

KANSAS STATE TREASURER

FISCAL YEAR 2006 ANNUAL REPORT TO THE KANSAS LEGISLATURE



SUBMITTED BY:

**THE HONORABLE LYNN JENKINS, CPA
KANSAS STATE TREASURER**

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KANSAS STATE TREASURER'S OFFICE



Dear Members of the Kansas Legislature:

It is my pleasure to present to you the 2006 Annual Report for the Kansas State Treasurer's office. We have achieved much in the past year and I am proud to share this snapshot of our activity with you. 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.

This truly has been an exciting year for the office. We have continued to expand our financial literacy initiatives which include financial planning seminars, monthly newspaper articles, and online resources for kids and adults alike. Supported by private donations and grants, most of these initiatives are free of charge to Kansans. We have had such a great response to our MoneySmart Financial Management Camp for 7th and 8th graders that plans are underway to host multiple camps in 2007!

Learning Quest, Kansas' 529 Education Savings Program, had another record-setting year! As of the end of the fiscal year, we had just under 91,000 accounts with combined assets of \$1.37 billion. We continually work to increase the investment options and decrease program costs to keep Learning Quest a competitive investment option.

We also set new records in the Unclaimed Property division. The staff works hard to find Kansas property owners to return their property to them. Their hard work paid off and we returned a record \$11.5 million in cash and Unclaimed Property to Kansans.

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. I am proud that this agency continues to be an example for other State Treasurers across the United 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 during another term in office.



Kansas State Treasurer
Lynn Jenkins, CPA

Sincerely,

Lynn Jenkins, CPA
Kansas State Treasurer



ADMINISTRATION



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 MoneySmart Financial Management Camp are two great educational programs that



To generate excitement for the Save@School program, Pauline South Elementary in Topeka held an all-school assembly with State Treasurer Jenkins. The students asked very good questions and many already knew what they were going to

buy with their saved money. information on credit cards, budgeting, 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.

involve partnerships between the State Treasurer's office and financial institutions.

Students learn basic financial skills and receive information

Information Technology

We have continued our efforts to retire our DOS based legacy code and reach our goal of all production systems being Internet/Intranet based. We are also continuing our efforts to rewrite the web-based applications in a more common language. The system which tracks investments and pledged collateral for the state of Kansas was rewritten this year. The new system provides the ability to track investments and collateral and allows external business partners to interact with the system on-line via the Internet. It will track the new Workforce Development Loan Program and allow other interested agencies, such as the Kansas Board of Regents, access to this system.

A major accomplishment this year was the installation of an Exchange Server so that our agency could reap the full benefits of an email collaboration tool. This installation required a reconfiguration of our network so that team members would be able to access their email remotely without compromising the internal network. During this revamp of the network we also took the opportunity to install a web-monitoring tool to track employee use of the Internet and ensure that agency policies were being followed. We also enhanced security by implementing strong password requirements.

We upgraded our backup tapes to a new high-capacity format. In addition to the ability to store more data, the media also provides a significantly longer shelf life than the tapes we were previously using.

Agricultural Production Loan Deposit Program

The Agricultural Production Loan Deposit Program, created by the 2000 Legislature, has been a successful program – assisting more than 806 individual farmers over the span of merely 6 years.



ADMINISTRATION



Selected Statistics of the Agricultural Production Loan Deposit Program FY 2006

Approved Banks	50	Total Loan Funded Life of Program	\$136 million
Participating Banks	46	Number of Outstanding Loans as of 6/30/06	485
Participating Farm Credit System Offices	6	Loans Paid off During FY 2006	101
Loans Funded in FY 2006	93	Dollar Amount of Requests Outstanding as of 6/30/06	\$ 0
Borrowers Assisted Life of Program	806	CD Interest Rate 7/1/06	3.59%
Outstanding Loan Balances as of 6/30/06	\$54.8 million	Maximum Loan Rate 7/1/06	7.59%

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 that 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 \$136 million in loans have been funded. Ninety-three loans

were funded in FY 2006. 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, 101 loans were 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 \$3.8 million in interest. The interest rate as of July 1, 2006 was 3.59%, up almost 2% from July 2005.

As of the end of FY 2006, there were 485 outstanding loans with balances of \$54.8 million.



CASH MANAGEMENT



Lucinda Anstaett

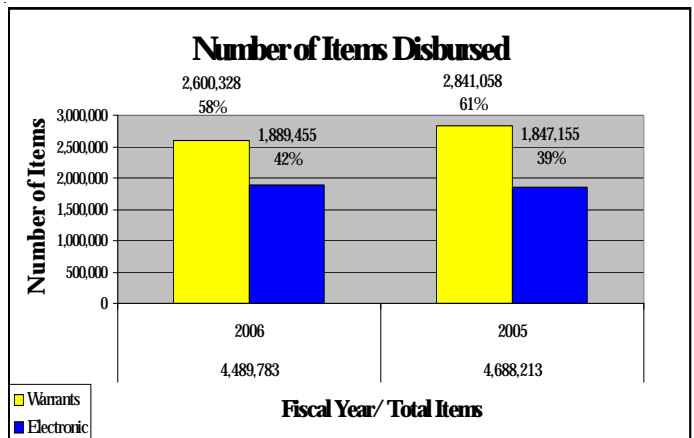
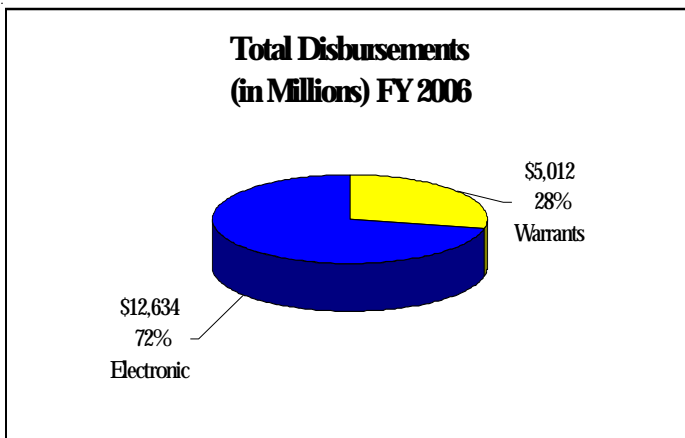
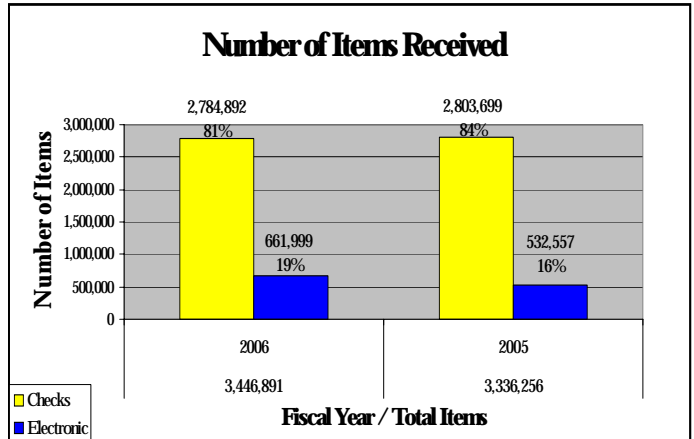
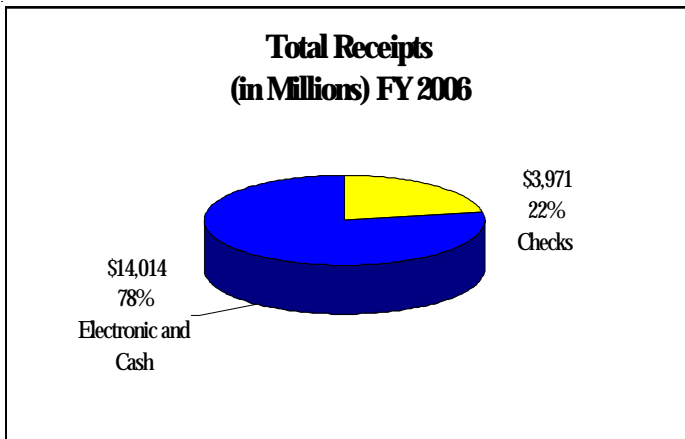
Cash Management Director

The Cash Management program consists of two subprograms: Item Processing and Aid to Local Units of Government. Each is charged with accounting for the state's funds accurately and efficiently. During the 2006 Fiscal Year, more than \$17 billion was received and distributed through the Cash Management program.

Item Processing

The Item Processing subprogram is responsible for the recording and depositing of all state monies and for the accurate accounting 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 FY 2006, 78% of the state's revenue dollars were received electronically or as cash and 72% of the state's disbursement dollars were processed electronically. This represents 19% and 42% of the number of transactions respectively and is a 3 percentage point increase in electronically processed items over FY 2005. Even though the total number of items received increased slightly, the number of check receipts actually decreased. The





CASH MANAGEMENT



Distributions to Counties & Cities FY 2006 & 2005

	FY 2006	FY 2005
Local Ad Valorem Reduction Fund	\$ 0	\$ 0
County & City Revenue Sharing Fund	\$ 0	\$ 0
Local Alcoholic Liquor Fund	\$ 21,839,363	\$ 20,563,972
Special City & County Highway	\$ 150,821,700	\$ 147,906,906
Highway Equalization	\$ 2,500,000	\$ 2,500,000
Local Sales & Use Tax	\$ 788,473,029	\$ 679,075,479
Rental Motor Vehicle Tax	\$ 2,835,055	\$ 2,767,794
TIF Revenue Replacement Fund	\$ 899,329	\$ 827,259
Transient Guest Tax	\$ 23,039,427	\$ 22,177,725
Total	\$ 990,407,903	\$ 875,819,135

total number of disbursement items has continued to decrease and a larger portion is being processed electronically.

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

This subprogram is further charged with monitoring and 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. The available funds are then invested by that board to maximize earnings.

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 amendments) suspended the Fiscal Year 2004, 2005 and 2006 distributions for the city and county revenue sharing and the local valorem tax reduction aid.



LEARNING QUEST



Scott Gates

Learning Quest Director

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 created by the task force passed the Legislature and Learning Quest was created. The program officially opened on July 1, 2000 and provides individuals and organizations a tax-deferred option to save money for future higher education expenses. 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 an 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 a 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 at any post high school institution accredited by the federal College Board to receive federal financial aid, as well as expenses associated with beneficiaries having special needs.

2006 changes to the federal legislation governing 529 college savings accounts ensure that investors will not pay taxes on the earnings in their account when the funds are withdrawn to pay qualified higher education expenses. This legislation removed a 2010 sunset for this favorable tax treatment which had limited the appeal of these plans for investors with children or grandchildren under the age of fourteen.

Besides the benefit of tax savings at the time of withdrawal, Kansas residents have an additional incentive to make saving for college expenses a priority. Kansas residents may deduct contributions per beneficiary up to \$3,000 for an individual filer or \$6,000 for married couples filing jointly.

Since 2000, Learning Quest has been distributed nationally through American Century's Partnership with Charles Schwab, Inc. In 2003 we added the Schwab 529 Plan to the line up to provide a unique product for Schwab investors. The Treasurer's Office has continued to expand the investment options offered in Learning Quest by adding four portfolios based on Vanguard indexed mutual funds in FY 2005.

Program Accomplishments

Assets under management in the Learning Quest Program continued to grow to \$1.37 billion as of June 30, 2006. At that time there were just under 91,000 accounts for nearly 43,000 account holders. The average family participating in the program has accumulated slightly over \$15,000 for their family member's post-secondary education expenses. The



LEARNING QUEST



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 continues to be one of the top plans rated by SavingForCollege.com. The Schwab 529 Plan has shown impressive growth since its debut in 2003 and currently has average account balances that rank in the top five among all 529 college savings plans.

2006 Legislative Enhancements

Tax parity: Beginning January 1, 2007, Kansans can receive their Kansas income tax deduction of up to \$3,000 for single filers or \$6,000 for joint filers when they contribute to Learning Quest or any other state-sponsored 529 college savings plan. This legislation enables Kansas taxpayers to choose the plan that works best for them and still get their Kansas income tax deduction.

K.I.D.S. Program: Kansas Investments Developing Scholars is a new matching grant program created by the Legislature for families with incomes less than 200% of the federal poverty level. For a family of four, this income level is \$40,000. When

qualified participants contribute at least \$100 to their Learning Quest account, the state will match their contribution up to \$600. The Treasurer's Office drafted the regulations for the program, worked with American Century to set up special restrictions for these accounts and started promoting the program in the fall of 2006.

Penalty Eliminated: Senate Bill 330 eliminated a penalty that had required investors to repay their Kansas income tax deduction if they made a withdrawal within one year after opening an account.

Marketing and Outreach Opportunities

We reach 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.

Approximately 850 7th and 8th graders from across the state submitted essays for this year's annual essay contest. Winners from each grade level were selected and 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 2006	
Number of Accounts Owned by Kansans	40,999
From Other States	49,743
Total Accounts as of 6/30/2006	90,742
Total Assets as of 6/30/06	\$1,370,309,997



MUNICIPAL BOND SERVICES



Carmen Klopping
Municipal Bond Services Director

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 1992-1995, 1999-2000, 2002-2004 and 2006, the agency was selected to service the bonds authorized by the Kansas Comprehensive Highway Program.

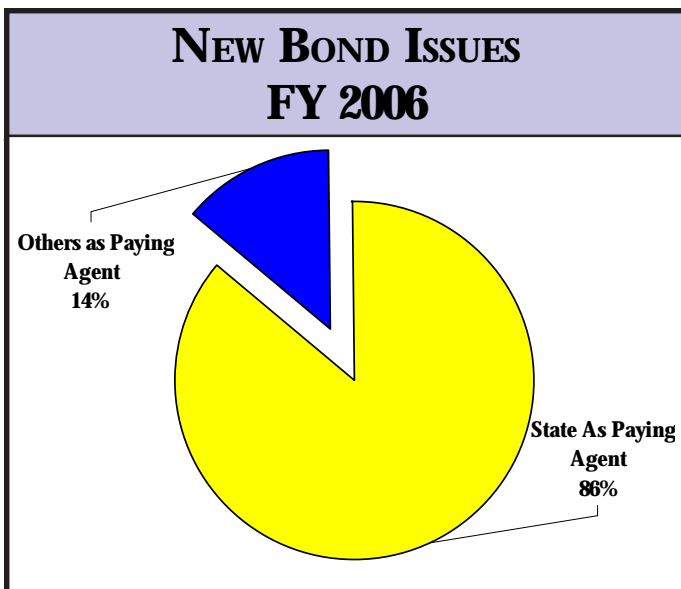
As registrar and transfer agent for almost 90% of the outstanding municipal bond issues in Kansas, the State Treasurer maintains records on 31,380 bond holders to permit prompt and accurate processing of transactions, as well as timely payments of principal and interest to owners. In addition to the 2,191 bond issues in registered form which have been issued since 1983, this program also services 17 bearer-form issues.

Under current law, KSA 10-506, KSA 10-603 and KSA 10-627, as amended July 1, 2000, amounts are received and deposited in the state treasury and credited to the Bond Services Fee Fund. 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 also 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 2006 were \$657,005, 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 are approximately \$1.4 billion annually.

During the report year, 249 new issues were recorded and the Treasurer was named paying agent on all but 35 of those bond issues. The total principal amount outstanding on bonds serviced as of June 30, 2006, was in excess of \$12.5 billion. 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.

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. During FY 2006, transfers were submitted timely 100% of the time.





MUNICIPAL BOND SERVICES



Municipal Bonds Activities FY 2006 & 2005				
	FY 2006		FY 2005	
	NUMBER	AMOUNT	NUMBER	AMOUNT
BONDS				
New Issues				
Total Registered	249	\$ 2,298,615,757	271	\$ 2,608,793,915
State as Paying Agent	214	\$ 1,714,470,757	235	\$ 2,012,690,915
State as Paying Agent	2,206	\$12,599,291,556	2,150	\$11,591,124,296
Transfers				
Cancelled	9,484	\$ 334,843,000	11,581	\$ 286,676,000
Issued	1,633	\$ 334,843,000	2,156	\$ 286,676,000
Calls	149	\$ 202,049,308	196	\$ 433,495,104
Registration Fees Collected		\$ 9,675		\$ 9,980
Standard Fees Collected		\$ 627,439		\$ 723,172
Commissions		\$ 19,891		\$ 31,757
TEMPORARY NOTES				
Total Registered	129	\$ 566,885,196	118	\$ 485,690,583
State as Paying Agent	68	\$ 220,163,200	55	\$ 171,086,950
PAYMENTS				
		\$ 1,419,036,310		\$ 1,508,418,910
RECEIPTS				
Cash & Wire		\$ 732,139,067		\$ 963,365,045
Interfund		\$ 681,781,060		\$ 600,248,313



UNCLAIMED PROPERTY



Peggy Hanna

Unclaimed Property Director

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 holder may aggregate property valued below \$100 together. 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 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 2006 was a successful year for the Unclaimed Property program. Over \$21.8 million in unclaimed property was received. A portion of this amount resulted from the sale of stock received in an earlier 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 \$11.5 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 \$605,921 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



State Treasurer's Office employees search last names of Kansans hoping to find Unclaimed Property during a WIBW Unclaimed Property telethon. Over \$440,000 was returned.



UNCLAIMED PROPERTY



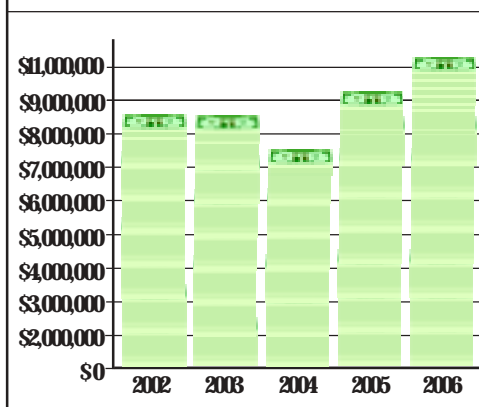
searching for owners. One staff member is dedicated full-time to outreach with the rest of the staff searching as time allowed. As new property is reported, a staff member starts searching each name on the Internet. They attempt to make contact with the owner or their heirs and send claims to that person(s). 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.

One of the best “tools” we have available to us for the outreach effort is the Treasurer herself. Starting in 2003 when she took office, Treasurer Jenkins has routinely made the Unclaimed Property a focus as she travels throughout the state speaking to small and large groups of Kansas citizens.

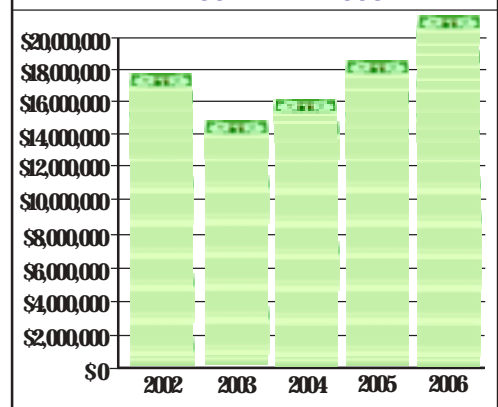
This year it was particularly important to have her on the road talking about the MetLife stock properties that we received a couple of years ago and are getting ready to sell as required by statute. With these properties, which resulted from ownership of life insurance policies sold for very small children, the Treasurer focused on women and their maiden names. Awareness was raised all over the state and claim forms flooded in. A representative from MetLife told our office that MetLife appreciated the great job we are doing of finding owners and reuniting them with their property.

Historical Summary of Unclaimed Property Returned & Collected

Unclaimed Property Returned FY 2002 - FY 2006



Unclaimed Property Received FY 2002 - FY 2006



We are very proud of one of the features of our new unclaimed property tracking system - the ability for owners’ claims to be pre-approved if filed on the Internet. If the property held meets certain criteria and the claimant holds a valid Kansas driver’s license or identification card, our system validates against the Department of Revenue driver’s license database and the claimant is informed right at the time whether the claim can proceed as a paperless claim. Unclaimed Property staff then review the claim on-line and either approve or deny the claim. Claims that are approved on-line move to the head of the approved claim list and the person can receive their check in just a few days, usually less than a week.

This process is not available in most other states’ unclaimed property programs and shows the Kansas State Treasurer’s office is creative and willing to consider all possibilities when it comes to returning unclaimed assets to the rightful owners.