18
1,860	594	13,026	79,399	67,172	19
$ 112,075	**$ 150,561**	**1,588,951**	**9,620,644**	**8,872,343**	20
					21
					22
$ 23,451	$ 0	$ 57,232	166,527	$ 473,457	23
0	188	0	1,291	4,457	24
					25
0	0	0	11,973	10,113	26
0	0	(1,390)	(18,729)	(225,756)	27
(90,855)	(692)	137,583	0	0	28
(818)	19	109,262	89,186	96,736	29
(68,222)	**(485)**	**302,687**	**250,248**	**359,007**	30
					31
					32
					33
10,234	(5,909)	750,862	460,135	1,479,404	34
					35
47,904	71,449	10,056,973	12,141,204	10,632,394	36
0	0	0	14,839	29,406	37
$ 58,138	**$ 65,540**	**$ 10,807,835**	**$ 12,616,178**	**$ 12,141,204**	38

I. Summary of Significant Accounting Policies

The Governmental Accounting Standards Board (GASB) is the primary standard setting body for establishing governmental accounting and financial reporting principles. The current combined financial statements are prepared on a modified cash basis of accounting, include certain amounts to be provided for in certain governmental and proprietary fund types, do not include the General Fixed Asset Account Group, do not include certain assets in the proprietary funds, omit the recording of certain obligations, and exclude certain component units, all of which are departures from Generally Accepted Accounting Principles (GAAP). These inclusions, omissions and departures are discussed in the applicable sections of these Notes.

The combined financial statements have been prepared primarily from the accounts maintained by the Division of Accounts and Reports. Additional data has been derived from information of various departments and entities based on subsidiary accounting systems.

A. Reporting Entity

The State government is comprised of three branches: the Executive Branch, with the Governor as chief executive; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 125 members; and the Judicial Branch, which includes the Supreme Court, the Appeals Court and the District Trial Courts.

For financial reporting purposes, the State of Kansas has included all funds and accounts of all State organizational units as part of the primary government except:

- The Kansas Turnpike Authority
- District Trial Court funds
- Student union, athletic, cafeteria, foundation and endowment funds of State supported universities
- Certain off-site custodial funds

The State has not implemented GASB Statement No. 14, entitled "The Financial Reporting Entity." As a result, certain component units have been excluded from the combined financial statements. Also, no determination has been made as to whether the component units should be blended or discreetly presented.

B. Fund Structure

The State reports its financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Transactions between funds within a fund type, if any, have not been eliminated.

The general long-term obligations account group is an accounting entity used to provide accountability for the State's general long-term obligations. It is not considered a fund because it does not report expendable available financial resources and related liabilities.

I. Summary of Significant Accounting Policies

The State has established the following fund categories (further divided by fund types) and account groups:

Governmental Funds - account for the general governmental activities of the State.

The General Fund is the primary operating fund of the State. It is used to account for all governmental transactions, except for those required in another fund.

Special Revenue Funds are used to account for specific revenue sources, other than expendable trusts, that have been segregated according to State finance law to support specific governmental activities.

Capital Projects Funds are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects.

Proprietary Funds - account for the State's ongoing activities that are similar to those often found in the private sector.

Enterprise Funds account for operations where the cost of providing goods or services to the general public is financed primarily through user charges.

Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the State, or to other governmental units.

Fiduciary Funds - are used to account for assets held by the State in a trustee capacity, or as an agent for individuals, private organizations, other governmental units and/or other funds.

Expendable Trust Funds are used to account for trusts whose principal and income may be expended for a designated purpose.

Nonexpendable Trust Funds are used to account for trusts whose principal cannot be spent.

Pension Trust Funds are used to account for the assets, liabilities and fund equities held in trust for the Kansas Public Employees Retirement System.

Agency Funds are used to account for assets the State holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

General Long-Term Obligations Account Group - is used to account for long-term bonds and notes issued by the State, capital leases, certificates of participation and other long-term obligations, excluding the liabilities of the proprietary funds.

C. Basis of Accounting

All funds included in these financial statements are prepared on a cash basis of accounting with modifications. Revenue is generally recognized and recorded when moneys are received. Expenditures (including capital outlays) are recognized and recorded when State warrants are requested to be issued. Ordinarily, fiscal year records remain open through the second Monday in July to process and record vouchers, other pay documents and receipts related to the fiscal year ended June 30. However, if that date results in less then eight business days, the closing date will be set to allow eight working days to process the old year transactions. Encumbrances outstanding at year end are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

D. Departures from Generally Accepted Accounting Principles

These combined financial statements are not prepared in conformity with GAAP. Significant departures include the following:

- Revenue is recognized when received rather than when susceptible to accrual.
- Expenditures are recognized when payment requests are processed rather than when obligations are incurred.
- Proprietary funds use the modified cash basis of accounting rather than the accrual basis.
- The combined financial statements omit the fixed assets of the proprietary funds and the general government.
- Certain component units have been excluded.
- Required budgetary comparisons have been excluded.
- The general long-term obligation account group does not include obligations for compensated absences, unemployment claims, workers' compensation claims of non-state workers, health care stabilization claims and certain incurred but not reported claims.
- Medicaid claims incurred but not reported and the related receivable from the Federal government, are not included.
- Fund liabilities in the governmental and proprietary fund types are offset by an equal amount to be provided as an other debit in the combined balance sheet. Borrowings in the proprietary fund types are also shown as an other financial source in the year of issuance.

E. Assets, Liabilities and Fund Equity

Cash and Investments
State Pooled Moneys - Cash balances of funds in the State Treasury are held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by the Pooled Money Investment Board (PMIB) and are reported at fair value. The cummulative effect of the change to fair value is $14.8 million, and has been reflected as an adjustment to beginning fund balance in the Combined Statements of Revenues, Expenditures/Expenses and Changes in Fund Balance.

The PMIB's investment policies are governed by State statute. The primary objective is to attain safety, liquidity and yield. PMIB's allowable investments for State Pooled Moneys not invested in Kansas financial institutions are as follows:

- Direct obligations of, or obligations that are insured as to principal and interest by, the U.S. Government or any direct agency thereof, with maturities up to four years
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Up to $10 million in preferred stock of Kansas Venture Capital, Inc.
- Limited interest-bearing loans to various State agencies as specifically provided by law

I. Summary of Significant Accounting Policies

- Certain Kansas agency and IMPACT Act projects and bonds
- High grade commercial paper

Specific Fund Investments - Cash balances not held in the State Treasury may be invested as permitted by statute. Certain provisions, primarily fair value accounting for specific agency investments, of Statement No. 31 of the Governmental Accounting Standards Board (GASB) were fully adopted by fiscal year 1999. The estimated fair value of these investments is based on quoted market prices from Bloomberg Financial Market. Allowable investments of other funds include:

- U.S. Government obligations
- U.S. Government agency securities
- Mortgage-backed securities
- Corporate/Asset-backed securities
- Municipal securities
- Kansas banks
- Guaranteed investment contracts
- Mutual funds
- Money market instruments
- Kansas Municipal Investment Pool
- Commercial paper

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

The assets of the MIP are combined with State moneys to form the Pooled Money Investment Portfolio.

Kansas Public Employees Retirement System (KPERS) Investments - The Retirement System's investment categories, as permitted by statute, include equities, fixed income securities, cash equivalents, real estate, derivative products and alternative investments. KPERS values its investments at fair value as required by GASB Statement No. 25. In fulfilling its responsibilities, the Board of Trustees contracts with investment management firms and a master global custodian.

Valuation - Investments are generally stated at fair value. The estimated fair value of these investments is based on quoted market prices from Bloomberg Financial Market.

Liabilities

Unredeemed Warrants and Vouchers Payable - The State records liabilities for operating expenditures and capital outlay when warrants are requested to be issued, as evidenced by the preparation of vouchers payable. The accompanying financial statements do not include the liability and related expenditure for accrued salaries and benefits at fiscal year-end.

I. Summary of Significant Accounting Policies

Long-Term Obligations - The liabilities reported in the General Long-Term Obligations Account Group include long-term bonds and notes issued by the State, most obligations under lease/purchase arrangements, and other long-term obligations.

Compensated Absences and Salaries Payable - The State records vacation leave as an expenditure when paid. Classified State employees accrue vacation leave based on the number of years employed up to a maximum rate of 6.5 hours per pay period, and may accumulate a maximum of 240 hours. Upon retirement or termination, employees are paid for accrued vacation leave up to their maximum accumulation. The estimated unrecorded liability for vacation leave payable at June 30, 1999, was $81.5 million.

State employees earn sick leave at the rate of 3.7 hours per pay period. Employees who terminate are not paid for unused sick leave. Employees who retire are paid a portion of their unused sick leave based on years of service and hours accumulated. Unrecorded sick leave payable at fiscal year end is estimated to be $31.3 million.

The State had a liability to employees for salaries payable for work performed through June 30, 1999. This unrecorded liability is estimated to be $82.9 million.

The accompanying financial statements do not include a provision for compensated absences or accrued salaries.

Fund Equity

Reservations of fund equity represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of equity represent tentative management plans that are subject to change.

F. Total (Memorandum Only)

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position, results of operations or cash flows in accordance with GAAP. Interfund eliminations have not been made in the aggregation of this data.

G. Use of Estimates

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

H. Reclassification

Certain 1998 amounts have been reclassified to conform to current year presentation.

II. Detailed Notes on Financial Statements

A. Deposits and Investments

State Treasury's and Municipal Investment Pool Balance

Cash balances in the State Treasury are held in numerous bank accounts. Available cash balances beyond immediate needs are pooled for short-term investment purposes. The cash balances and investments are combined and reported under the caption of State Treasury's Balance and Municipal Investment Pool Balance on the Combined Statement of Assets, Liabilities and Fund Balances. The State Treasury and Municipal Investment Pool Balance as of fiscal year-end is comprised of:

	(Expressed in Thousands)
Cash	
Kansas Banks Demand Accounts	$ 62,406
Monies in Custodial Demand Accounts	416
Cash Items	26
Cash in Transit (FY 1999 deposits with State Treasurer during closing period)	60,387
Investment Pool Securities at Fair Value	
Kansas Banks Certificates of Deposit	136,901
U.S. Government agency agreement	723,167
Mortgage backed securities	816
Commercial paper	864,906
Repurchase Agreements	384,200
Kansas Venture Capital, Inc.	4,000
Public Water Supply Loan Fund	1,000
Loans Receivable	14,789
Total State Treasury's and Municipal Investment Pool Balance	**$ 2,253,014**

For demand and checking accounts, the State requires that its depository banks pledge collateral that has a market value equal to or greater than the deposits. The State's deposits with financial institutions were fully collateralized at fiscal year-end. The pledged securities and bonds are held in safekeeping for the State Treasurer at the Federal Reserve Bank of Kansas City or in approved custodial banks and are held in the State's name.

II. Detailed Notes on Financial Statements

Investments

Investments included in the State Treasury's Balance and Municipal Investment Pool Balance, Specific Agency Fund Investments, and investments of the Kansas Public Employees Retirement System are classified into the following three risk categories:

1. Insured or registered, or securities held by the State or its agent in the State's name.
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.
3. Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name.

Investments included in the State Treasury's and Municipal Investment Pool Balance are classified as risk category 1. Market value approximates $2,129.8 million.

At fiscal year-end, other investment balances categorized by level of risk were as follows:

(Expressed in Thousands)

Specific Agency Fund Investments	Category 1	Category 2	Category 3	Fair Value
U.S. Government Obligations	$ 344,945			$ 344,945
U.S. Government Agency Securities	586,693			586,693
Mortgage Backed Securities	7,113			7,113
Municipal Securities	2,735			2,735
Kansas Banks	19			19
Repurchase Agreements	249,579			249,579
Commercial Paper	13,267			13,267
	$ 1,204,351			
State of Kansas Municipal Investment Pool				281
Guaranteed Investment Contracts				60,770
Mutual Funds				172
Money Market Investments				48
Total Investments Owned by Other Funds				**$1,265,622**

II. Detailed Notes on Financial Statements

Kansas Public Employees Retirement System Investments

(Expressed in Thousands)

	Category 1	Category 2	Category 3	Fair Value
Subject to Classification				
Domestic Large Cap Equities	$ 3,090,960			$ 3,090,960
Domestic Small Cap Equities	1,118,629			1,118,629
International Equities	1,272,853			1,272,853
Fixed Income	2,138,105		126,697	2,264,802
Cash Equivalents	211,885 [1]		381,179 [2]	593,064
Total Subject to Classification	$ 7,832,432		$ 507,876	$ 8,340,308
Not Subject to Classification				
Alternative Investments				173,405
Real Estate				522,696
Mutual Funds				
Cash Equivalents				1,074
Domestic Fixed				690,723
Securities on Loan [3]				487,020
Total Not Subject to Classification				1,874,918
Total Investments at Fair Value				10,215,226
Income Receivable on Investments				56,075
Receivable on the Sale of Investments				1,580,844
Payable on the Purchase of Investments				(1,748,195)
Securities Lending Cash Collateral				(507,876)
Total Net Asset Value				$ 9,596,074

[1] Foreign currencies and fixed securities maturing within 90 days of purchase date.
[2] Securities Lending cash collateral invested with maturities within 90 days of fiscal year end.
[3] Market value of securities loaned, with cash collateral.

B. Short Term Bonds Payable

On June 1, 1999 the Kansas Development Finance Authority (KDFA) issued $.5 million in KDFA Revenue bonds, Series I 1999 (State match bonds - Kansas Department of Health and Environment Water Pollution Control State Revolving Loan Fund Program). These bonds were issued to provide State matching funds for an additional Federal grant to the Kansas Water Pollution Control Revolving Loan Fund Program. The bonds were issued with a 4.25 percent interest rate and a maturity date of May 1, 2000. Because of the short term nature of this issue, it is recorded as a fund liability.

On May 1, 1999, the KDFA issued $11.2 million in KDFA Revenue Bonds, Series 1999D (Kansas Boards of Regents - University of Kansas Parking Garage #2 Construction Project). A portion of the bond proceeds was used to redeem the KDFA Series 1998G-1, $1.3 million in Revenue Notes.

On August 1, 1998, the KDFA issued $5.6 million in KDFA Revenue Bonds, Series 1998L (Department of

II. Detailed Notes on Financial Statements

Administration Memorial Hall Office Building Renovation Project). A portion of the proceeds of the Series 1998L Bonds were applied to refund $.3 million in Series 1997H Revenue Notes.

On May 1, 1999, the KDFA issued $2.9 million in KDFA Revenue Bonds, Series 1999B (Kansas Board of Regents - University of Kansas Medical Center - Center for Health in Aging Project). A portion of the proceeds was used to retire $.3 million in KDFA's Revenue Notes, Series 1998F (Kansas Board of Regents - University of Kansas Medical Center - Center for Health in Aging Project).

C. Long-Term Obligations

General Long-Term Obligations

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

KDFA was created for the primary purpose of enhancing the ability of the State to finance capital improvements. When the obligations issued by KDFA are paid in full, the ownership of the property is transferred to the State. Further, certificates of participation have been issued by KDFA pursuant to lease purchase agreements with the State as lessee. Currently, there are no outstanding certificates of participation.

Blanket Financing agreements for equipment leases with option to purchase agreements have been entered into with Koch Financial Corporation and Ford Motor Credit Company. A 1992 agreement with Koch Financial Corporation established a $15.0 million credit line, of which $3.6 million was unused and is no longer available. Final payment for this contract will be made in October 1999. In 1994, another agreement with Koch Financial Corporation established an aggregate maximum line of credit of $25.0 million, of which $5.9 million was unused and is no longer available. Final payment for this contract will be made in October 2001. A 1996 agreement with Ford Motor Credit Company established an aggregate maximum credit line of $35.0 million. This agreement expired April 30, 1999. However an Amendment dated April 19, 1999 extended $3.0 million of the line of credit to September 30, 1999 to be used exclusively by the University of Kansas Hospital Authority. As of June 30, 1999, $3.0 million was available for the Hospital Authority and $5.2 million was unused and is no longer available. A 1999 Agreement with Koch Financial Corporation established a $20.0 million line of credit. At June 30, 1999, $18.7 million was unused.

A Master Lease Purchase agreement was entered into with Koch Financial Corporation on September 15, 1998 to provide a $5.0 million line of credit to finance conservation projects for state agencies. At June 30, 1999, $4.9 million was unused. This program replaces the State Energy Conservation Improvement Program which provided financing for state agency energy conservation projects through the issuance of lease revenue bonds.

The Kansas Water Office has agreements to reimburse the Federal Government for the added cost incurred in providing water storage capacity in Federal flood control reservoirs. In addition, assurances have been made to the Federal Government that the State would participate in additional Federal flood control reservoirs to provide water storage capacity to meet anticipated future needs of the State. The State is not required to make payment on the future use portion of the storage space until the State calls it into use.

The State is self-insured against workers' compensation losses and medical claims of State employees through the State Workers' Compensation Self-Insurance Fund, which is included in the internal service fund category. Funding for the program is provided by a percentage assessment against State agency payrolls. For fiscal year 1999, this assessment rate was 1.0 percent. The unrecorded estimated liability for unpaid claims at June 30, 1999, discounted at 5.0 percent was $21.5 million (unaudited). This estimate for unpaid claims was made by applying generally accepted actuarial

II. Detailed Notes on Financial Statements

techniques to current information, including liability for claims incurred but not reported. The estimated liability for unpaid claims is not included in the accompanying financials.

Changes in claims liability (unaudited) balance for fiscal year 1999 were as follows (amounts expressed in thousands):

Beginning Balance	$ 23,307
Changes In Estimated Liability	9,858
Less Claims Payments	(11,655)
Present value of the total Estimated Liability	$ 21,510

Changes in Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 1999 (in thousands):

Description and Purpose	Amount of Original Issue (Bonds Only)	Range of Final Maturities Dates	Range of Interest Rates %	Balance July 1, 1998	Issued	Retired	Balance June 30, 1999
General Long-Term Obligation							
Revenue Bonds							
Department of Transportation	$ 1,136,600	2013-2015	2.65-7.25	$ 859,765	$ 0	$ 27,730	$ 832,035
Department of Health and Environment	282,985	2014-2021	3.25-6.00	209,435	39,690	4,365	244,760
Department of Commerce and Housing	61,090	2003-2009	3.10-5.60	10,735	45,665	3,055	53,345
State Universities	33,170	1999-2016	2.90-7.75	19,325	0	1,035	18,290
Total Revenue Bonds	**$ 1,513,845**			1,099,260	85,355	36,185	$ 1,148,430
Kansas Development Finance Authority							
Energy Conservation	25,824	2003-2010	3.40-6.70	16,820	0	2,490	14,330
Department of Administration	5,590	2019	3.80-5.00	0	5,590	0	5,590
Highway Patrol	5,585	2009	5.00-6.60	4,420	0	285	4,135
Board of Regents	159,281	2012	3.75-5.60	148,401	0	5,840	142,561
State Universities	42,520	2014-2024	3.00-5.75	15,930	9,655	455	25,130
Insurance Department	1,795	2007	4.70-6.50	1,295	0	100	1,195
Department of Corrections	91,850	2009-2012	3.85-7.75	69,480	0	32,500	36,980
Juvenile Justice Authority	8,000	2014	5.40-6.25	6,555	0	285	6,270
Refunding Bonds	41,785	2010-2012	3.20-5.90	9,995	28,210	1,450	36,755
Total KDFA	**$ 382,230**			272,896	43,455	43,405	272,946
Blanket Financing Payables for Equipment		2003		24,415	12,410	9,111	27,714
Water Supply Storage Assurances		2025-2050	2.63-4.01	17,834	0	342	17,492
Loans Payable - State Office Buildings		1999-2009	5.04-5.72	8,920	0	1,965	6,955
Lease Purchase Agreements		2007		4,495	0	1,158	3,337
Total General Long-term Obligations				**$ 1,427,820**	**$ 141,220**	**$ 92,166**	**$ 1,476,874**
Proprietary Fund Long-term Obligations							
Enterprise Funds							
Revenue Bonds							
State Universities	$ 64,209	2000-2021	2.75-9.50	$ 40,945	$ 16,496	$ 5,476	$ 51,965
State Fair Board	840	1999	7.05-8.25	190	0	190	0
Total Enterprise Funds	**$ 65,049**			**$ 41,135**	**$ 16,496**	**$ 5,666**	**$ 51,965**
Internal Service Funds							
Loans Payable - State Office Buildings		2002-2011	5.04-7.90	$ 8,819	$ 0	$ 985	$ 7,834
Capital Lease Obligations		2014	4.22	17,314	0	273	17,041
Service Agreements		2000	4.97	1,435	0	766	669
Total Internal Service Funds				**$ 27,568**	**$ 0**	**$ 2,024**	**$ 25,544**

II. Detailed Notes on Financial Statements

Debt Service Requirements to Maturity

(Expressed in Thousands)

Year Ending June 30	Enterprise Funds	Internal Service Funds	Long-Term Obligation Account Group	Total
2000	$ 5,237	$ 1,649	$ 165,762	$ 172,648
2001	5,809	1,605	165,634	173,048
2002	5,767	1,561	162,368	169,696
2003	5,337	1,006	160,841	167,184
2004	4,961	962	157,124	163,047
Thereafter	54,490	3,506	1,362,452	1,420,448
Total Principal and Interest	81,601	10,289	2,174,181	2,266,071
Less Interest	27,224	2,455	700,644	730,323
Liability as of June 30, 1999	**$ 54,377** *	**$ 7,834**	**$ 1,473,537**	**$ 1,535,748**

* The balance includes the value of the capital accumulator bonds in the amount of $2.4 million.

Capital Lease Requirement to Maturity

(Expressed in Thousands)

Year Ending June 30	Internal Service Funds	Long-Term Obligation Account Group	Total
2000	$ 2,433	$ 1,019	$ 3,452
2001	1,781	994	2,775
2002	1,809	716	2,525
2003	1,834	581	2,415
2004	1,857	193	2,050
Thereafter	15,963	192	16,155
Total Principal and Interest	25,677	3,695	29,372
Less Interest	7,967	358	8,325
Liability as of June 30, 1999	**$ 17,710**	**$ 3,337**	**$ 21,047**

II. Detailed Notes on Financial Statements

Defeasance of Debt

The State has in substance defeased certain bonds by issuing additional debt. None of the defeased bonds appear on the Combined Statement of Assets, Liabilities and Fund Balances because sufficient moneys have been set aside for payment of the bonds with a trustee.

(Expressed in Thousands)

Description and Purpose	Balance July 1, 1998	Current Year Defeased	Payments	Balance June 30, 1999
Defeased Bonds				
Special Revenue Funds				
Department of Transportation	$ 325,450	$ 0	$ 28,860	$ 296,590
Enterprise Funds				
Fort Hays State University	673	0	134	539
Kansas State University	3,170	0	549	2,621
Wichita State University	49	0	16	33
Trust and Agency Funds				
Department of Health & Environment	23,510	0	0	23,510
Department of Commerce & Housing	0	935	935	0
Department of Corrections	0	10,025	10,025	0
University of Kansas	823	0	173	650
Capital Projects Funds				
Department of Corrections	0	16,665	0	16,665
University of Kansas	3,265	0	150	3,115
University of Kansas Medical Center	950	0	140	810
Total Defeased Bonds	$ 357,890	$ 27,625	$ 40,982	$ 344,533

Advance Refundings

On March 24, 1999, the Kansas Development Finance Authority (KDFA) issued its Refunding Revenue Bonds, Series 1999A-1 (Kansas Department of Corrections - El Dorado and Larned Projects) dated March 1, 1999, in the aggregate principal amount of $17.5 million, with a weighted average interest rate of 4.7%. Series 1999A-1 Bond proceeds in the amount of $17.3 million which included a redemption premium of $.3 million, were deposited in the State Treasury under the terms of an irrevocable escrow agreement between KDFA and the Kansas State Treasurer, as escrow agent. The escrow agent purchased non-callable U.S. Treasury Securities in amounts which, together with interest earnings, are sufficient to pay the principal of, interest on, and redemption premium of certain KDFA Series L, 1992 Refunding Revenue Bonds eligible to be called for early, optional redemption on February 1, 2000. The Series L, 1992 Bonds to be redeemed have an aggregate principal amount of $16.7 million, with semi-annual maturities scheduled on August 1 and February 1, beginning August 1, 2003, and ending February 1, 2012. This advance refunding reduced total debt service payments by $1.2 million and resulted in an economic gain of approximately $.9 million. The refunded Series L, 1992 Bonds are defeased and have been removed from the financial statements.

II. Detailed Notes on Financial Statements

D. Post-Employment Health Care Benefits

In addition to pension benefits, the State provides post-employment health care benefits to eligible retired employees. The benefits are provided in accordance with the rules and regulations of the Kansas State Employees Health Care Commission. The Commission is responsible for the determination of the allocation of premium costs between the participants and the State. These allocations are subject to change each contract year. The State provides a subsidy for certain health care providers. The State funds the benefits on a pay-as-you-go basis. Approximately, 9,600 retirees currently participate in the program. During the fiscal year the State's portion of the allocated cost was $1.8 million for post-employment benefits.

III. Other Information

A. Insurance Company Security Deposits

The State requires specified amounts of deposits in the form of cash securities or other property from insurance companies doing business within Kansas. At fiscal year-end, the total aggregate value of deposits held by Kansas banks under joint custody agreements totaled $237.5 million. These insurance deposits are not included in the combined financial statements.

B. Commitments and Contingencies

The State receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable Federal regulations. Grants are subject to the Federal Single Audit Act or to financial and compliance audits by grantor agencies. Disallowances by Federal officials as a result of these audits may become liabilities of the State. The State is not able to estimate and has not recorded any liability for disallowed costs in the Combined Financial Statements for not complying with the terms of Federal grants.

Generally, the State does not insure buildings and contents valued under $.5 million and does not insure State-owned automobiles for bodily injury and property damages of State employees, but the State does have fidelity insurance on State employees (except Board of Regents). State buildings valued over $.5 million are insured against catastrophic loss with a $2.0 million deductible per occurrence and a maximum annual liability of $100.0 million per occurrence.

Unemployment Contributions

The State is a reimbursing employer of unemployment contributions to the Employment Security Fund. The State's contribution rate for fiscal year 1999 was 0.3 percent which resulted in a total contribution of $3.8 million to the Employment Security Fund. This amount includes the State's payment for the quarter ended June 30, 1999, in the amount of $1.0 million which was remitted after the close of the fiscal year.

Health Care Stabilization Fund (HCSF)

The HCSF provides professional liability coverage for claims in excess of $200,000/$600,000 for active health care providers and primary coverage for inactive health care providers. The individual health care provider selects a liability limit from the Fund of $100,000/$300,000; $300,000/$900,000 or $800,000/$2,400,000.

The HCSF Board of Governors levies an annual premium surcharge on active health care providers. The premium surcharge is based on a rating classification system established by the HCSF Board of Governors. On June 30, 1999 the HCSF balance was $200.8 million. Based upon the most recent actuarial evaluation, the June 30, 1999 estimated present value of the total Fund liabilities was approximately $145.1 million (unaudited) with an indicated unassigned reserve of $50.6 million (unaudited). This liability is not included in the accompanying financial statements.

The HCSF also:

1. supports the Health Care Provider Insurance Availability Plan which provides basic professional liability insurance for those health care providers who can not obtain coverage from the voluntary insurance markets; and
2. provides a special basic coverage arrangement for University of Kansas Medical Center (KUMC). Because KUMC residency training programs, foundations and full-time faculty members are statutorily self-insured for the required basic coverage limits, the HCSF does receive reimbursements for basic losses and expenses paid on behalf of KUMC.

Workers' Compensation Fund

The Workers' Compensation Fund, included in the Fiduciary Fund Type, relieves an employer wholly or partially of a workers' compensation liability resulting from compensable work related accidents. The fund is liable for certain second injury claims incurred prior to July 1, 1994, and other claims specifically included in the law. The fund is financed by an annual assessment to insurance companies, self-insurers and group-funded pools.

State statutes require the fund to be accounted for on a cash basis. Based upon average amounts paid in recent years, the estimated liability of the fund, including incurred but not paid claims, was $241.6 million (unaudited) at fiscal year-end. This liability is not included in the financial statements.

C. Retirement Plans

Kansas Public Employees Retirement System - Plan Descriptions

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

The System publishes its own financial report which is available upon request from KPERS.

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

The System's total covered salaries and wages paid were approximately $4,480.7 million. The State's total salaries and wages paid were approximately $1,405.3 million of which approximately $813.0 million or approximately 60.0 percent relates to employees participating in the System. The remaining approximately 40.0 percent represents salaries and wages paid to employees, such as educational institution employees not participating in the System, employees who have not

III. Other Information

met the required tenure of employment for participation or those employees who are classified as other than "permanent" and are not eligible for participation. Information on participating employees and retirement system membership follows:

Participating Employers	*June 30, 1999*
KPERS	1,350
KP&F	56
Judges	1
Total	**1,407**

MEMBERSHIP BY RETIREMENT SYSTEM
(As of June 30, 1999)

	KPERS	KP&F	Judges	Total
Retired	48,646	2,856	141	51,643
Active/Inactive	162,890	6,839	256	169,985
Total	**211,536**	**9,695**	**397**	**221,628**

Kansas Public Employees Retirement System - Plan Benefits

Members (except KP&F members) with 10 or more years of credited service may retire as early as age 55 (KP&F members may be age 50 with 20 years of credited service) with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with 10 years of service credit, or when the members combined age and years of credited service equal 85. KP&F members may elect for normal retirement at age 50 with 25 years of service, at age 55 with 20 years of service or at age 60 with 15 years of service. Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. Upon termination of employment, members may elect to withdraw the accumulated employees' contributions from their individual account, including the interest credited to the member's account. A member who withdraws their accumulated contributions forfeits all rights and privileges accrued during membership. Members choose one of seven options to receive monthly retirement benefits. Benefit increases, including ad hoc post-retirement benefit increases, must be approved and passed into law by the Kansas legislature. Benefit increases are under the authority of the legislature and the governor of the State of Kansas.

All active members (except KP&F members) are covered by the group life insurance contract. The life insurance benefit is 150.0 percent of the annual rate of compensation at the time of death. Generally, for KPERS in cases of death as the result of an on-the-job accident, there is a $50,000 lump sum benefit and a monthly benefit payable to a surviving spouse, minor children, or dependent parents (in this order of preference). Statutory service-connected accidental death benefits are in addition to any life insurance benefit payable to the designated beneficiary(ies). There is a $4,000 death benefit payable to the designated beneficiary(ies) upon the death of a retirant under any system.

III. Other Information

Active members (except KP&F and Judges members) are also covered by the provisions of the disability income benefit contract. Annual disability income benefits are based upon two-thirds of the annual rate of compensation at the time of disability, less primary social security benefits, one-half of workers' compensation, and any other employment-related disability benefit, with a minimum monthly benefit of $100. There is a waiting period of 180 continuous days from the date of disability before benefits can be paid. During the period of approved disability, the member continues to have group life insurance coverage and to accrue participating service credit.

Kansas Public Employees Retirement System - Funding Status and Progress

The law governing the Retirement System requires the actuary to make an annual valuation of the System's liabilities and reserves, and a determination of the contributions required to discharge the System's liabilities. The actuary then recommends to the System's Board of Trustees the employer contribution rates required to maintain the three systems on the actuarial reserve basis.

Every three years the actuary makes a general investigation of the actuarial experience under the System including mortality, retirement, and employment turnover. The actuary recommends actuarial tables for use in valuations and in calculating actuarial equivalent values based on such investigation. An actuarial experience study was conducted for the three years ending December 31, 1997, effective June 30, 1998. As a result of this study, the Board of Trustees adopted new assumptions in regard to retirement rates, mortality and withdrawal rates. In fiscal year 1993, the Kansas legislature passed into law legislation that amended the statutory funding method applicable to the System. For KPERS, the funding method was changed from the frozen initial liability method to the projected unit credit actuarial cost method, and provided that this method be used to determine KPERS employer contribution rates commencing with the 1993 actuarial valuation (except for TIAA members). Under the new method, the unfunded actuarial accrued liability is recalculated each year (rather than being essentially fixed in dollar amount as under the previous method). Actuarial gains and losses resulting from differences between actual and assumed experience are reflected in KPERS' accrued actuarial liabilities, and affect the amount of annual amortization payments required to amortize the unfunded accrued liability over the statutory 40-year period from July 1, 1993. The funding methods used by the System's actuary for the KP&F and the Judges remained consistent and were the aggregate cost method with supplemental liability and the frozen initial liability method, respectively. The actuary has estimated the change in the unfunded actuarial liability between June 30, 1998, and June 30, 1999, can be attributed to the following (in millions):

Unfunded Actuarial Liability, June 30, 1998	$ 1,591
Investment gain	(369)
Liability loss from actual experience	46
Effect of contribution cap/time lag	78
Expected increase due to amortization method	30
Refinement in data/procedures	21
Unfunded Actuarial Liability, June 30, 1999	$ 1,397

Kansas Public Employees Retirement System - Contributions

Member contributions (from four percent to seven percent of gross compensation), employer contributions and net investment income fund the reserves of the System. Member contribution rates for covered payroll are established by

III. Other Information

State law and are paid by the employer in accordance with provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of annual actuarial valuations, as the System is funded on an actuarial reserve basis. Contribution rates for KP&F, TIAA and Judges are set at the actuarial rate; however, State of Kansas legislation has placed statutory limitations on annual increases in the contribution rates for KPERS employers which were 0.2 percent over the prior year for state and school employees and 0.1 percent for local employees. Beginning in calendar year 1997, the statutory increase for local units of government is limited to no more than 0.15 percent over the prior year. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. Employer contributions for group life and long-term disability are set by statute at 0.6 percent for KPERS and 0.4 percent for Judges.

Kansas Public Employees Retirement System - Contributions Required and Contributions Made

The actuarially determined contribution rates are computed as a level percentage of salary by the System's actuary. The results of the 1996 and 1997 actuarial valuations provide the basis for Board certification of employer contribution rates for fiscal years beginning in 1998 and 1999, respectively. The actuarially determined employer contribution rates derived from the actuarial valuations for fiscal years beginning in calendar years 1998 and 1999 are as follows:

KPERS Membership Groups	**Calendar Year 1998**	**Calendar Year 1999**
State/School Employees	5.33%	5.27%
Local Employees	3.86	3.86
Certain Correctional Employees	5.92/6.41	5.82/5.28
TIAA Employees	1.93	1.82

As shown in the above table, the actuarially determined local employer rate was 3.86 percent for calendar years 1998 and 1999. However, the local rates fixed by legislation (as described in the contributions note above) were 2.78 percent and 2.93 percent, respectively. The statutory cap impacted the State/School contribution rates for the fiscal years ended June 30, 1998 and June 30, 1999, where the total contribution rates are capped at 3.79 percent and 3.99 percent versus the respective actuarially determined rates of 5.33 percent and 5.27 percent.

The uniform participating service rate for all employers participating in KP&F was 9.45 percent for fiscal years beginning in 1998 and 7.36 percent for fiscal years beginning in 1999. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer.

The total actuarially determined employer contribution rate for Judges was 15.67 percent of payroll for the fiscal years beginning in 1998 and 1999.

The State made a one-time lump-sum contribution of $20,000,000 in fiscal year 1999 for a partial payment of the actuarial liability associated with 1998 legislation providing a one-time three percent post retirement increase.

The law specifies employee contributions as: Each participating employer, beginning with the first payroll for services performed after the entry date, shall deduct from the compensation of each member 4.0 percent for KPERS members, 7.0 percent for KP&F members and 6.0 percent for Judges members of such member's compensation as employee contributions.

III. Other Information

All contributions required by law to be made have been made as follows:

(Expressed in Thousands)

	Employer and Insurance Contributions	Member Contributions [1]	Contributions As a Percent of Covered Payroll
KPERS - State/School, TIAA	$ 143,282	$ 125,001	8.1 %
KPERS - Local	25,642	37,578	7.1
KP&F	28,865	16,534	18.3
Judges	3,864	1,016	25.9
Total	**$ 201,653**	**$ 180,129**	**8.9 %**

An estimated $299.0 million of employer and member contributions was made to cover normal cost, and an estimated $55.0 million was made for the amortization of the unfunded actuarial accrued liability.

[1]Member Contributions do not include Optional Life Insurance contributions of approximately $5.1 million.

Three-year historical data is presented below to provide information about the progress the System is making in accumulating sufficient assets to pay benefits and employer contributions expressed as a percentage of covered wages:

(Expressed in Thousands)

Actuarial Valuation Date(a)	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll	Employer Contributions As a Percentage of Covered Wages
1997	6,875,918	8,251,986	83%	1,376,068	4,108,320	33	3.8
1998	7,749,203	9,340,685	83%	1,591,482	4,273,627	37	3.9
1999	8,601,876	9,999,246	86%	1,397,370	4,480,717	31	4.5

a) The System's date for actuarial valuations was June 30.

Other Retirement Plans

Faculty and other eligible unclassified employees of the Board of Regents (Regents) or educational institutions under its control must participate in the Regents retirement plan. Authorized by statute, this defined contribution plan is funded through contributions by the employees and the Regents for the purchase of retirement annuities. Employees must participate in the plan after one year of service or at date of employment if they contributed to a similar plan for at least one year. The contributions are fully vested with the first contribution.

Employees participating in the Regents mandatory retirement plan are required to contribute 5.5 percent of their salary toward the purchase of their retirement annuity. During fiscal year 1999, employees contributed approximately $21.7 million. During fiscal year 1999, the 8.5 percent employer contribution totaled $33.5 million, representing covered wages of approximately $393.8 million. These employees may also elect to participate, up to the maximum dollar amount

III. Other Information

permitted by the Internal Revenue Code, in the voluntary tax-sheltered annuity program, which allows the member to purchase a tax-sheltered annuity contract as a supplement to the basic retirement program. Certain employees are covered by a retirement annuity plan which is closed to new members.

On July 1, 1971, the control of the School for the Blind and the School for the Deaf was transferred from the Regents to the State Board of Education. Employees covered by the Regents retirement at the time of the transfer could continue to purchase a retirement annuity or convert to KPERS. Employees who elected the annuity plan contribute 5.0 percent of their salary toward an annuity purchase. This is matched by a 5.0 percent employer contribution. During fiscal year 1999, $14,000 was contributed by employers for employees annuities representing covered wages of approximately $286,000.

D. Litigation

The State is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Such litigation includes, but is not limited to, claims asserted against the State arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of State and Federal laws. Known claims, asserted and unasserted, have been evaluated for the likelihood of an unfavorable outcome and the ability to estimate the amount or range of potential loss in the event of an unfavorable outcome. After review, it is the State’s opinion that its ultimate liability in these cases, if any, is not expected to have a material adverse effect on the State’s financial position.

E. Subsequent Events

Subsequent to June 30, 1999, Kansas Development Finance Authority (KDFA) issued $5.7 million in KDFA Revenue Bonds, Series 1999F, with an average interest rate of 4.72 percent. The Series 1999F Revenue Bonds were issued for the Kansas State University Housing System, Manhattan Campus Refunding Project and mature April 2000 through April 2005.

Subsequent to June 30, 1999, the State of Kansas Department of Transportation issued $325.0 million in Highway Revenue Bonds, Series 1999 with interest rates ranging from 4.40 percent to 5.75 percent. These bonds are being issued for the purpose of paying portions of the costs of construction, maintenance, or improvement of highways as part of the State’s Comprehensive Transportation Program and mature in years 2005 through 2019.

The Kansas State Employees Health Care Commission voted on September 10, 1999 to allow school districts, community colleges, and vocational technical schools to reside in the State employee insurance pool until there are enough participants to assure the group is large enough and stable enough to be viable as a separate pool. The Commission decided that an intermediate step in establishing a separate pool is necessary. When 1,250 self-insured medical contracts are reached, the Commission will then decide if the educational entities will be placed in a separate pool the following year or remain in the State employee plan pool. The decision will be based on an analysis of the cost impact of educational entities. The Commission’s consultants project that a group this size is large enough to be stable while at the same time, unlikely to have any significant impact on State employee rates during the plan year. Per directive of the Kansas legislature, “no action by the Commission to include educational organizations should affect state employee health plan rates or quality.”

SUPPLEMENTARY

INFORMATION

Year 2000 Compliance Issues

Year 2000 Compliance Issues

The State of Kansas created the Year 2000 Awareness and Information Center in 1997 to inform and assist State agencies in preparing for the year 2000. Their responsibilities include monitoring the use of the Division of Information Systems and Communications (DISC) consulting service contract; helping State agencies prepare Year 2000 consulting services task orders; developing charts and schedules depicting repair activities and significant repairs milestones; meeting with small agencies and boards to help them assess and plan their repair needs; contracting legal support services for Year 2000 consulting work; working with the Information Technology Advisory Board (ITAB) to make sure all platforms are targeted for Year 2000 repair; developing, implementing and maintaining a Year 2000 home page; creating presentations, seminars, and reports on Year 2000 projects and plans; and preparing a monthly newsletter on Year 2000 topics and tips. Finally, the State program includes process reviews and audits and agency Year 2000 health checks.

The central accounting system (STARS) is Year 2000 ready and in production. In October, 1999, the Central System will run for three weeks in a virtual time machine. All 23 interface agencies are encouraged to run their systems in the time machine environment with STARS. This test provides assurance that all accounting transactions will process without code problems. The State central agencies payroll system has been tested in a time machine environment. The University of Kansas Lawrence Campus and Medical Center Human Resources/Payroll system is scheduled for Year 2000 completion in August, 1999.

The State's Year 2000 repairs have been categorized into 3 mission critical levels:

1. Critical 1 - Computer systems tailored to perform unique processes. Failure of a mission critical 1 asset will have serious consequences for the State and there is no viable "work around."

2. Critical 2 - If failure occurs there will be a serious inability to perform normal government operations but a "work around" is achievable for a limited period of time.

3. Critical 3 - Mission critical 3 are assets that will have limited impact on operations and a viable "work around" is achievable for a sustained period of time.

As of August 1999, 96.0 percent of the State's 160 Mission Critical 1 custom applications are repaired, and 92.0 percent of the 192 Mission Critical 2 custom applications are repaired. Also, 92.0 percent of 226 Mission Critical 3 custom applications are repaired. With respect to infrastructure assets, 100 percent of the Mission Critical 1 hardware is ready. The State of Kansas Year 2000 Awareness Center home page is at: y2K.state.ks.us. The overall State status for all assets by agency, application, priority level and Year 2000 compliance grade assessed, updated as of October 18, 1999, can be found on the above homepage.

The State has completed its assessment and planning activities. It has completed approximately 95.0 percent of its infrastructure repair work and 93.0 percent of its custom application work. With respect to final testing, the State has cleared 90.4 percent of its custom applications and over 97.0 percent of its infrastructure. These statistics are provided

Year 2000 Compliance Issues

by agencies in their monthly update to our intranet site. The completion or near completion of these stages is not a guarantee that systems and equipment will be Year 2000 compliant.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the State of Kansas is or will be Year 2000 ready, that the State's remediation efforts will be successful in whole or in part, or that parties with whom the State does business will be Year 2000 ready.

The repair work has taken approximately 169,000 person hours. At the present time, $11.2 million in budgeted funds have been expended on the effort. This does not include agency time already covered in their base budgets. Statewide, the State has budgeted additional funding of $20.0 million for Year 2000 repair.