

INTRODUCTION



DEPARTMENT OF ADMINISTRATION

Division of Accounts and Reports

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The Honorable Bill Graves, Governor of the State of Kansas,
Members of the Legislature and
Citizens of the State of Kansas:

It is my pleasure to submit to you the forty-sixth Annual Financial Report of the State of Kansas for the fiscal year ended June 30, 1999, as provided by Kansas Statutes Annotated (K.S.A.) 75-3735. This report is prepared by the Department of Administration, Division of Accounts and Reports. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the State government and this office. The enclosed information is accurate in all material respects and is reported to present fairly the financial position and operations of the various funds and the general long-term obligations account group of the State of Kansas on a modified cash basis of accounting. All necessary disclosures to enable the reader to understand the State's financial activities have been included.

This report is presented in three sections. The Introductory Section includes this transmittal letter, the organizational chart and a listing of selected officials. The Financial Section includes the independent auditors' report, the combined financial statements and notes. The Statistical Section includes unaudited tables and financial trend information.

The State's combined financial statements include the funds and accounts of all organizational units of the State except student union, athletic, cafeteria, foundation and endowment funds, district court funds and the Kansas Turnpike Authority, which are outside the State Treasury. Note I.A. to the financial statements explains more fully which financial activity is excluded and the criteria used to define the State reporting entity.

ECONOMIC CONDITIONS

Although economic expansion fell somewhat short of original predictions, according to *Kansas Business Review Abstracts* the Kansas economy continued a five year trend of strong performance during fiscal year 1999. The Kansas Department of Human Resources reported strong employment growth as both goods and service producing industries expanded. For May 1999 Kansas was one of only eight states to register an unemployment rate below 3 percent. Total nonfarm wage and salary employment increased by 38,200 an increase of 3 percent. Trade and services continued to experience large employment gains. The total unemployment rate for fiscal year 1999 averaged 3.6 percent. Labor markets remained very tight with wage pressures present but largely unchanged from the previous four quarters.

Based on figures provided in July of 1999 by the Kansas Department of Commerce and Housing, living in Kansas is fairly inexpensive compared to the national average. The State enjoys one of the lowest cost of living indexes in the United States. Kansas ranks 35th in the nation, and has a cost of living index of 93, compared to a national average of 100. Kansans pay considerably lower housing, utilities, and health care costs than the national average. Retail prices continued to edge up in fiscal year 1999, as did prices for construction materials. Nominal personal income grew at an

average rate of 5.1 percent during 1998 and early 1999, and is expected to grow at about the same rate throughout the remainder of the year. Kansas per capita income has shown steady growth throughout the 1990s. The most current figures available indicate per capita income of \$24,981 in 1998. This reflects a 4.2 percent increase from 1997. In August 1999, the Federal Reserve Board reported that retail sales throughout the district were comfortably higher than a year ago. However, farmers faced cash flow concerns as grain prices continued to fall.

During fiscal year 2000 increases in employment will likely occur in each industry with the exception of mining, where employment should remain stable. Total nonfarm wage and salary jobs should increase by 2.8 percent. The largest increase is again projected for the trade and services industries. The Kansas total unemployment rate should average 3.6 percent. Nominal personal income growth is expected to remain steady, while real personal income growth will decline somewhat because of slightly higher inflation. Although the slower pace of national economic expansion will tend to dampen the growth rate of the Kansas economy somewhat, indicators such as the unemployment rate and real personal income growth will still look better than average. Even job growth, threatened by the labor shortages in the Mid-American states, is expected to be only slightly below average. Overall, the Kansas economy is expected to remain strong going into the new millennium.

SERVICE EFFORTS AND ACCOMPLISHMENTS

Kansas Savings Incentive Program

The Kansas Savings Incentive Program (KSIP) was established by the 1998 session of the Legislature for all State agencies. This program allows agencies to use up to 50.0 percent of prior year operating expense savings as current year money for the purposes of purchasing technology equipment, providing professional development training for employees and employee bonuses. KSIP was reauthorized by the 1999 Legislature providing for both the reappropriation of the prior fiscal year unexpended balances of KSIP accounts and the appropriation of 50.0 percent of the fiscal year 1999 savings. Fiscal year 2000 KSIP reappropriations totaled \$8.3 million and new appropriations totaled \$5.6 million for expenditure in fiscal year 2000.

Agency Service Efforts and Accomplishments

Agencies have established criteria for measuring their service efforts and what they have accomplished. The Department of Revenue, Department of Education, Board of Regents, Department of Wildlife and Parks, Kansas Water Office and Governmental Ethics Commission were selected to demonstrate some of the accomplishments of the State government in fiscal year 1999. These agencies have provided information concerning some of their programs.

Department of Revenue

- ***Federation of Tax Administrators Award***

In the spring of 1999, the Department of Revenue received a significant award from the Federation of Tax Administrators (FTA), the official association of tax officials in the United States. Kansas and Washington were the only states to receive the Award for Technology Applications for Tax Administration.

According to the FTA, "The Kansas Department of Revenue is honored for implementing an integrated automated tax revenue and accounting system that improves customer service while fostering a team environment for employees. Customer surveys, evaluation of other successful government and private industry models, and input from employees provided a foundation for redesigning business processes through technology."

"System innovations include integrating incoming 'channels' for taxpayer interactions, such as electronic funds transfer, Telefile, PC file, and imaging, as well as segmentation of taxpayer accounts and industry segments to provide a single point of contact for customer service. Among the tangible results are a 50.0 percent increase

in the collection revenues and the implementation of a risk-based approach to collections that lowers costs; a large drop in the number of audit appeals as well as a 75.0 percent decrease in the wait for audit appeals; quickened remittance processing; and improved voluntary compliance.”

- ***More Returns, More Refunds***

During tax year 1998 (calendar year 1999), the Department of Revenue processed about 250,000 more individual income tax returns and 120,000 more refunds than the previous tax year. The increase in the number of returns and refunds can be attributed to a number of factors including legislative changes that allowed for certain tax breaks or credits and a strong state economy. Record low unemployment and competition from the service sector made it difficult to hire additional staff to process returns.

- ***Food Sales Tax Refunds***

The 1998 Kansas Legislature decided to make the food sales tax refund more visible by putting it on the K-40, Individual Income Tax Form, removing it from the Homestead refund form. This change was put in effect for the 1998 tax year. As a result, the Department of Revenue refunded just over \$22.0 million in food sales tax as of June 30, 1999. Fiscal Year 1998's (FY98's) total food sales tax refunds was just \$1.9 million. The 1998 Kansas Legislature also authorized the use of Kansas Adjusted Gross Income (KAGI) rather than household income and increased the income limitation to \$25,000 and the maximum refund to \$60 per exemption for KAGI of \$12,500 and less and \$30 per exemption for a KAGI of more than \$12,500 but less than \$25,000.

- ***Senate Bill 493 (SB 493)***

During FY98, the 1998 Kansas Legislature approved SB 493, the most comprehensive tax cut bills ever passed. SB 493 amounted to approximately \$246.6 million in tax cuts for individuals and business owners.

Some of the provisions of SB 493 included the following for individuals:

- Reduction of the individual income tax rates for all filers other than those who are married and filing jointly, as follows:

\$0 - \$15,000	3.5% of taxable income
\$15,000 - \$30,000	\$525 plus 6.25% of excess over \$15,000
\$30,000 - Over	\$1,452.50 plus 6.45% over excess over \$30,000

- Increase of the Kansas standard deduction for tax year 1998 for married filing joint taxpayers to \$6,000, for individual taxpayers to \$3,000 and for head of household to \$4,500. The additional standard deduction for blind and elderly taxpayers is increased to \$850 for individual taxpayers and \$700 for married filing joint taxpayers; increase of the Kansas personal exemption to \$2,250 beginning in tax year 1998.
- Provision for a refundable Kansas earned income tax credit which is based on the federal earned income credit in Section 32 of the Internal Revenue Code. Beginning in tax year 1998, the Kansas earned income credit became 10.0 percent of the allowable federal credit.

Some of the provisions of SB 493 included the following for businesses:

- Authorization of a refundable tax credit for the property tax paid on certain classes of equipment. The credit is 15.0 percent of the property tax levied for property tax year 1998 and all years thereafter, actually and timely paid during the income tax year on commercial and industrial machinery as defined under Section 1 of article 11 for subclass (5) or (6) of class 2; and machinery and equipment as defined under the

same Section for subclass (2) of class 2. The credit applies to income tax, insurance premiums tax and privilege tax for taxable years commencing after December 31, 1997. Any credit claimed by a sub chapter S corporation, partnership, or LLC shall be passed to the shareholders, partners or members in the same proportionate share as any income or loss is proportioned.

- Clarification of the exemption from property taxes for business machinery, equipment, materials and supplies used or to be used in the conduct of the owner's business.

- ***Senate Bill 45 (SB 45)***

During the 1999 legislative session, SB 45 was passed, giving Kansans nearly \$10.5 million in tax relief. The most significant relief came in the form of tax breaks for oil producers and religious organizations.

The legislation concerning oil producers allows an income tax credit to working interest owners equal to 75.0 percent of the 1998 personal property tax paid on the working interest of an oil lease, from which the average daily production per well is 15 barrels or fewer. The property tax must have been levied for property tax year 1998 and timely paid during the income tax year in which the credit is taken. The amount of credit which exceeds the tax liability will be refunded. The credit is effective for the tax year beginning after December 31, 1997.

Concerning tax breaks for religious organizations, the 1998 Kansas Legislature exempted sales of property and services to religious organizations, when such purchases are used exclusively for religious purposes. This year, lawmakers expanded this exemption to include sales of tangible property and services to contractors who use such purchases to construct buildings or make other improvements to real property owned by a religious organization and used exclusively for religious purposes. This does not exempt the purchase of any construction machinery, equipment or tools. In addition to enacting this exemption, the 1999 Legislature directed the Department of Revenue to implement refund procedures to refund the sales tax religious organizations paid indirectly through their contractors on or after July 1, 1998.

Department of Education

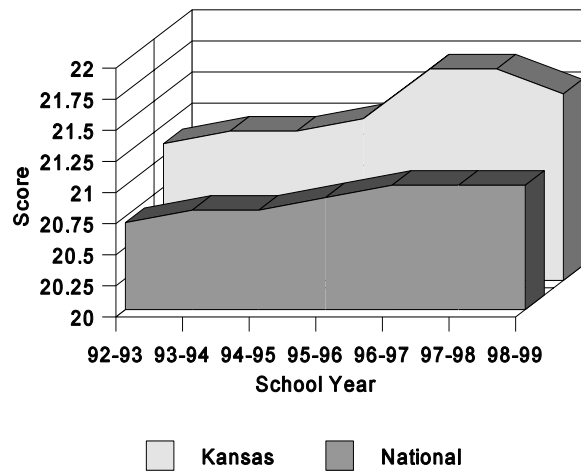
- ***Unified School Districts***

ACT National College Entrance Test Scores

Kansas high school students continue to score above the national averages on the ACT national college entrance exam. In 1999, the composite score for Kansas students taking the test was 21.5 which tops the national average of 21.0. Kansas' results were even more impressive when compared to other states. This year 75.0 percent of Kansas seniors took the test and no other state with the same or higher percentage of students taking the test scored higher. In addition, 4 Kansas students earned a top composite score of 36 on the ACT. Nationally, only 98 of the 1,050,000 students taking the test earned this distinction.

ACT Scores

Composite ACT Scores



Kansas ACT Scores

Year	Number Tested	English	Mathematics	Reading	Science	Composite
1998-99	23,210	21.0	21.0	21.9	21.4	21.5
1997-98	22,305	21.1	21.4	22.1	21.7	21.7
1996-97	21,162	21.1	21.1	22.2	21.8	21.7
1995-96	19,728	20.9	20.3	22.0	21.6	21.3
1994-95	20,274	20.7	20.3	21.9	21.5	21.2
1993-94	18,823	20.7	20.2	21.8	21.4	21.2
1992-93	17,909	20.7	20.3	21.7	21.3	21.1

National ACT Scores

Year	Number Tested	English	Mathematics	Reading	Science	Composite
1998-99	1,019,053	20.5	20.7	21.4	21.0	21.0
1997-98	993,039	20.4	20.8	21.4	21.1	21.0
1996-97	959,301	20.3	20.6	21.3	21.1	21.0
1995-96	924,663	20.3	20.2	21.3	21.1	20.9
1994-95	945,369	20.2	20.2	21.3	21.0	20.8
1993-94	891,714	20.3	20.2	21.2	20.9	20.8
1992-93	875,603	20.3	20.1	21.2	20.8	20.7

SAT National College Entrance Test Scores

Kansas continues to chalk-up impressive academic achievements as evidenced by student scores on the SAT college entrance test. Again in 1999, Kansas topped national averages on the test which measures verbal and mathematical reasoning. This year, Kansas attained an average score of 578.0 on the verbal portion of the test, as compared to the national average of 505.0. Kansas scored 576.0 on math - well above the national average of 511.0. Three Kansas students received the highest possible score of 800 on both the verbal and mathematics portions of the test. Nationally, 730 out of the 1,220,000 high school graduates taking the test scored 800 on both segments of the test.

Kansas Assessments

K.S.A. 72-6439 charges the Kansas State Board of Education with providing for testing at three grade levels in the core academic areas of mathematics, reading, science, social studies and writing. Reading and mathematics are tested each year, while the writing test is alternated each year with science and social studies. An alternate assessment for students with exceptionalities is scheduled to begin in FY 2000 for students who are unable to participate in the regular assessment program. The 1998-99 test results show that Kansas's schools are good and continuing to improve. Kansas students raised scores in math and in writing at all grades tested. In reading, scores were up in grade 7 and decreased slightly in grades 3 and 10.

National Recognition of Educational Excellence

The following schools were named National Blue Ribbon Schools for the 1998-99 Elementary School Recognition Program.

Black Bob Elementary School, Olathe, USD 233
Harmony Elementary School, Overland Park, USD 229
Horace Mann Elementary School, Wichita, USD 259
Obee Elementary School, Buhler, USD 313
Quail Run Elementary School, Lawrence, USD 497
Valley Park Elementary School, Overland Park, USD 229

The Blue Ribbon Schools Program identifies and publicly recognizes outstanding public and private schools that are unusually effective in meeting local, state, and national goals and in educating all of their students. Established in 1982, the program recognizes elementary and secondary schools in alternate years. The U.S. Department of Education sponsors this program.

- ***Community Colleges***

Kansas community colleges affect the quality of life of Kansas and the economic development of the state. During the 1998-99 school year, 122,858 individual students enrolled in credit courses in Kansas' community colleges. Approximately 88,700 persons enrolled in non-credit business training and retraining education courses. In respect to job preparation, 6,309 students completed programs of study leading to licensure, certification or associate in applied science degrees.

The community colleges also help persons improve their lives through adult education programs. There were 5,993 persons who completed the GED diploma and almost 5,000 persons enrolled in courses for English to Speakers of Other Languages, a growing component of the workforce in Kansas. The colleges impact the economy of the state in respect to payroll for full- and part-time employees. The total payroll for the colleges was \$159,427,391 in 1998-99. In addition to payroll, the colleges provide over \$25.0 million in state, local and federal financial aid.

- ***Area Vocational-Technical Schools***
One of the clearest ways to measure if area vocational-technical schools and technical colleges are meeting the needs of business and industry is to look at the placement rate of program completers. Currently, students completing vocational programs are able to secure employment or continue education at better than an 89.0 percent rate. In addition, when evaluating the job skills of employees receiving vocational education training in our State, 97.0 percent of the employers responding recorded a rating of good or very good.

Board of Regents

- ***Background***

VISION 2020 is the Board's major initiative to transform the Regents universities for the challenges that are likely to confront higher education in the 21st century, including: (1) continuing resource constraints, (2) changes in the volume and mix of the pool of students, (3) expectations for change in the curriculum and instructional formats, and (4) increasing expectations for public accountability. The key areas identified for change include (1) curriculum and instruction, (2) faculty time and talent, (3) faculty support, development and rewards, and (4) operations and support processes. VISION 2020 was adopted by the Board in December 1995 as a framework for change. At the 1997 retreat of the Board and Council of Presidents, the Board reiterated its commitment to VISION 2020 as its major planning initiative.

- ***Observations***

The transformation of the Regents universities under VISION 2020 is assessed via two sets of performance indicators: seven Core Performance Indicators that are common to all institutions, and institution specific indicators which reflect the unique characteristics of each university. It is important to note, that while the core indicators are based on a common database and methodology, they are not designed for comparisons across the institutions. Instead, these reflect a shared set of core values.

Given the breadth of the VISION 2020 initiative, only a summary of system-wide trends is provided here. Interested readers are directed to the campus reports for further detail.

- ***Core Performance Indicators***

The six universities report data on seven common performance indicators:

- I. Undergraduate Student Retention and Graduation Rates
- II. Undergraduate Student Credit Hours Taught by Ranked Faculty
- III. General Use Expenditures by Category (esp. percentage for institutional support)
- IV. Placement of Undergraduates Six Months after Graduation
- V. Student Satisfaction with the Undergraduate Experience
- VI. Utilization of Instructional Building Space
- VII. Graduate and Research Programs

The 1998 reports are the first to include data targeting indicators IV and V which are derived from the Student Perception Survey and the Enrollment and Employment Survey, two instruments that were designed and implemented jointly by the various campuses. As a result, it is not yet possible to assess progress in those two areas. The initial data, however, are quite positive, with combined employment and graduate school admissions rates ranging from 83.0 to 100.0 percent across campuses. Similarly, students at all six universities report high levels of satisfaction with all aspects of their educational experience.

For the remaining five indicators, all six institutions report steady progress toward their goals; with several instances of institutional goals already being met. In particular, the universities, as a group, have made

significant process on I. Undergraduate Student Retention and Graduation Rates and III. General Use Expenditures by Category, where three institutions have already met or exceeded their stated goals for these categories.

A summary of progress on the seven Core Performance Indicators is provided in the accompanying tables.

- ***Institution Specific Indicators***

Many of the institution specific initiatives proposed by the campuses are ambitious ones and call for fundamental changes in academic and administrative systems. These initiatives include implementation of new advising systems, programs for writing intensive curricula and enhancing of basic student proficiencies. As such, the assessment timeline is necessarily several years in duration, without allowing for the inevitable refinements and modifications that these types of programs require before they reach maximum effectiveness. As a result, readers are encouraged to closely attend to the details of the program changes reported by the institutions and not rely entirely on the performance outcomes for assessing institutional progress on these indicators.

By their very nature, the institution specific indicators resist organization across universities. Nonetheless, several themes emerge across institutions:

1. *Undergraduate Experiences* Many students face a difficult transition to college life and all of the institutions are working to ease this transition. For example: The University of Kansas has established The Freshman/Sophomore Advising Center and integrated its activities with the Summer Orientation Program; Kansas State University is requiring new, under-prepared students to participate in the Academic Success Program to enhance basic skills; Pittsburgh State is developing a required Freshmen Experience.

Improved advising is a goal on most campuses with new advising centers (University of Kansas) and faculty training programs (Kansas State University) among the specific program enhancements currently underway. Emporia State University has even implemented a dual advising program for students in 2+2 curricula at community colleges. Several campuses are also reviewing and revising their General Education programs, the core of the undergraduate curriculum; and Wichita State University has targeted improving and rewarding effective classroom instruction across the curriculum as part of its VISION 2020 efforts. Reflecting the dual focus of basic skills and curricular enhancements that VISION 2020 has promoted, Fort Hays State University will be establishing an Honors Program in the fall of 1999.

Across the system, significant process is being made in transforming the undergraduate experience.

2. *Technology* All six institutions have targeted technology as part of their institution specific planning. The particular projects vary widely, with most emphasizing information technology and increased computerization of business processes. Measures range from number of computer circuits on campus, to number of mediated-supported courses, to rates of student computer literacy. Significant progress is indicated in the infusion of technology into the institutions.

3. *Diversity* Nearly every campus has identified the need to increase diversity in both the student body and the faculty. These goals reflect the need to create the richest possible environment for exchanging ideas and the reality that future alumni will work in a global environment comprising a diversity of viewpoints. Across the system, progress toward this goal is small but consistent. Campuses have selected a variety of strategies for increasing diversity and a similarly diverse set of measures of success.

4. *Faculty Time and Talent* Changes in the allocation of faculty time and effort are fundamental to most programmatic changes. As a result, this topic is reflected in all of the campus plans. For example, The University of Kansas Medical Center is reviewing procedures for reporting faculty effort, and for promotion and tenure, Fort Hays State has developed a two-track system for allocating faculty effort, and

Kansas State is moving away from a norm-referenced to an individualized system for assessing faculty effort. Changes in the allocation of faculty effort are relatively easy to assess, however, the full impact of those changes are harder to quantify. Campuses appear to be making sincere attempts to maximize the faculty time and talents, however it may be several years before the success of those efforts can be measured.

5. Administrative Procedures To meet institutional targets for reducing institutional support expenses, all of the campuses have targeted administration and business affairs for review and revision. In nearly every case, this involves increased reliance on technology and streamlining of internal processes. In addition, campus enhancement such as smart card systems, on-line enrollment processes and new electronic publishing programs are part of this agenda. Significant progress is being made in this area, and is reflected in the institution's success in reaching their goals for Core Indicator III.

Department of Wildlife & Parks (KDWP)

The 1998 Session of the Kansas Legislature appropriated an amount of \$10,000,000 for fiscal year 1999 from the State Budget Stabilization Fund to be used as "Comprehensive capital improvements for state parks" to address critical infrastructure improvements at each of Kansas' 24 state parks. The KDWP informed that Legislature and the Governor that it would require three years for the Department to complete all improvements. As of June 30, 1999, the KDWP had expended \$4,225,128 of the appropriated amount. At this time, the intent of the Department is to complete the program within three years. Some of the projects completed to date include replacement of shower houses at Cheney, Elk City, Kanopolis, Lovewell, Pomona and Webster State Park and replacement of beach houses at El Dorado and Milford State Park.

The KDWP anticipated that the appropriated funds would be used for the following categories of improvements:

Buildings (Beach houses and Offices)	\$1,500,000
Utilities improvements	650,000
Restrooms and Showers	4,180,000
Campgrounds and Beaches	3,530,000
Parking Lots (ADA conformance)	140,000

The final expenditure of funds in each category will vary from the above amounts. However, the categories indicate the intent of the KDWP for use of the appropriated funds.

Kansas Water Office

In October 1995, Governor Bill Graves announced a multi-agency initiative designed to protect and restore the quality of Kansas surface waters. This Initiative is a partnership between the state and local participants working to target control of priority pollutants within areas which produce disproportionate amounts of those pollutants.

The Governor's Initiative is incentive-based, relying upon local voluntary efforts, enhanced public awareness, technical and financial assistance and appropriate monitoring and evaluation of program effectiveness. The Base Program Component is applied to an entire basin and focuses upon water quality protection utilizing existing water quality programs. A Targeted Areas Component focuses restoration efforts in geographic areas impacting high priority water resources.

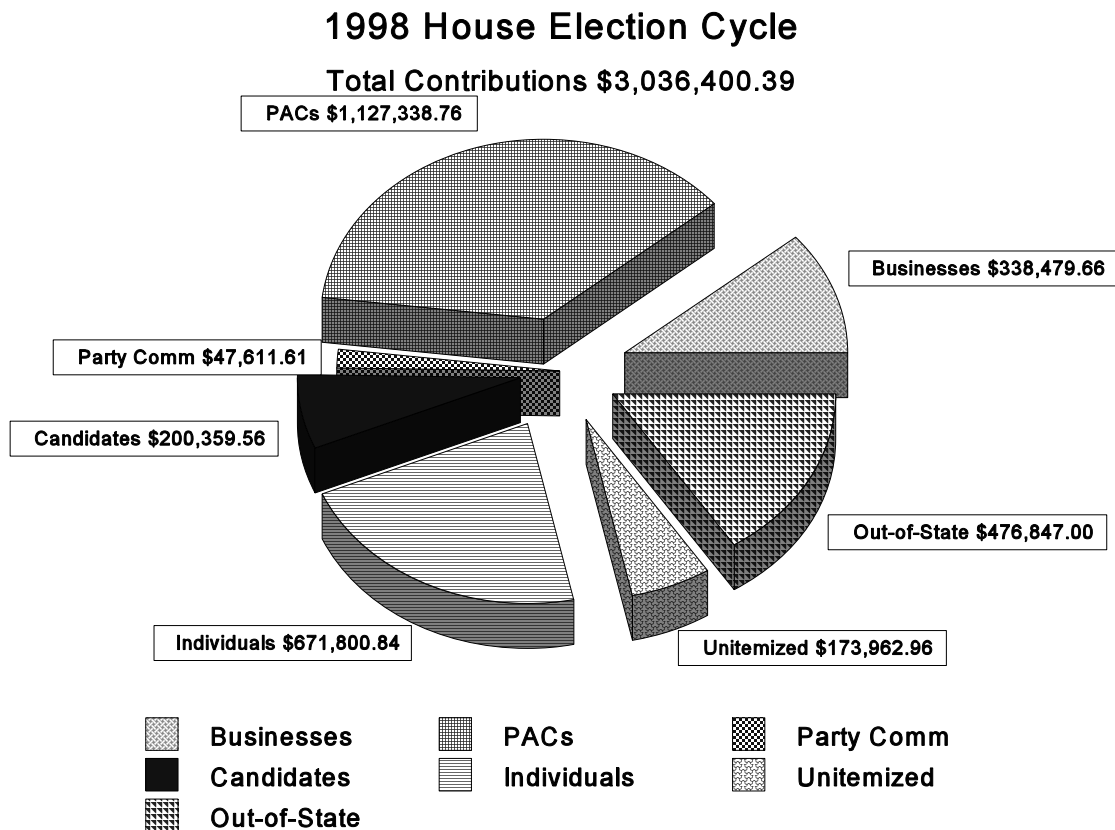
The Kansas-Lower Republican Basin has served as a pilot area for development of the Governor's Initiative because a variety of issues stemming from point and non-point sources of pollution are present. Expansion of this Governor's Initiative into additional river basins is anticipated.

Governmental Ethics Commission

The mission of the Governmental Ethics Commission is to provide the public with the timely and accurate information they need for knowledgeable participation in the electoral process. The Commission monitored 448 state candidates and 655 local candidates who ran for office in fiscal year 1999. In addition, the agency monitored 449 party and political action committees that were registered and required to file reports in fiscal year 1999. These candidates and committees filed 2707 campaign receipts and expenditures reports. The Commission performed comprehensive desk reviews of all 2707 receipts and expenditures reports to assure compliance with the campaign finance laws of Kansas.

Campaign receipts and expenditures reports are due eight days before the primary and eight days before the general election. The Commission's staff enforced compliance with the filings of these reports. It compiled campaign statistics from the contents of these reports and made this data available on the Internet and in paper copy four days after the report filing deadline. The citizens of Kansas were able to review statistics on individual statewide and house of representative candidates four days before election day on the Internet. The Internet now allows the Commission to get timely information to the public about state candidate's financial activities.

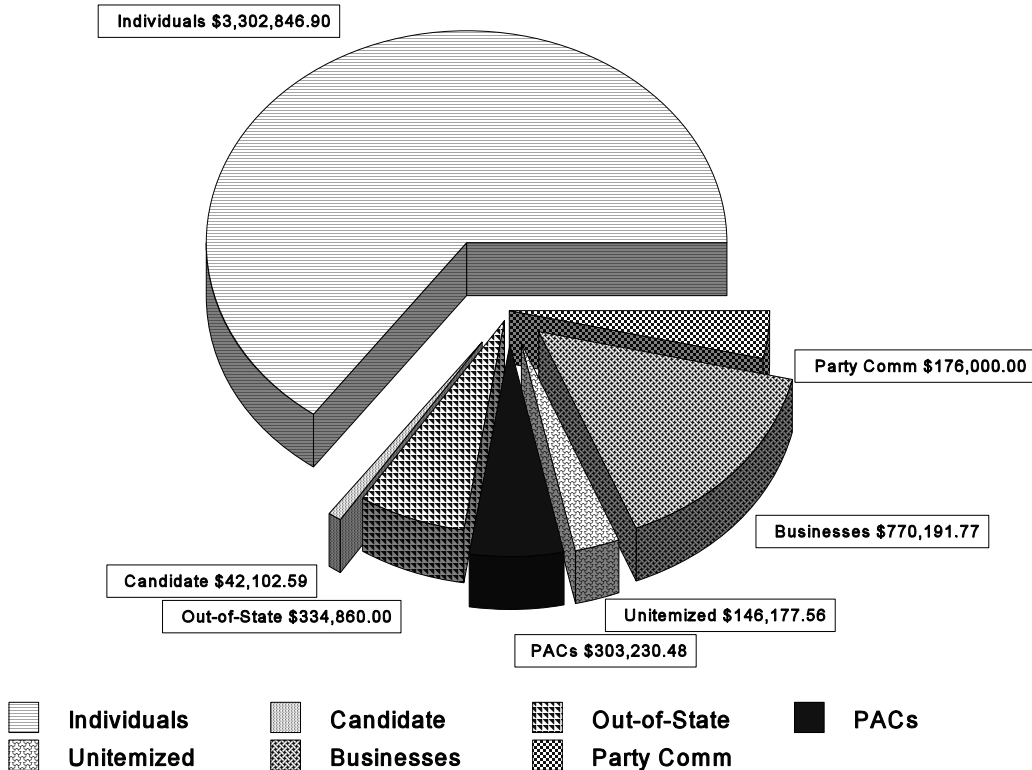
1998 Election Cycles



1998 Election Cycles - cont.

1998 State Wide Election Cycle

Total Contributions \$5,075,409.30



FINANCIAL INFORMATION

Kansas has a centrally-maintained computerized double-entry accounting system. Management of the State is responsible for establishing and maintaining an internal control structure to ensure that government assets are protected from loss, theft or misuse, and that adequate data are compiled to prepare meaningful financial statements. Internal accounting controls have been implemented for reasonable, but not absolute, assurance for safeguarding assets and accurately recording financial transactions. "Reasonable assurance" is based upon the premise that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of cost and benefits requires estimates and judgements by management. As a recipient of federal financial assistance, the State is also responsible for implementing internal controls for compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management and the internal audit staff of the government.

The State also maintains budgetary restrictions and controls which are imposed through annual appropriations and limitations approved by the legislature. Annual appropriated budgets are adopted for the State General Fund and certain Special Revenue, Capital Projects, Enterprise, Internal Service and Trust and Agency funds. The level of budgetary control in the central accounting system is usually established by agency, fund and budget unit. Budgetary control is maintained by mechanisms in the accounting system which prevent expenditures and firm encumbrances in excess of