

# **Kansas State Treasurer's Annual Report to the Kansas Legislature Fiscal Year 2005**

*Submitted by:*

**The Honorable Lynn Jenkins, CPA  
Kansas State Treasurer**



*To participate in the management of public funds to ensure  
safe and sound financial practices that benefit the people of Kansas.  
Through efficient and effective use of public and private resources, we will  
partner with Kansas citizens in the pursuit of their financial security.*

**900 SW Jackson, Suite 201  
Topeka, KS 66612  
(785) 296-3171 ♦ Fax (785) 296-7950  
[www.KansasStateTreasurer.com](http://www.KansasStateTreasurer.com)**

---



## *Kansas State Treasurer's Office*

Dear Members of the Kansas Legislature,

It is my pleasure to present to you the 2005 Annual Report for the Kansas State Treasurer's office. In this report you will find summaries of the functions of the State Treasurer's office as well as brief reviews of each division's activities during the last fiscal year. In some cases, updates on activities from the current year are included.

Learning Quest, the Kansas 529 Education Savings Program, had an exciting year! It celebrated its fifth anniversary by attaining \$1 billion in assets and reached nearly 80,000 accounts. The program also established a number of partnerships including a customer loyalty program called BabyMint. It pays account owners rebates on purchases they are already making. Learning Quest also added three new portfolios based on Vanguard indexed funds. These funds provide investors with the opportunity to track market index returns with fees that are significantly lower than actively managed mutual funds.

We continue to give special attention to financial literacy awareness for Kansans through a host of activities. Kansans may choose from a number of educational opportunities. The financial literacy programs, supported by private donations and grants, are free of charge to Kansans and include financial planning seminars, monthly newspaper articles, and online resources such as the Kids Zone website. Two of the most exciting activities have been the Save@School and MoneySmart Financial Management Camp programs. The "Save @ School" program kicked off in 2004 at Woodrow Wilson Elementary in Manhattan. Since that time, the program has taken on a life of its own! We are educating children in all four corners of Kansas about money, how to save it, and why they should save. The program is expanding to reach more than grade school students. We are currently developing a similar curriculum appropriate for middle school aged students. For our junior high students, we have customized a special three-day camp. For the second year, nearly 100 seventh and eighth graders spent the weekend learning valuable money management and teamwork skills at Rock Springs 4-H Camp near Junction City. At the camp, we focus on teaching finance and leadership skills, but combine it with horseback riding, canoeing and other traditional camp activities. Plans are already being made for the 2006 camp.

The Unclaimed Property division had an impressive year. Over \$9 million in lost or forgotten cash and property was returned to citizens during fiscal year 2005. This amount is the most returned in recent history! The staff works hard to find Kansas property owners to return their property. Our outreach efforts include traveling to Hutchinson at the Kansas State Fair, speaking to civic and professional organizations, and being featured on Wichita and Topeka television stations for Unclaimed Property telethons.

The information you will find in this report reflects the positive impact that the State Treasurer's office is having on the lives of Kansans. This office continues to be an example for other states when looking to streamline operations while increasing productivity. It is my honor to serve as State Treasurer for Kansas and I look forward to working with you throughout the coming years.

Sincerely,

A handwritten signature in blue ink that reads "Lynn Jenkins".

Lynn Jenkins, CPA  
Kansas State Treasurer



*Kansas State Treasurer  
Lynn Jenkins, CPA*

# Unclaimed Property

*Submitted by Peggy Hanna,  
Director of Unclaimed Property*

The Unclaimed Property program seeks to return unclaimed property to the rightful owners or heirs. After a period of dormancy, the reporting business (holder) must remit specified types of abandoned personal property to the State Treasurer, who becomes custodian in perpetuity, preserving the right of the original owner or heirs to claim the property. Property that may be deemed abandoned includes: safe deposit box contents, bank deposits, shares of stock, dividends, mineral royalties, certified checks, drafts or money orders, unclaimed funds held by insurance companies under life and property and casualty policies, utility deposits, property distributable during the voluntary dissolution of business associations, property held by courts and public officers and agencies, and miscellaneous other intangible property held by one party for another.

All property that meets statutory requirements for presumption of abandonment must be reported and remitted to the State Treasurer. The reporting company (holder) may aggregate property valued below \$100. Any person claiming an interest in such property may then file a claim with the State Treasurer. The Unclaimed Property Division reviews all claims for the return of abandoned property received by the State Treasurer for appropriateness.

Unclaimed property information is stored and processed on a secured web-based system, allowing



*State Treasurer Jenkins visits with KWCH's Roger Cornish during a break from the live broadcast of the Unclaimed Property telethon while Treasurer office employees search last names of Kansans hoping to find their lost or forgotten cash and property. Wichitans found nearly \$900,000 as a result of the telethon.*

“

*Fiscal year 2005 was an important year for the Unclaimed Property division.*

*More than \$9 million in lost or forgotten cash was returned to Kansans. This is the most property that has been returned in recent history.*

**Lynn Jenkins, CPA,  
Kansas State Treasurer**

”

immediate reference to stored information and prompt updating of files. Holders may file reports on-line or submit information electronically on diskettes or CD-Rom, as well as through written reports which are keyed into the system by Unclaimed Property staff.

The State Treasurer deposits amounts received from the disposition of unclaimed property into the state general fund. However, the Treasurer maintains a balance in the unclaimed property claims fund, using this balance to pay claims allowed, as well as the unclaimed property expense fund, using this balance to operate the program.

FY 2005 was a successful year for the Unclaimed Property program. Over \$36.2 million of unclaimed property was received. About half of this amount resulted from the sale of stock received the prior year due to the legislative change that required insurance companies that changed from mutual to stock companies to report their undelivered stock two years earlier than was previously required. Unclaimed property returned to its rightful owners exceeded \$9.1 million in money and stock, an outstanding year. (See chart.)

The State Treasurer's office maintained its usual booth at the Kansas State Fair in September. Over 2,200 claim forms were generated for a total amount of \$601,159 claimed.

Although our Internet site continues to be one of our main outreach tools and generates a great deal of interest and subsequent claims, most of the year the staff spent a good deal of time proactively searching

## Unclaimed Property cont...

for owners. One staff member was dedicated full-time to outreach with the rest of the staff searching as time allowed. As new property is reported, a staff member starts searching each name on the Internet. They attempt to make contact with the owner or their heirs and send claims to that person(s). While this may seem like a tedious process, it actually produces a higher percentage of valid claims than some of the more visible outreach efforts.

In April, we implemented a new Internet based in-house developed tracking system for the Unclaimed Property division to replace the Windows-based system we had been using. This system is leading edge technology and has already substantially changed the way we do business with the companies that report unclaimed property and the citizens who claim their assets. Due to this new system and changes in procedures, the average claim takes less than 25 days to

be approved. The statute allows for 90 days. This innovative system has once again set a landmark amongst state unclaimed property programs.

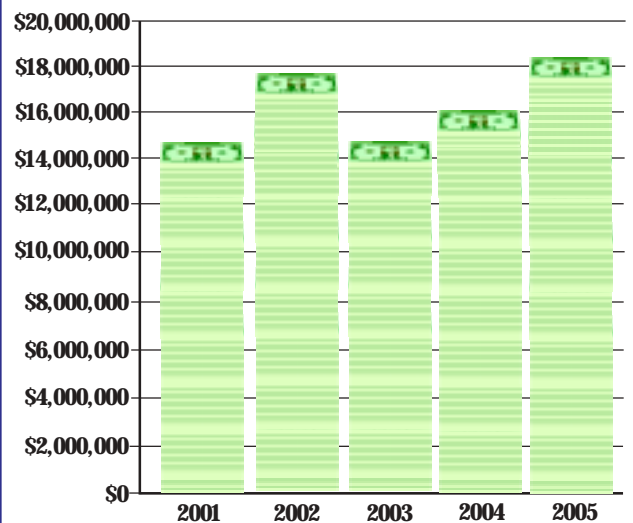
FY 2005 reflects the importance Treasurer Jenkins places on the program: In the first four months of the year, we staffed our booth at the State Fair, placed advertisements in the weekly and some daily newspapers statewide; Treasurer Jenkins spoke to fraternal organizations and trade associations throughout Kansas and the staff participated in three telethons – two in Topeka and one in Wichita. We contacted editors for all the newspapers in the state to let them know how they can easily retrieve the listing for any persons who had once lived in their county. We also checked current and past elected officials' names for properties. We would also like to use them as a resource to find owners of unclaimed property. It was an exciting year!

### Historical Summary of Unclaimed Property Returned & Collected Fiscal Years 2001 through 2005

**Unclaimed Property Returned to Owners**  
FY 2001 - FY 2005



**Unclaimed Property Received from Holders**  
FY 2001 - FY 2005



# Municipal Bond Services

*Submitted by Carmen J Klopping,  
Director of Municipal Bond Services*

The Municipal Bond Services program is responsible for the registration of all municipal bonds issued in Kansas. In addition, this program provides registrar and paying agent services for the majority of all local municipal bond issues, as well as state issues. During the years 1992 through 1995 and 1999 through 2004, the agency was selected to service the bonds authorized by Kansas Comprehensive Highway Program.

As registrar and transfer agent for almost 90% of the outstanding municipal bond issues in Kansas, the State Treasurer maintains records on 31,350 bond holders to permit prompt and accurate processing of transactions, as well as timely payments of principal and interest to owners. In addition to the 2,150 bond issues in registered form which have been issued since 1983, this program also services 18 bearer-form issues.

The State Treasurer is authorized to charge and collect fees for the registration of bonds for which the State Treasurer is not the paying agent. These fees are credited to the Bond Services Fee Fund and both are used to support the program. When the State Treasurer is named the fiscal agent, a fee is charged to the issuing municipality for the services provided. Total fees collected in FY 2005 were \$764,909, credited to the bond services fee fund.

Principal and interest amounts are collected from the respective municipalities in advance of maturities to ensure timely payments. Payments for all issues serviced is approximately \$1.5 billion annually.

During the report year, 271 new issues were recorded and the Treasurer was named paying agent on all but 36 of those bond issues. The total principal amount outstanding on bonds serviced as of June 30, 2005, was in excess of \$11.5 billion. The Bond department has established a level of performance which compares favorably with that of many other transfer and paying agents. The efficiency of the transfer and paying agent is believed to be an important factor influencing investor willingness to purchase a particular bond issue, and therefore is also believed to affect the rate of interest at which an issue can be sold.

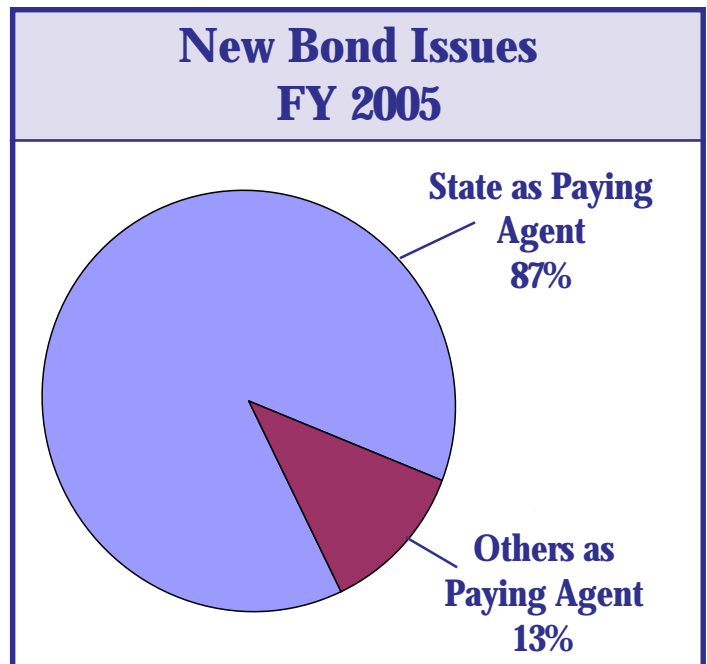
“

*Thank you so much for notifying me of the bonds' maturity. I really appreciate the services we get from the Kansas State Treasurer's office.*

**A Kansas Bond Holder**

”

During FY 2005, transfers were submitted timely 99.9% of the time. Although not recorded as such, the interest earned on the bond monies between the time of receipt and subsequent payout has a positive impact on funds available for investment and consequently to the State General Fund.



*Municipal Bond Services cont...*

<b>Municipal Bonds Activities FY 2005 &amp; 2004</b>				
	<b>FY 2005</b>		<b>FY 2004</b>	
	<b>NUMBER</b>	<b>AMOUNT</b>	<b>NUMBER</b>	<b>AMOUNT</b>
<b>BONDS</b>				
New Issues				
Total Registered	271	\$ 2,608,793,915	293	\$ 2,756,039,686
State as Paying Agent	235	\$ 2,012,690,915	258	\$ 2,307,440,723
State as Paying Agent	2,150	\$11,591,124,296	2,154	\$10,328,340,390
Transfers				
Cancelled	11,581	\$ 286,676,000	3,901	\$ 130,675,261
Issued	2,156	\$ 286,676,000	1,463	\$ 130,675,261
Calls	196	\$ 433,495,104	255	\$ 517,622,238
Registration Fees Collected		\$ 9,980		\$ 11,041
Standard Fees Collected		\$ 723,172		\$ 676,005
Commissions		\$ 31,757		\$ 28,220
<b>TEMPORARY NOTES</b>				
Total Registered	118	\$ 485,690,583	126	\$ 493,446,273
State as Paying Agent	55	\$ 171,086,950	51	\$ 95,504,200
<b>PAYMENTS</b>				
		\$ 1,508,418,910		\$ 1,418,069,574
<b>RECEIPTS</b>				
Cash & Wire		\$ 963,365,045		\$ 878,537,416
Interfund		\$ 600,248,313		\$ 541,494,309

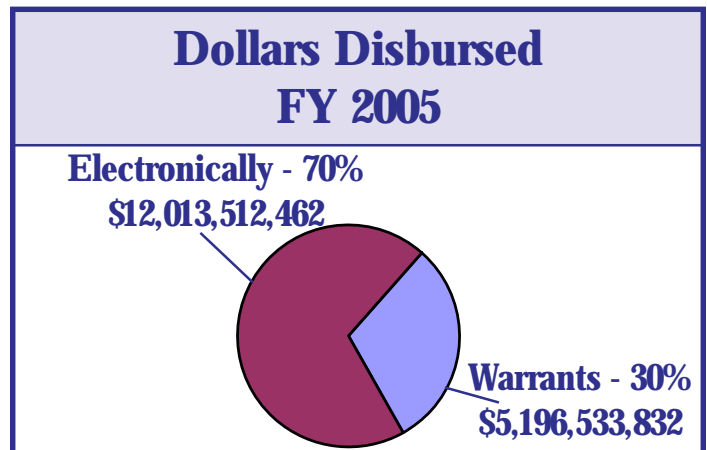
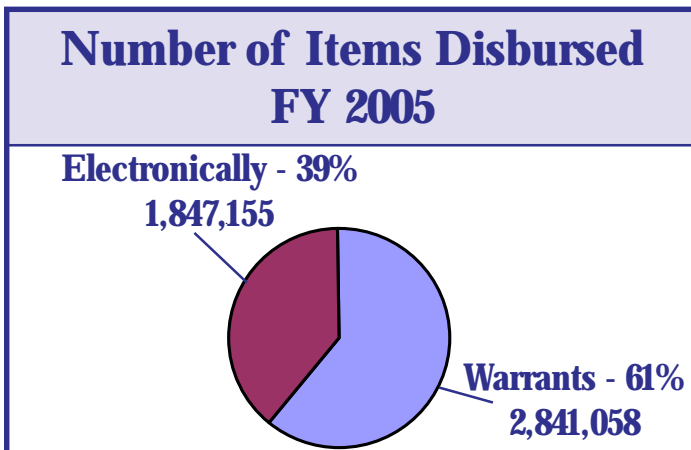
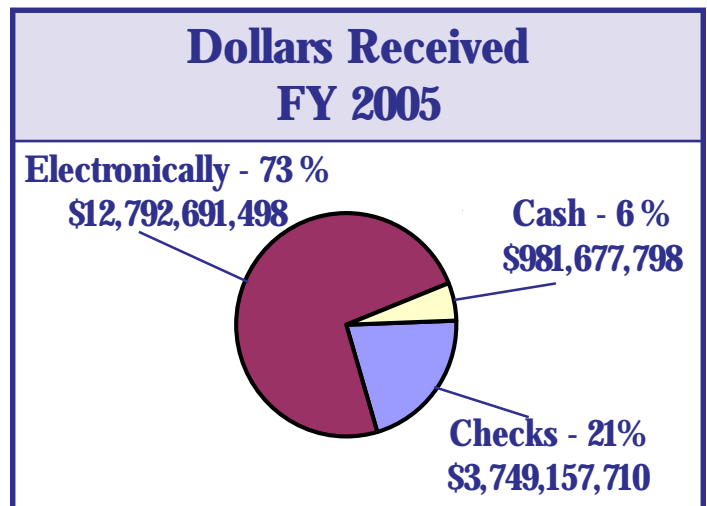
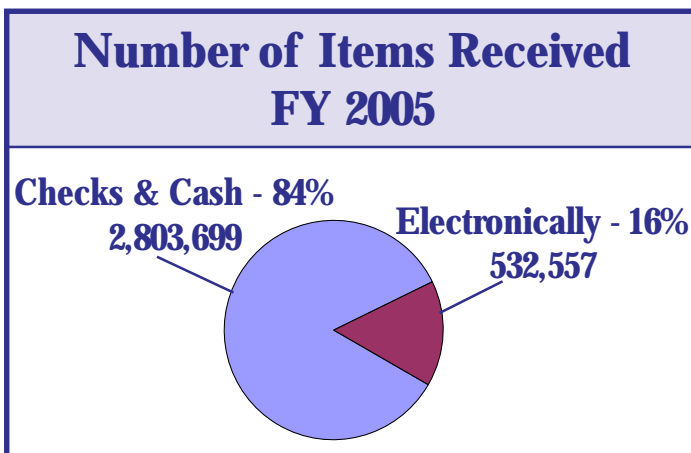
# Cash Management

Submitted by Lucinda Anstaett,  
Director of Cash Management

The Cash Management department ensures the state's funds are accounted for accurately and efficiently. Over \$17 billion was received by this program during the 2005 fiscal year.

## Item Processing:

The Item Processing subprogram is responsible for the recording and depositing of all state monies and for the accurate recording of all disbursements made through the warrant writing process. In an effort to make these processes more efficient and secure, this subprogram strongly encourages the use of electronic technologies whenever possible. In fiscal year 2005, 73% of the State's revenue dollars were received electronically and 70% of the State's disbursement dollars were processed electronically. This represents 16% and 39% of the number of transactions respectively.



## Cash Management cont...

Another important function of the Item Processing subprogram is to ensure that the money deposited in any Kansas bank is properly secured, either by FDIC coverage or by approved collateral. The inventory and value of pledged collateral is maintained on an in-house developed application called "The Vault."

This subprogram is further charged with improving the state's cash management practices. Each day, the program determines the state's cash position and reports to the Pooled Money Investment Board (PMIB). The idle funds are then invested by PMIB.

### Aid to Local Units of Government:

Through the Aid to Local Units of Government Subprogram, the State Treasurer distributes monies to city and county governments according to the statutory provisions. These include: local ad valorem tax reduction aid, city and county revenue sharing aid, local alcoholic liquor fund, special city and county highway fund, local sales and use tax, rental motor vehicle excise tax aid, tax increment financing revenue replacement, and transient guest tax. The Omnibus Bill in 2003 (and subsequent amendment) suspended the Fiscal Year 2004 and 2005 distributions for the city and county revenue sharing and the local ad valorem tax reduction aid.

<b>Distributions to Counties &amp; Cities FY 2004 &amp; 2005</b>		
	<b>FY 2005</b>	<b>FY 2004</b>
Local Ad Valorem Reduction Fund	\$ 0	\$ 0
County & City Revenue Sharing Fund	\$ 0	\$ 0
Local Alcoholic Liquor Fund	\$ 20,563,972	\$ 19,907,450
Special City & County Highway	\$147,906,906	\$151,966,342
Highway Equalization	\$ 2,500,000	\$ 2,500,000
Local Sales & Use Tax	\$679,075,479	\$611,305,312
Rental Motor Vehicle Tax	\$ 2,767,794	\$ 2,703,409
TIF Revenue Replacement Fund	\$ 827,259	\$ 1,053,173
Transient Guest Tax	\$ 22,177,725	\$ 19,962,831
<b>Total</b>	<b>\$875,819,135</b>	<b>\$809,398,517</b>

# *Learning Quest, the Kansas 529 Education Savings Program*

*Submitted by Scott Gates,  
Director of Learning Quest*

Learning Quest, the Kansas 529 Education Savings Program, was created by the 1999 Kansas Legislature, in accordance with Section 529 of the Internal Revenue Service Code, to authorize investment savings accounts for higher education. At the request of the legislature, a task force was created to develop more program specific statutes to actually create and govern a 529 program in Kansas. The legislation proposed by the task force passed the legislature and Learning Quest was created. With legislative authority and statutory guidelines in place, the State Treasurer's office developed and executed a request for proposal to contract with an investment firm to manage marketing, customer service, and account maintenance aspects of program management. Complying with statutorily governed Kansas bid law, American Century Investments was awarded the contract to manage the program administered by the Kansas State Treasurer. The contract providing for American Century Investments' management of Learning Quest expires in 2006.

The program, officially opened on July 1, 2000, provides individuals and organizations a tax-deferred option to save money for future higher education expenses.



*State Treasurer Jenkins visits with children from the Topeka-based non-profit organization, Let's Help, during a birthday party for Learning Quest, which turned five years-old in fiscal year 2005 and surpassed \$1 billion in assets.*

---

---

*Learning Quest represents the dream many families have of sending their children to college. After only five years, the program reached \$1 billion in assets.*

---

---

The program has been self-funded since FY 2002.

According to provisions of the Learning Quest program, individuals or organizations, as account owners, may fund an account for a beneficiary designated at the time the account is opened. The account owner selects an investment option suitable for their individual investment preferences and goals for the future. The program manager, American Century Investments, determines investment strategy for the program's investment options, but the account owner has the ability pursuant to federal law to change investment portfolios once a year or each time a new beneficiary is named. Beneficiary designation can occur at any time, as long as the new beneficiary is an eligible family member of the current beneficiary, according to the definition of "family" as determined by the Internal Revenue Service.

The money in the account can be used for qualified, post-secondary educational expenses as defined by Section 529 of the Internal Revenue Service Code. Currently, the definition of "qualified expenses" includes tuition, fees, books, room and board, supplies and other expenses required for the beneficiary's field of study, as well as special needs expenses associated with beneficiaries having special needs.

Beginning in 2001 upon the passage of the Tax Relief Reconciliation Act of 2001, earnings on withdrawals for qualified education expenses made after December 31, 2001 and before January 1, 2011 are exempt from federal and Kansas income taxes. Possible repeal of the 2010 sunset provision to make the exemption permanent is under consideration by Congress at this time.

In addition to the benefit of tax savings at the time of withdrawal, Kansas residents have another incentive to make saving for college expenses a priority.

## Learning Quest cont...

Kansas residents may annually deduct contributions per beneficiary up to \$3,000 for an individual filer, \$6,000 for married couples filing jointly.

### **Program Accomplishments:**

Learning Quest, the Kansas 529 Education Savings Program, hit a milestone during the 2005 Fiscal Year. In addition to turning five years old, the program reached the \$1 billion mark in total assets invested with nearly 80,000 accounts.

The average family participating in the program has accumulated slightly over \$13,000 for their family member's post-secondary education expenses. The program continues to attract significant investments from outside the state, which help lower program costs for Kansans. This also demonstrates how the plan remains competitive with other states' plans.

Learning Quest was rated among the top five programs sold through investment advisors by Morningstar, an internationally respected independent investment research firm, and continues to be one of the top plans rated by SavingForCollege.com.

### **Program Highlights:**

Treasurer Jenkins is committed to making sure that Learning Quest remains one of the top college savings plans in the country by providing a comprehensive set of investment choices. As a result, many new partnerships were established during FY 2005.

Beginning April 1, 2005, Learning Quest added three new portfolios based on Vanguard indexed funds. These funds provide investors with the opportunity to track market index returns with fees that are significantly lower than actively managed mutual funds. This suggestion came from a non-partisan advisory

committee convened by Treasurer Jenkins.

Learning Quest also entered into a contract with BKD Wealth Advisors, LLC, to compare the portfolios' performance to their peers in the investment industry. The two semi-annual reports have been helpful in exercising our responsibility to make sure that we are providing the best investment vehicles for our participants.

A customer loyalty program with BabyMint.com in which participants can direct rebates received through purchases made with many on-line, catalogue and in-store merchants to a Learning Quest account began in FY 2005. BabyMint also offers a credit card rewards program that deposits a percentage of the participant's purchases in their Learning Quest Account.

### **Marketing and Outreach Opportunities:**

Washburn University has generously offered a scholarship for Learning Quest participants, and we are exploring options for partnership with additional Regents institutions.

We have begun reaching out to other state agencies to use their contacts with Kansas families as an opportunity to encourage them to invest in their children's future.

Nearly 900 7<sup>th</sup> and 8<sup>th</sup> graders from across the state submitted essays for this year's annual contest. Winners from each grade level were selected and received their prizes in November. Each winner received a Learning Quest investment account and pizza parties for their classes or families for home-schooled children.

All marketing efforts and giveaways are paid for by American Century Investments.

### **Learning Quest Education Savings Program Statistics FY 2005**

Number of Accounts Opened by Kansans	35,343
From Other States	42,939
<b>Total Number of Accounts opened</b>	<b>78,282</b>

---

<b>Total assets as of 6/30/05</b>	<b>\$1,048,465,039</b>
-----------------------------------	------------------------

# Administration

*Submitted by Peggy Hanna,  
Deputy Assistant State Treasurer*

## **Financial Literacy Efforts:**

Financial literacy for all Kansans continues to be an emphasis of the State Treasurer's Office. Through various programs, we provide those tools necessary for our state's residents to be successful and to ensure a financially secure future.

Save @ School and our Money\$mart Financial Camp are two great educational programs that involve partnerships with financial institutions and the State Treasurer's Office. Students learn basic financial skills as well as important information on credit cards, budgeting, the importance of saving and goal setting.

Our website offers online resources and opportunities. Kids Zone provides homework helpers, facts on Kansas, educational games and important links to other state and government websites. Money WiSe is a free monthly financial newsletter sharing pertinent financial information with our readers. Notices of free financial planning seminars throughout the state are also posted on the website.



*State Treasurer Jenkins and Vickie Hurt with the K-State Federal Credit Union and students from Woodrow Wilson Elementary School on the first savings day of the Save@School financial literacy program. The program is a partnership between State Treasurer Jenkins, K-State Federal Credit Union and Woodrow Wilson. Since the first program began, children in all four corners of Kansas are now learning about money, how to save it, and why they should save.*

“ *If we can educate children at the elementary school level on the need to be financially responsible, hopefully we can help them become better prepared to handle their responsibilities as they mature. I sincerely believe the Save@School program is worthwhile for the students at Woodrow Wilson Elementary School and the Manhattan community.*

**Vickie Hurt, President  
K-State Federal Credit Union &  
Save@School Financial Partner**

## **Information Technology Improvements & Updates:**

FY 2005 was an eventful year for the Information Technology division of the Treasurer's office. Besides implementing the new unclaimed property web-based tracking system and installing various new servers and other hardware, a huge step was taken toward the safety and security of the systems maintained by the office.

Data Backup and Recovery has always been a high priority for the Treasurer's Office, but historically procuring offsite recovery services has always been cost prohibitive. During the last year the Department of Administration's Division of Information Systems and Communication (DISC) completed an offsite data center and offered space to interested agencies. The Treasurer's Office immediately took advantage of this opportunity and now is able to maintain live data backups in an offsite, climate controlled, managed environment.

Phase I of our offsite plan was to maintain the last 3 days of all data and all end-of-month data, online and available. We will install a new high-capacity tape drive which would backup all data at the beginning of the month and each night any data that has changed will be backed up. In this way we will maintain all data for a year on tape in addition to the live monthly backups. This phase is now in production. These offsite backups are in addition to the backups, both live and on tape, that we already maintain onsite.

## Administration cont...

Phase II of our offsite plan is to maintain working online databases of our mission critical servers and applications.

### **Agricultural Production Loan Deposit Program:**

The Agricultural Production Loan Deposit Program, created by the 2000 Legislature, has been a successful program – assisting more than 762 individual farmers over the span of merely 5 years. The Legislature authorized the Treasurer to administer this program as a method to assist agricultural borrowers with high debt to asset ratios whose lenders might not have sufficient cash to fund additional loans. Each borrower is limited to one loan at a time, but can move in and out of the program as needed – paying off one loan as crops are sold, then requesting another loan when purchasing seed for the next season's crops.

Lenders that want to participate in the program are required to sign participation agreements with the Treasurer's Office and Pooled Money Investment Board (PMIB). Each borrower must certify they meet the legal criteria and will use the proceeds of the loan as intended by the program and their lender must certify as to the borrower's eligibility. Most lenders and borrowers find this to be a very simple process to follow.

The Legislature limited the funds available for these loans to \$55 million. To stretch these dollars, as

loans payoff or principal payments are received, the Treasurer's office makes the dollars available to fund new loans as needed. Since July 2001, over \$122.9 million in loans have been funded. Ninety-nine loans were funded in FY 2005. Individual loans are limited to a maximum amount of \$250,000 with the average loan amount just over \$100,000. Most loans are much shorter in term than the 8 years allowed by law. In fact, 77 loans paid off during the fiscal year.

The lower-than-market interest rate authorized by the statute is calculated by PMIB staff each day and is displayed on their webpage. Banks are allowed a 4 percent spread between the rate they pay on the certificates of deposit and the interest rate on the corresponding loans as a means to help offset their liability for any potential losses due to the credit worthiness of their borrowers. The state does not stand to lose any principal or interest on these loans. The rates change on existing loans every six months – July 1 and December 1. All interest payments are collected in July and December and are credited to the state general fund. Since July 2000, the program has earned \$3 million in interest. During part of FY 2003 and all of FY 2004, the interest rate on the certificates of deposit was zero percent, resulting in no earnings for the SGF. The rate as of July 1, 2005 was 1.8%.

As of the end of fiscal year 2005, there were 493 outstanding loans with balances of \$54.8 million.

<b>Selected Statistics of the Agricultural Production Loan Deposit Program FY 2005</b>			
Approved Banks	50	Total Loan Funded Life of Program	\$122.9 million
Participating Banks	47	Number of Outstanding Loans as of 6/30/05	493
Participating Farm Credit System Offices	6		
Loans Funded in FY 2005	92	Loans Paid off During FY 2005	77
Borrowers Assisted Life of Program	762	Dollar Amount of Requests Outstanding as of 6/30/05	\$400,000
Outstanding Loan Balances as of 6/30/05	\$54.8 million	CD Interest Rate 7/01/05	1.80%
		Maximum loan rate 7/01/05	5.80%