



FINANCIAL AUDIT REPORT

State of Kansas: Fiscal Year 2013

**A Report to the Legislative Post Audit Committee
By RubinBrown Under Contract with
the Legislative Division of Post Audit
State of Kansas
December 2013**

Legislative Division of Post Audit

The **Legislative Division of Post Audit** is the audit arm of the Kansas Legislature. Created in 1971, the division's mission is to conduct audits that provide the Legislature with accurate, unbiased information on the performance of state and local government. The division's audits typically examine whether agencies and programs are effective in carrying out their duties, efficient with their resources, or in compliance with relevant laws, regulations and other requirements.

The division's audits are performed at the direction of the **Legislative Post Audit Committee**, a bipartisan committee comprising five senators and five representatives. By law, individual legislators, legislative committees, or the Governor may request a performance audit, but the Legislative Post Audit Committee determines which audits will be conducted.

Although the Legislative Post Audit Committee determines the areas of government that will be audited, the audits themselves are conducted independently by the division's professional staff. The division's reports are issued without any input from the committee or other legislators. As a result, the findings, conclusions, and recommendations included in the division's audits do not necessarily reflect the views of the Legislative Post Audit Committee or any of its members.

The division conducts its audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's

professional qualifications, the quality of the audit, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants (AICPA) and adopted by the Legislative Post Audit Committee.

LEGISLATIVE POST AUDIT COMMITTEE

Representative Peggy Mast, Chair
Representative John Barker
Representative Tom Burroughs
Representative Virgil Peck, Jr.
Representative Ed Trimmer

Senator Jeff Longbine, Vice-Chair
Senator Anthony Hensley
Senator Laura Kelly
Senator Julia Lynn
Senator Michael O'Donnell

LEGISLATIVE DIVISION OF POST AUDIT

800 SW Jackson
Suite 1200
Topeka, Kansas 66612-2212
Telephone: (785) 296-3792
Fax: (785) 296-4482
Website: <http://www.kslpa.org>

Scott Frank, Legislative Post Auditor

HOW DO I REQUEST AN AUDIT?

By law, individual legislators, legislative committees, or the Governor may request an audit, but any audit work conducted by the division must be directed by the Legislative Post Audit Committee. Any legislator who would like to request an audit should contact the division directly at (785) 296-3792.

The Legislative Division of Post Audit supports full access to the services of state government for all citizens. Upon request, the division can provide its audit reports in an appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach the division through the Kansas Relay Center at 1-800-766-3777. The division's office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.



LEGISLATURE OF KANSAS
LEGISLATIVE DIVISION OF POST AUDIT

800 SOUTHWEST JACKSON STREET, SUITE 1200
TOPEKA, KANSAS 66612-2212
TELEPHONE (785) 296-3792
FAX (785) 296-4482
WWW.KSLPA.ORG

December 23, 2013

To: Members, Legislative Post Audit Committee

Representative Peggy Mast, Chair	Senator Jeff Longbine, Vice-Chair
Representative John Barker	Senator Anthony Hensley
Representative Tom Burroughs	Senator Laura Kelly
Representative Virgil Peck, Jr.	Senator Julia Lynn
Representative Ed Trimmer	Senator Michael O'Donnell

This report contains the *Auditor Communications* letter, the *Independent Auditors' Report*, and the *Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* of the financial audit report of the State of Kansas for fiscal year 2013. RubinBrown, a certified public accounting firm under contract with the Legislative Division of Post Audit, conducted this audit.

The full Comprehensive Annual Financial Report will be posted after the Legislative Post Audit Committee meeting on Monday, December 30 and may be found on the Department of Administration's website.

We would be happy to discuss the findings or any other items presented in this report with any legislative committees, individual legislators, or other state officials.

Sincerely,

Scott Frank
Legislative Post Auditor

This audit was conducted by RubinBrown under contract with Legislative Post Audit. Julie Pennington was the audit manager. If you need any additional information about the audit's findings, please contact Julie at the Division's offices.

Legislative Division of Post Audit
800 SW Jackson Street, Suite 1200
Topeka, Kansas 66612

(785) 296-3792
Website: www.kslpa.org

Table of Contents

Auditor Communications..... R-1

Attachment 1 – Management Representations.....R-8

Attachment 2 – Adjusting Journal Entries.....R-15

Attachment 3 – Passed Journal EntriesR-16

Independent Auditors’ Report..... R-18

Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards..... R-22

STATE OF KANSAS
AUDITOR COMMUNICATIONS
JUNE 30, 2013



RubinBrown LLP
Certified Public Accountants
& Business Consultants

10975 Grandview Drive
Suite 600
Overland Park, KS 66210

T 913.491.4144
F 913.491.6821

W rubinbrown.com
E info@rubinbrown.com

The Honorable Sam Brownback, Governor of the State of Kansas
Members of the Kansas Legislature, and Members of the
Legislative Post Audit Committee
State of Kansas
Topeka, Kansas

We have audited the financial statements of the State of Kansas (the State) as of and for the year ended June 30, 2013, and have issued our report thereon dated December 20, 2013. Our audit was performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and presented in accordance with accounting principles generally accepted in the United States of America. Auditing Standards require the auditor to ensure that those charged with corporate governance receive additional information regarding the scope and results of the audit that may assist the governing body in overseeing the financial reporting and disclosure process for which management is responsible. The following sections describe matters which are required to be reported to you.

Our Responsibility Under U.S. Generally Accepted Auditing Standards, *Government Auditing Standards* and OMB Circular A-133

As stated in the Agreement for Auditing and Related Services for the State of Kansas dated December 7, 2010, as amended, and our engagement letter dated November 12, 2013, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and that the State complied, in all material respects, with the applicable compliance requirements of its major federal programs. Our audit of the financial statements and compliance does not relieve you or management of responsibility for the accuracy of the financial statements or compliance with applicable requirements.

Professional standards also require that we obtain an understanding of the State's internal control to plan the audit. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. Accordingly, we express no such assurance.

Other Information In Documents Containing Audited Financial Statements

To our knowledge, the 2013 audited financial statements are not included within any other document, other than those instances that have been disclosed to us.

Our audit has been conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the State's basic financial statements. The introductory section, the combining and individual fund financial statements and schedules, and the statistical section, as listed in the table of contents in the financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we will express no opinion on them.

The Management's Discussion and Analysis, the Schedules of Funding Progress, and the Budgetary Comparison Information as listed in the table of contents in the financial statements are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's response to inquiries, the basic financial statements, and other knowledge we obtained during our audit. However, we did not audit the information and express no opinion on it.

Planned Scope And Timing Of The Audit

We performed the audit according to the planned scope and timing previously communicated to you in the Agreement for Auditing and Related Services for the State dated December 7, 2010, as amended, and our engagement letter dated November 12, 2013, regarding the nature, timing and extent of our audit procedures.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the State are described in Note I to the financial statements. As described in Note I to the financial statements, the State adopted the following accounting policies during fiscal year 2013:

The State implemented GASB Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses how to account for and report service concession arrangements.

The State implemented GASB Statement No. 61 *The Financial Reporting Entity* which addresses various financial reporting requirements, including the reporting requirements for component units.

The State implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement defined deferred outflows and inflows of resources as a consumption of net position by a government that is applicable to a future reporting period and an acquisition of net position by a government that is applicable to a future reporting period, respectively. Net position is the residual of all the other elements presented in a statement of financial position.

We noted no transactions entered into by the State during the year for which there was a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements are:

Depreciable lives used to calculate depreciation of buildings and equipment based on the assets' estimated useful lives

The assessment of the condition of infrastructure related assets in determining the net book value of infrastructure under the modified approach outlined in GASB Statement No. 34

Allowance for uncollectible income and sales taxes receivable based on the estimated amount of receivables that will not be collected in the future, using historical collection rates

Accrued post employment benefits based upon a projection of future health insurance costs for eligible retirees participating in the program and a projection of future cash outflows discounted to present value

Determination of the fair value of derivative financial instruments (interest rate swaps) based on how interest rates and other market factors affect the terms imbedded in each transaction for the period reported

Self insurance liabilities based upon known claim information and historical trends

Pollution remediation liabilities based upon expected future clean up costs

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures to the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to the financial statements users. The most sensitive disclosures affecting the financial statements are:

The disclosure of Deposits and Investments in Note III A to the financial statements

The disclosure of Long-Term Obligations in Note III I to the financial statements

The disclosure of Revisions to Beginning Net Position in Note III J to the financial statements

The disclosure of Contingencies and Commitments in note IV B to the financial statements

The disclosure of Other Post Employment Benefits in note IV D to the financial statements

The disclosure of Employee Retirement Systems and Pension Plans in note IV E to the financial statements

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, communicate them to the appropriate level of management, and request their correction. Management has corrected all audit adjustments considered to be material, either individually or in the aggregate; see the attachment labeled "Adjusting Journal Entries." In addition, we accumulated certain uncorrected misstatements; see the attachment labeled "Passed Journal Entries." Management has determined that these uncorrected misstatements are not material, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to an entity’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. The Department of Administration, Office of the Chief Financial Officer, contracted with an outside accounting firm to assist with the preparation of certain year-end close procedures and the preparation of the financial statements. To our knowledge, this relationship is the only consultation that occurred with other accountants.

Other Audit Findings or Issues

In addition, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the State’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Honorable Sam Brownback, Governor of the State of Kansas, Members of Kansas Legislature, and Members of the Legislative Post Audit Committee and is not intended to be and should not be used by anyone other than these specified parties.

RubinBrown LLP

December 20, 2013

December 20, 2013

RubinBrown LLP
10975 Grandview Drive
Building 27, Suite 600
Overland Park, Kansas 66210

We are providing this letter in connection with your audit of the financial statements of State of Kansas as of June 30, 2013 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas and the respective changes in financial position and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We understand that you did not audit the financial statements of the various component units of the six state universities which represent 51 percent and 30 percent, respectively, of the assets and revenues of the discretely presented component units, the Kansas Development Finance Authority (KDFA) which represents 1 percent and less than 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Housing Resources Corporation (KHRC) which represents less than 1 percent and 2 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Bioscience Authority (KBA) which represents 2 percent and less than 1 percent, respectively of assets and revenues of the discretely presented component units, the Kansas Public Employees Retirement System (KPERs) which represents 82 percent and 33 percent, respectively, of the assets and revenue of the aggregate remaining fund information, and the Kansas Lottery which represents less than 1 percent and 7 percent, respectively, of the aggregate remaining fund information. Those financial statements were audited by other accountants whose reports thereon have been furnished to you, and your opinion, insofar as it relates to the amounts included for the State of Kansas Comprehensive Annual Financial Report, is based solely on the reports of other accountants. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles.

We confirm, to the best of our knowledge and belief the following representations made to you during your audit.

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter and the Agreement for Auditing and Related Services for the State of Kansas.

2. The financial statements referred to above are fairly presented in conformity with U.S. generally accepted accounting principles and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates are reasonable.
6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
7. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
8. The effects of uncorrected misstatements are immaterial both individually and in the aggregate, to the financial statements for each opinion unit. A list of the uncorrected misstatements is attached to the representation letter.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
10. Guarantees, whether written or oral, under which the State is contingently liable, if any, have been properly recorded or disclosed.
11. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of all State of Kansas Legislative committees or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.
13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.

15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
16. We have disclosed to you all known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
17. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
18. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
19. We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
20. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
21. We have a process to track the status of audit findings and recommendations.
22. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
23. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
24. The State has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net position.
25. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
26. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
27. The State has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral, except as disclosed to you.
28. The State has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
29. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
30. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations. All component units were assessed by us to determine if blended or discrete presentation was necessary.
31. The financial statements properly classify all funds and activities.

32. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
33. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
34. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
35. Provisions for uncollectible receivables have been properly identified and recorded.
36. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
37. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
38. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed. Furthermore, we determined that the College Savings Program Trust does not meet the definition of a fiduciary fund for reporting purposes and therefore should not be included in the financial statements and related footnotes to the State.
39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
40. The government meets the GASB-established requirements for accounting for eligible infrastructure assets using the modified approach.
41. We have appropriately disclosed the State's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position was properly recognized under the policy.
42. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
43. With respect to federal award programs, we have relied upon confirmations and certifications provided by the respective departments of the State of Kansas:
 - a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.
 - b. We have, in accordance with OMB Circular A-133, prepared the schedule of expenditures of federal awards (SEFA) in accordance with OMB Circular A-133, and have included, identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

- c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.
- d. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- e. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133.
- f. We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.
- g. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal programs that provides reasonable assurance that we are managing our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- h. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass-through entities relating to major federal programs.
- i. We have received no requests from a federal agency to audit one or more specific programs as a major program.
- j. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement, relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal awards, including those resulting from other audits or program reviews.
- k. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken up to the date of the auditor's report.

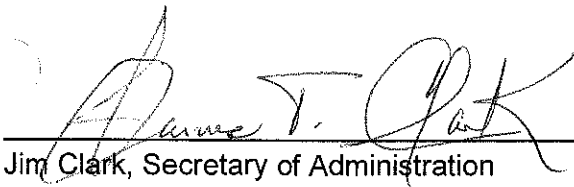
- m. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements.
 - n. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
 - o. We have made available to you all documentation related to the compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.
 - p. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
 - q. We have charged costs to federal awards in accordance with applicable cost principles.
 - r. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass-through entity, as applicable.
 - s. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133.
 - t. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditor's reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
 - u. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
 - v. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal awarding agencies and pass-through entities, including all management decisions.
 - w. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
 - x. We are responsible for preparing and implementing a corrective action plan for each audit finding.
 - y. We have disclosed to you all contracts or other agreements with service organizations, and we have disclosed to you all communications from the service organizations relating to noncompliance at the service organizations.
44. Regarding the reconciliation of the differences between the State's pooled cash fund balances reported at financial institutions and balances reported on the general ledger contained in SMART, the remaining unreconciled difference is insignificant. We have designed a process to properly reconcile the cash fund going forward and have successfully implemented that process.
45. We employ actuaries to determine adequate reserves for significant self insurance liabilities. We have properly accrued liabilities based on calculations provided by those actuaries. We have also reviewed the methods and assumptions used by those actuaries and consider them to be reasonable and accurate.

46. With respect to the Supplementary Information (combining and individual non-major fund financial statements and other schedules):

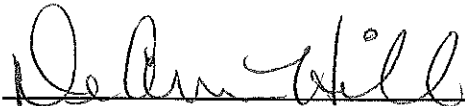
- a. We acknowledge our responsibility for presenting the Supplementary Information in accordance with accounting principles generally accepted in the United States of America, and we believe the Supplementary Information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the Supplementary Information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the Supplementary Information.
- b. If the Supplementary Information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.



Ron Estes, State Treasurer



Jim Clark, Secretary of Administration



DeAnn Hill, Chief Financial Officer, State of Kansas

State of Kansas
 Adjusting Journal Entries
 Fiscal Year 2013

			Decrease/ (Increase)	
101	<u>Health Care Stabilization Fund - To adjust for balances that should not have been recorded at 6/30/2013.</u>			Impact on proprietary fund net position
		<u>Debit</u>	<u>Credit</u>	
	Deferred Revenue		11,309,215	
	Revenue		1,276,128	
	Beginning Fund Balance	15,773,225		
	Accounts Receivable		3,187,882	
201	<u>Health and Environment Fund - To accrue for Medicare liabilities that should have been recorded at 6/30/2013.</u>			9,770,325 Impact on governmental funds fund balance and governmental activities net position
		<u>Debit</u>	<u>Credit</u>	
	Expenses	9,770,325		
	Accounts Payable		9,770,325	
301	<u>Health Care Stabilization Fund - To adjust for payables that should have been recorded at 6/30/2013.</u>			Impact on proprietary fund net position
		<u>Debit</u>	<u>Credit</u>	
	Accounts Payable		1,031,064	
	Expenses	1,031,064		
401	<u>Regent University System - Removes the effect of recording direct loans on a gross basis as of 6/30/2013.</u>			Entry is a reclassification, no impact on net position
		<u>Debit</u>	<u>Credit</u>	
	Operating Grants	126,431,000		
	Other Expenses		126,431,000	
501	<u>Regent University System - Removes the effect of reversing prior year elimination entries specific to the Regents Statement of Revenues, Expenditures and Changes in Net Position</u>			Entry is a reclassification, no impact on net position
		<u>Debit</u>	<u>Credit</u>	
	Supplies and Services Expense		141,106,079	
	Charges for Services	133,788,358		
	Other Revenues	26,337,065		
	Other Expenses (Non-Operating)		17,766,886	
	Salaries and Wages		1,252,458	

	<u>Debit</u>	<u>Credit</u>	Decrease/ (Increase)	
201 <u>Unemployment Insurance Fund - To record earnings on unemployment insurance investment at 6/30/13 and account for prior year impact of PJE # 201 on current results of operations.</u>				
Investments	942,098		(1,029,048)	Impact on proprietary fund net position
Revenue		942,098		
Premium Income	43,475			
Revenue	374,236			
Fund Balance		417,711		
202 <u>Health Care Stabilization Fund - To mark investments to market.</u>				
Investments		175,614	175,614	Impact on proprietary fund net position
Revenue	175,614			
203 <u>General Fund - To adjust the accrued receivable for severance, oil and gas that was understated.</u>				
Accounts Receivable	1,771,752		(1,771,752)	Impact on governmental funds fund balance and governmental activities net position
Revenue		1,771,752		
204 <u>Regent Component Unit - To remove a market to market adjustment already recorded by KU Foundation.</u>				
Regent Investments held outside of STO	2,883,039		1,285,707	Impact on component unit net position
Regent cash held outside of STO		1,597,332		
Fund Balance		8,367,045		
Regents Other Income	7,081,338			
205 <u>To record elimination entry that was not recorded by the client (related to consolidation of foundation financial statements).</u>				
Regents Other Income	3,528,904		3,528,904	Impact on component unit net position
Regent Investments held outside of STO		3,528,904		
206 <u>To recognize the receivable/revenue and payable/expense for June CHIP claims</u>				
Accounts Receivable	5,978,956.00			Impact on governmental funds fund balance and governmental activities net position
Revenue		5,978,956.00		
Expense	5,978,956.00			
Accounts Payable		5,978,956.00		
207 <u>To reclassify a portion of the SRS no-interest loan receivable as long-term</u>				
Fund Balance Unassigned	1,668,123		1,668,123	Impact on governmental funds fund balance
Accounts Receivable		1,668,123		
Long-Term Accounts Receivable	1,668,123			Impact on governmental activities net position
Net Position		1,668,123		
208 <u>To account for impact of prior year PJE # 212 - Social and Rehabilitation</u>				
Other Revenue	878,951		878,951	Impact on governmental funds fund balance and governmental activities net position
Fund Balance		878,951		
209 <u>To account for impact of prior year PJE # 213 - Health and Environment</u>				
Other Revenue	1,220,698		1,220,698	Impact on governmental funds fund balance and governmental activities net position
Fund Balance		1,220,698		
210 <u>Health Care Stabilization Fund- To record impact of receivable that should have been booked at 6/30/12</u>				
Revenue	306,801		306,801	Impact on proprietary fund net position
Beginning Fund Balance		306,801		

	Debit	Credit	Decrease/ (Increase)	
211 To remove elimination entry that was incorrectly recorded (related to consolidation of foundation financial statements).				
Accounts Receivable		11,670,000	11,670,000	Impact on component unit net position
Beginning Fund Balance	11,670,000			
212 To remove elimination entry that was incorrectly recorded (related to consolidation of foundation financial statements).				
Accounts Receivable		4,373,402		- Impact on component unit net position
Accounts Payable	4,373,402			
Other Misc. Revenue	2,186,701			
Other Nonexp. Items		2,186,701		
213 To account for donated vehicles from the Federal Government				
Revenue		2,500,000	(2,500,000)	Impact on governmental activities net position
Inventory	2,500,000			
214 Reclassification to correct K-State elimination entries recorded incorrectly				
Revenue		21,017,960		- Impact on component unit net position
Expense	21,017,960			
215 To project the misstatement related to the useful lives and to account for KDOT's methodology of accounting for related assets.				
Accumulated Depreciation		8,927,012	8,927,012	Impact on governmental activities net position
Expense		3,222,247		
Beginning Net Position		5,704,765		
216 KDOT: To record the estimated effect of running adjustments to CIP in the current year that were recorded and reported at the end of the prior year as capitalized assets.				
Expenses		49,000,000		- Impact on governmental activities net position
Beginning Net Position	49,000,000			
217 KDOT: To record the known impact of the removal of the borrowing payable in the current year financial statements				
Borrowing Payable - Revenues		15,323,479	(15,323,479)	Impact on governmental activities net position
Bonds Payable - Long Term	15,323,479			
218 KDOT: To record the difference between the estimate of loss provided by KDOT legal counsel and the amount that KDOT had accrued for the same matters				
Accounts Payable		18,553,500	18,553,500	Impact on governmental activities net position
Expense	18,553,500			
219 Other Nonmajor Governmental Funds: To reclassify amounts treated as principal expense as interest expense				
Interest Expense		31,208,000		- Impact on governmental activities net position
Principal Expense	31,208,000			- Impact on governmental activities net position



RubinBrown LLP
Certified Public Accountants
& Business Consultants

10975 Grandview Drive
Suite 600
Overland Park, KS 66210

T 913.491.4144
F 913.491.6821

W rubinbrown.com
E info@rubinbrown.com

Independent Auditors' Report

Legislative Post Audit Committee
Kansas State Legislature
State of Kansas

Report On The Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (the State), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the State's basic financial statements, as listed in the table of contents.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the various component units of the six state universities which represent 51 percent and 30 percent, respectively, of the assets and revenues of the discretely presented component units, the Kansas Development Finance Authority (KDFA) which represents 1 percent and less than 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Housing Resources Corporation (KHRC) which represents less than 1 percent and 2 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Bioscience Authority (KBA) which represents 2 percent and less than 1 percent, respectively, of assets and revenues of the discretely presented component units, the Kansas Public Employees Retirement System (KPERs) which represents 82 percent and 33 percent, respectively, of assets and revenues of the aggregate remaining fund information, and the Kansas Lottery which represents less than 1 percent and 7 percent, respectively, of the assets and revenues of the aggregate remaining fund information. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the component units of the six state universities, KDFA, KHRC, and KBA in the aggregate discretely presented component units, and KPERs and the Kansas Lottery in the aggregate remaining fund information, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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. The financial statements of the various component units of the six state universities were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of June 30, 2013, and the respective changes in financial position and, where applicable, its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change In Accounting Principle

As discussed in Note I. H to the financial statements, in 2013 the State implemented the following pronouncements: GASB Statement No. 60 *Accounting and Financial Reporting for Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 61 *The Financial Reporting Entity*, and GASB Statement No. 63 *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the information needed to support the modified approach for infrastructure reporting and the other post employment benefits schedule of funding progress, as listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining and individual non-major fund financial statements and other schedules, introductory section and statistical section, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying introductory and statistical sections, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2013 on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



December 20, 2013
Overland Park, Kansas

**Independent Auditors' Report On Internal Control
Over Financial Reporting And On Compliance And
Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With
*Government Auditing Standards***

Legislative Post Audit Committee
Kansas State Legislature
State of Kansas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Kansas (the State), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 20, 2013. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Our report includes a reference to other auditors who audited the financial statements of the various component units of the six state universities, the Kansas Development Finance Authority (K DFA), the Kansas Housing Resources Corporation (KHRC), the Kansas Bioscience Authority (KBA), the Kansas Public Employees Retirement System (KPERS) and the Kansas Lottery, as described in our report on the State's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the various component units of the six state universities were not audited in accordance with *Government Auditing Standards*, and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the component units of the six state universities.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RubinBrown LLP

December 20, 2013