

Approved 5-12-89
Date

MINUTES OF THE House COMMITTEE ON Appropriations

The meeting was called to order by Bill Bunten at
Chairperson

12:15 ~~xx~~/p.m. on March 30, 1989 in room 514-S of the Capitol.

All members were present except: All present.

Committee staff present: Ellen Piekalkiewicz, Debra Duncan, Russ Mills, Julian Efird,
Kansas Legislative Research Department
Jim Wilson, Revisor of Statutes
Sharon Schwartz, Administrative Aide
Sue Krische, Committee Secretary

Conferees appearing before the committee:

Representative Artie Lucas
Paul Klotz, Association of Community Mental Health Centers
Larry Montgomery, Director, Kansas Lottery
Warren Corman, Kansas Board of Regents
Ed DeVilbiss, Director, Division of Architectural Services

Others attending: See attached list.

HB 2548 - Appropriations for FY89 and FY90, new correctional facility
and mental health facility for department of corrections.

A staff memorandum on the Joint Committee on State Building Construction
recommendations on new correctional facilities construction was
distributed to the Committee (Attachment 1). A draft amendment
to HB 2548 was presented that will implement the proposal of the
Joint Committee on State Building Construction (Attachment 2).
Representative Gatlin moved adoption of the proposed amendments
to HB 2548 which include planning funds of \$3,176,501 and \$30,000
for hiring a consultant on mental health services for inmates.
Representative Kline seconded. Motion carried. Representative
Chronister moved that HB 2548, as amended, be recommended favorably
for passage. Representative Teagarden seconded.

In response to a question regarding a consultant on a mental health
program, Representative Heinemann stated a consultant would advise
what components would be necessary to address the mental health
needs in our prison system after considering what is presently
available at the SRS institutions. On a voice vote to pass HB 2548
favorably as amended, the motion carried.

HB 2556 - Corrections, contracts for inmate confinement in municipally
owned facilities.

Representative Artie Lucas explained that HB 2556 allows the Secretary
of Corrections to negotiate with the city of Horton for placing
medium custody inmates in facilities owned by the city. He presented
amendments to the bill that would broaden the authority to allow
negotiated placement with all cities and counties in Kansas (Attachment 3).
Representative Vancrum moved adoption of the amendments to broaden
HB 2556 proposed by Representative Lucas. Representative Heinemann
seconded. Motion carried. Representative Vancrum made a motion
to exempt prisoners placed pursuant to the interstate corrections
compact from the provisions of HB 2556. Representative Wisdom
seconded. Motion carried. Representative Kline moved that HB
2556, as amended, be recommended favorably for passage. Representative
Vancrum seconded. Motion carried.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Appropriations

room 514-S, Statehouse, at 12:15 ~~am~~/p.m. on March 30, 1989

HB 2554 - Community mental health centers authorized to expend funds for loans or scholarships for staff recruitment purposes.

Representative Moomaw explained that HB 2554 would allow governing boards of community mental health centers to expend funds for academic scholarships and loans to individuals who are studying psychology or social work and who intend to work at the Center following graduation.

Paul Klotz, Association of Community Mental Health Centers, appeared in support of HB 2554.

Representative Moomaw moved that HB 2554 be recommended favorably for passage. Representative Mead seconded. Motion carried.

SB 345 - Transfers of money from Lottery operating fund.

Julian Efird, Kansas Legislative Research Department, explained that SB 345 amends current law on transfers of Lottery revenue to the State Gaming Revenues Fund (SGRF) to allow for monthly transfers to be based on 30 percent of sales of tickets and shares by retailers less returned tickets and less bad debt reserve. A handout was provided including correspondence on the origin of SB 345 and the current Memorandum of Understanding between the Director of Accounts and Reports and the Director of the Lottery (Attachment 4).

Larry Montgomery, Director, Kansas Lottery, testified that SB 345 reflects codification of accounting procedures to allow more accurate reflection of estimated sales from which 30 percent will be transferred to the SGRF (Attachment 5).

Staff noted SB 345 should be amended as recommended in the House subcommittee report to establish a Special Lottery Operating Fund-Reserve Fund in order to provide a separate account for a \$1.5 million reserve for returned tickets and bad debts. In addition, the amendment should provide that the maximum cumulative balance in the Reserve Fund be restricted to \$1.5 million and that expenditures in the Reserve Fund be limited to the purposes stated in SB 345. The House subcommittee report also recommended amending SB 345 to provide statutory authority for the transfer of \$1,444,696 in Lottery revenue to the County Reappraisal Fund in FY89. Representative Hoy moved to amend SB 345 as recommended in the House subcommittee report on the Lottery. Representative Hensley seconded. Motion carried. By consensus, language will be added to SB 345 defining "return tickets." Representative Hoy moved that SB 345, as amended, be recommended favorably for passage. Representative Helgerson seconded. Motion carried.

SB 339 - Transfers of money from state racing fund.

Julian Efird, Kansas Legislative Research Department, explained that SB 339 amends current law to provide that transfers from the State Racing Fund will be monthly beginning on January 15, 1990, and on the 15th day of each month thereafter. This complies with the Governor's Budget Amendment request submitted on February 1, 1989. The bill also specifies a minimum balance of \$1 million to be retained in the State Racing Fund. Jim Grenz, Executive Director, State Racing Commission, supports the bill but was unable to appear today. Representative Hoy moved that SB 339 be recommended favorably for passage. Representative Helgerson seconded. Motion carried.

SB 322 - Financing energy conservation improvements to state facilities.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Appropriations,
room 514-S, Statehouse, at 12:15 ~~am~~ p.m. on March 30, 1989

Warren Corman, Kansas Board of Regents, appeared in support of SB 322 which establishes a program to finance energy conservation improvements to state facilities. He distributed an overview statement outlining the program implemented in SB 322 (Attachment 6). Mr. Corman stated the bill allows the Kansas Development Finance Authority (KDFA) to issue bonds to finance energy conservation projects and if utility savings are realized, they will be used to repay the bonds. The total costs of projects for any year cannot exceed \$5 million.

Representative Kline offered a conceptual motion to amend SB 322 to provide that the Division of Architectural Services of the Department of Administration be the agency authorized to review and approve those energy conservation projects to be funded. Representative Vancrum seconded. Motion carried.

Ed DeVilbiss, Director, Division of Architectural Services, testified in support of SB 322.

Representative Solbach moved that SB 322, as amended, be recommended favorably for passage. Representative Pottorff seconded. Motion carried.

Representative Goossen moved that the minutes of March 13, 14, and 15, 1989 be approved as presented. Representative Teagarden seconded. Motion carried.

The meeting was adjourned at 1:40 p.m.

HB 2548

Carried by Kline

JOINT COMMITTEE ON STATE BUILDING CONSTRUCTION
RECOMMENDATIONS ON NEW CORRECTIONAL FACILITIES CONSTRUCTION

1. Consultant. Appropriate \$30,000 from the State General Fund in FY 1989 to the LCC to hire a consultant to formulate an acceptable mental health program for Department of Corrections inmates. The plan should include the following:
- operational definition of mental illness and/or retardation;
 - procedures to screen, identify, and evaluate the inmate's needs;
 - the number of mentally ill/mentally retarded and their classification;
 - the types of treatment services to be provided;
 - staffing patterns and space needs necessary to meet minimal standards; and
 - the location of one or more units to provide appropriate mental health services to Department of Corrections' inmates.

The consultant's report should be developed and presented to the Joint Committee prior to the end of FY 1989 or as soon thereafter as possible to insure the minimal amount of delay.

2. New Maximum Security Facility

- Core facilities should be constructed to support a 1,408 bed facility, as recommended by the Department.
- Final planning funds should be appropriated to start on 512 maximum security beds; in addition, the final planning funds for an additional 256 beds should be appropriated, subject to a recommendation of the Joint Committee to the State Finance Council after the Joint Committee receives the report of the consultant. The site of this facility is not designated by the Joint Committee.

- 3.
- Mental Health Unit.
- Appropriate preliminary and final planning funds for the construction of a mental health unit as recommended by the Governor, subject to the proviso that no expenditures shall be made pending a recommendation from the Joint Committee to the State Finance Council after the Joint Committee receives the report of the consultant. The funding should be flexible so that any improvements required may be made to facilities under the control of the Department of Corrections or the Department of SRS.

- 4.
- Bonding.
- Construction funding of all the facilities should be bonded as recommended by the Governor. Sufficient debt service funding should be appropriated subject to any provisos which may be required to insure the recommendations contained in Nos. 2 and 3 above.

PROPOSED AMENDMENT

Be amended:

On page 1, in line 33, by striking "facility"; in line 34, by striking "new"; also in line 34, by striking "facility" and inserting in lieu thereof "facilities"; by striking all in line 39 and inserting in lieu thereof the following:

"Planning for new correctional and mental health facilities..... \$3,176,501

Provided, That expenditures may be made from this account for final planning of those portions of the proposed new correctional facility to provide for confinement of 512 maximum custody inmates: Provided further, That no expenditures shall be made from this account for final planning of additional portions of the new correctional facility to provide for confinement of an additional 256 inmates or for preliminary or final planning for one or more new mental health facilities or units unless a report of recommendations on mental health services for inmates, developed by a consultant contracted for by the legislative coordinating council, has been presented to the joint committee on state building construction and the secretary of corrections has advised and consulted thereon with the joint committee on state building construction: And provided further, That no expenditures may be made from this account for final planning of additional portions of the new correctional facility to provide for confinement of an additional 256 inmates or for preliminary or final planning for one or more new mental health facilities or units except upon approval of the state finance council acting on this matter which is hereby declared to be a matter of legislative delegation and subject to the guidelines prescribed by subsection (c) of K.S.A. 75-3711c and amendments thereto and acting on this matter after receiving the recommendations of the joint committee on state building construction regarding the new correctional and mental health facilities or units.";

Also on page 1, in line 43, by striking "facility"; also in line 43, by striking "new"; in line 44, by striking "facility" and inserting in lieu thereof "facilities";

On page 2, in line 56, by striking "facility and new mental health facility" and inserting in lieu thereof "and mental health facilities"; preceding line 57, by inserting the following:

"Sec. 3.

HA
3-30-89
Attachment 2

LEGISLATIVE COORDINATING COUNCIL

(a) There is appropriated for the above agency from the state general fund for the fiscal year ending June 30, 1989, the following:

Legislative coordinating council -- operations.... \$30,000

Provided, That expenditures may be made from this account in accordance with K.S.A. 46-1204 and amendments thereto for consulting services to formulate recommendations concerning mental health services for inmates in the custody of the secretary of corrections to be presented to the joint committee on state building construction prior to July 1, 1989: Provided, however, That expenditures from this account for such consulting services shall not exceed \$30,000.";

And by renumbering section 3 as section 4;

On page 1, in the title, in line 20, preceding the semicolon, by inserting: "and the legislative coordinating council";

And the bill be passed as amended.

HOUSE BILL No. 2556

By Committee on Appropriations

3-28

PROPOSED AMENDMENT FOR CONSIDERATION BY COMMITTEE ON APPROPRIATIONS

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3-30-89
Attachment B

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AN ACT concerning the department of corrections; relating to certain placements of inmates in facilities pursuant to contracts with ~~municipalities~~

Kansas cities and counties

Be it enacted by the Legislature of the State of Kansas:

Section 1. The secretary of corrections is hereby authorized to negotiate and enter into ~~a contract with the city of Horton, Kansas,~~ for the placement of inmates, who are classified as medium custody or any higher custody or security classification, in facilities owned and operated by the ~~city of Horton, Kansas.~~ ~~The secretary of corrections shall negotiate and execute a preliminary letter of commitment on or before June 1, 1989, providing that if any inmates classified as medium custody or any higher custody or security classification are placed for confinement in facilities other than correctional or other institutions or facilities owned or operated by the department of corrections or any other state agency, that such inmates shall be placed in facilities owned and operated by the city of Horton, Kansas, in accordance with the contract entered into pursuant to this section.~~ The provisions of this section and any contract or preliminary letter of commitment entered into pursuant to this section shall not apply to any minimum custody or community custody status inmates, or any other custody or security classification lower than medium custody, or to any inmate who may be placed in a work release or prerelease program, center or facility by the secretary of corrections ~~or~~ who is eligible for parole. Contracts entered into pursuant to this section shall not be subject to competitive bid requirements under K.S.A. 75-3739 and amendments thereto.

contracts with Kansas cities and counties

cities and counties and may negotiate and execute preliminary letters of commitment indicating a formal intent to enter into such a contract with a particular city or county

If the secretary of corrections proposes to place any inmates classified as medium custody or any higher custody classification for confinement in facilities other than correctional or other institutions or facilities owned and operated by the department of corrections or any other state agency, the secretary of corrections shall offer and attempt to enter into contracts with Kansas cities and counties under this section before attempting to place any such inmate for confinement at any location outside the state of Kansas.

or who is placed pursuant to the interstate corrections compact

Sec. 2. This act shall take effect and be in force from and after its publication in the Kansas register.

SUBCOMMITTEE REPORT

Agency: Kansas Lottery

Bill No. 80

Bill Sec. 6

Analyst: Efird

Analysis Pg. No. 223

Budget Pg. No. 440

Senate Subcommittee Recommendations

The Subcommittee concurs with the Governor's recommendations, with the following exceptions:

5. Recommends that the Lottery treat its accounts receivable of \$1.4 million as of June 30, 1988, as revenue in this fiscal year and that 30 percent of the revenue be certified for transfer to the State Gaming Revenues Fund as soon as possible. The accounts receivable revenue should be added to the projected cash receipts for FY 1989 above the Governor's estimates and the net remaining balance after transfer of 30 percent to the SGRF would become an additional FY 1989 resource which would enhance the Governor's estimated ending balance (see Other Information -- Lottery Operating Fund Analysis).

①

The Subcommittee further believes that the Lottery should review this issue to determine how to treat any accounts receivable for subsequent fiscal years occurring at the close of the accounting period on June 30. The Lottery should consider making an estimate of the 30 percent transfer by the official close of the state's books before mid-July in order to make a distribution to the SGRF for the just completed fiscal year's accounts receivable. At a latter period the Lottery should make a further adjustment to reconcile the estimated amount transferred relative to the amounts actually received during the next fiscal year on which the 30 percent transfer is due. The Lottery should report to the House Subcommittee relative to its review with its external accounting firm and its planned procedures regarding this issue of accounts receivable.

②

The Subcommittee further recommends that a bill be introduced to amend statutory language concerning the transfer of the 30 percent to the SGRF in order to reflect the current Memorandum of Understanding between the Director of Accounts and Reports and the Director of the Lottery. That agreement allows for monthly transfers to be based on 30 percent of sales of tickets and shares by retailers less returned tickets and less bad debt reserve. Current law specifies an amount not less than 30 percent of total revenues from the sales of lottery tickets and shares during the fiscal year be transferred.

The Subcommittee recommends that the Lottery Director secure a letter from the Lottery's external accountant explaining the concept of a reserve fund used for handling returned tickets and bad debts; how the 12 percent formula was derived for Kansas; and how the \$1.5 million maximum reserve was determined. The Subcommittee believes that this information must be provided prior to consideration of the proposed legislation after a bill is introduced.

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3-30-89

Attachment 4

Senate Committee Recommendation

The Committee concurs with its Subcommittee.

House Subcommittee Recommendation

The Subcommittee concurs with the Senate with the following exceptions:

1. Transfer \$1,444,696 to the County Reappraisal Fund in order to comply with 1988 H.B. 3091 and amend 1989 S.B. 345 to provide statutory authority for the transfer to take place this fiscal year. The Subcommittee notes that the Senate's recommendation (in item 5 of its Subcommittee's Report) concerning taking 30 percent of the \$1.4 million for the State Gaming Revenues Fund was not incorporated into legislation. The funds in question were cash received this fiscal year, but were generated by sales of lottery tickets last fiscal year. If the funds had been deposited in the State Treasury by June 30, 1988, they would have been transferred to the County Reappraisal Fund under provisions of 1988 H.B. 3091. However, since the cash was deposited this fiscal year for sales which occurred last fiscal year, the funds became part of the Lottery's FY 1989 cash balance. Since the Lottery did not pay 30 percent of the \$1.4 million to the SGRF until the Senate recommended that action, the Subcommittee concludes that the Lottery also considered the cash as part of last year's financial activity
2. Amend S.B. 345 to establish a Special Lottery Operating Fund--Reserve Fund in order to provide a separate account for a \$1.5 million reserve for returned tickets and bad debts. The Senate's recommendation in item 5 of its Subcommittee Report addresses this reserve. The House Subcommittee further recommends that the maximum cumulative balance in the Reserve Fund be restricted to \$1.5 million and that expenditures in the Reserve Fund be limited to the purposes stated in S.B. 345



Arthur Young

One Kansas City Place
1200 Main Street
Kansas City, Missouri 64105-2100
Telephone: (816) 474-5200
Telex: 43-4220

March 7, 1989

Mr. Larry Montgomery
Executive Director
Kansas Lottery
128 North Kansas Avenue
Topeka, Kansas 66603

KANSAS LOTTERY
MAR 10 1989

Dear Larry:

Your June 30, 1988 financial statements disclosed an accounts receivable of \$1,444,695, which was net of allowances for ticket returns and doubtful accounts.

The net accounts receivable consisted of the following:

Net accounts receivable related to lottery tickets sold, but cash not yet received	\$1,380,695
Estimated receivable from vendor	64,000
Total	<u>\$1,444,695</u>

We understand the Kansas Lottery Subcommittee of the Kansas Senate has requested you remit 30% of the net accounts receivable related to the sale of tickets and shares to the State Gaming Revenues Fund. Based upon the compilation at June 30, 1988, such remittance would be \$414,208.50 (i.e., \$1,380,695 x 30%).

We understand the Subcommittee has requested this remittance because such amount was never subject to the June 30, 1988 transfer to the County Reappraisal Fund or subsequent monthly transfers to the State Gaming Revenues Fund. This occurred because:

1. the transfer to the County Reappraisal Fund is computed based upon cash balances at June 30, 1988. Since the amount of the account receivable had not been collected at June 30, 1988, the amount of such receivable was not subject to such transfer computation.
2. the transfer to the State Gaming Revenues Fund is computed based upon fiscal year, 1989 (and subsequent year) sales of tickets and shares determined on the accrual basis of accounting. Since the amount of accounts receivable represent fiscal year, 1988 sales, the amount of such receivable was not subject to such transfer computation.

In accrual basis accounting, an accounts receivable represents management's estimate of the amount of sales which have occurred at the financial statement date, for which subsequent collection is expected. In the case of the Kansas Lottery's accounting system, net accounts receivable at June 30, 1988 related to the sale of lottery tickets was either:

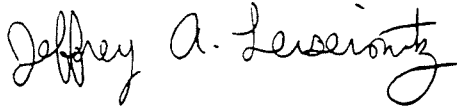
1. subsequently collected (and thus the Lottery is being requested to remit 30% of the amount which will ultimately be collected from retailers), or
2. not subsequently collected and expensed as a doubtful account; accordingly, a future transfer amount to the State Gaming Revenues Fund will be reduced for such bad debt. (We understand that the Lottery deducts bad debts from sales of tickets and shares in the computation of the amount to be transferred to the State Gaming Revenues Fund; i.e., the transfer amount is reduced by 30% of bad debts.)

We understand the subcommittee has also requested accounts receivable be considered at future fiscal year-ends as an adjustment to the transfer computation for the transfer to the State Gaming Revenues Fund. However, no adjustment should be necessary because the Lottery computes sales of instant tickets for purposes of the transfer computation on an accrual basis. (The accounts receivable amount represents the balance sheet accrual for sales not

yet collected. Such amount is already included in total accrual sales for the year.)

If I can be of further assistance in this or any other matter, please do not hesitate to call.

Sincerely,



Jeffrey A. Leiserowitz



Arthur Young

920 Main Street
Kansas City, Missouri 64105
Telephone: (816) 474-5200
Telex: RCA 43-4220

February 23, 1989

Mr. Larry Montgomery
Executive Director
Kansas Lottery
128 North Kansas Avenue
Topeka, Kansas 66603

KANSAS LOTTERY
FEB 25 1989

KANSAS LOTTERY
FEB 25 1989

Dear Larry:

Your June 30, 1988 financial statements disclosed an allowance for estimated instant ticket returns of \$1,301,959. We understand from Kansas Lottery (the Lottery) management that such amount represents an estimate of tickets sold to retailers at June 30, 1988, which will ultimately be returned to the Lottery. The allowance is net of retailer commission expenses and certain prize expenses which will ultimately not be incurred when the tickets are returned.

We also understand that the amount of such return was based upon the following factors:

1. Past experience of the Lottery with respect to instant ticket returns.
2. Other specific judgments made by management. For example, at June 30, 1988, management was aware that an extraordinary number of Game 4 tickets which had been sold were defective and would be returned after June 30, 1988.

The authoritative generally accepted accounting principle for recording such allowance is Statement of Financial Accounting Standards No. 48, "Revenue Recognition When Right of Return Exists" (SFAS 48). Paragraph 7 of SFAS 48 states: "If sales revenue is recognized because the conditions of paragraph 6 (of SFAS 48)* are met, any costs or losses that may be expected in connection with any returns shall be accrued in accordance with (SFAS) 5, "Accounting for

Contingencies."** Sales revenue and cost of sales reported in the income statement shall be reduced to reflect estimated returns."

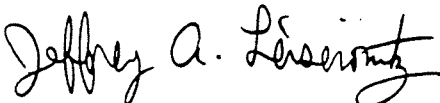
*: The Lottery's policy is to record sales of instant tickets at the time of sale, in accordance with paragraph 6 of SFAS 48.

** : Paragraph 8 of SFAS 5 generally requires accrual of a loss contingency if the loss is probable and the amount of such loss can be reasonably estimated.

Based on the facts presented to us during our compilation of the Kansas Lottery's financial statements for the year ended June 30, 1988 and for the period from March 19, 1987 (inception) through June 30, 1987, such policy of accruing an allowance for estimated instant ticket returns appears to be in accordance with generally accepted accounting principles, and the methodology for determining the amount of such allowance appears rational and systematic. However, it should be noted that our procedures constituted a compilation, which is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the aforementioned financial statements and, accordingly, do not express an opinion or any form of assurance on them, or on any elements, accounts, items, or accounting policies related to such financial statements.

If I can be of further assistance in this or any other matter, please do not hesitate to call.

Sincerely,



Jeffrey A. Leiserowitz

MEMORANDUM OF UNDERSTANDING

The following represents the understanding of the parties following the meeting of July 14, 1988, of the staffs of the Division of Accounts and Reports and the Kansas Lottery:

1. Timing of payments required by K.S.A. 1987 Supp. 74-8711, as amended by House Bill No. 3091:
 - (a) Approval of initial voucher by Executive Director: on or about August 10, 1988.
 - (b) Initial transfer by Accounts and Reports of Operating Fund moneys to the State Gaming Reserves Fund: on or before August 15, 1988.
 - (c) Monthly vouchers approval: on or about the 10th of each month thereafter.
 - (d) Monthly transfers: on or before the 15th of each month thereafter.
 - (e) Final 1989 Fiscal Year Transfer for the Month of June: by July 10, 1989.
2. Transfers to the State Gaming Revenues Fund on the 15th of the month to cover the period from the first to the end of the preceding month.
3. Revenue calculations will be based upon an amount equal to the moneys in the Lottery operating fund in excess of those required for purposes described in subsections (c)(1) through (c)(4) of K.S.A. 1987 Supp. 74-8711 as amended by House Bill No. 3091 of the 1988 Legislature, or 30% of sales of tickets and shares by retailers less returned ticket and shares reserve and less bad debt reserve, whichever is greater.
4. All forms concerning the approval and transfer of moneys from the Lottery Operating Fund to the State Gaming Fund will be designed and provided by the Division of Accounts and Reports.

All moneys in the Lottery Operating Fund are subject to control by the Pooled Money Investment Board, and all interest accruing from investments is credited to the State General Fund.

8-9-88
(Date)

James R. Cobbler
James R. Cobbler
Director, Accounts and Reports

8/9/88
(Date)

Larry Montgomery
Larry Montgomery
Executive Director, Kansas Lottery

TESTIMONY BEFORE
HOUSE APPROPRIATIONS COMMITTEE
SENATE BILL NO. 345
LARRY MONTGOMERY
MARCH 30, 1989

THE LOTTERY CONCURS WITH SENATE BILL No. 345.

SENATE BILL No. 345 IS STATUTORY CLEAN-UP LEGISLATION TO ACCURATELY REFLECT AN ACCOUNTING PROCEDURE WHERE POTENTIAL SALES RECOGNIZE THE CONTINGENCY OF RETURNED TICKETS AS RECOMMENDED BY ARTHUR ANDERSEN AND ARTHUR YOUNG, AND CONCURRED IN BY THE DIRECTOR OF ACCOUNTS AND REPORTS AND THE DIRECTOR OF THE LOTTERY.

THE ATTACHED MEMORANDUM OF UNDERSTANDING DATED AUGUST 9, 1988, CODIFIES THE AGREEMENT BETWEEN THE DIRECTOR OF ACCOUNTS AND REPORTS AND THE DIRECTOR OF THE LOTTERY.

THE ATTACHED LETTER FROM ARTHUR YOUNG INDICATES THE APPROPRIATE ACCOUNTING PROCEDURE. THE GENERALLY ACCEPTED ACCOUNTING PRINCIPLE FOR RECORDING SUCH ALLOWANCE IS STATEMENT OF FINANCIAL ACCOUNTING STANDARDS No. 5 . . . "ACCOUNTING FOR CONTINGENCIES" . . . "SALES REVENUE AND COST OF SALES REPORTED IN THE INCOME STATEMENT SHALL BE REDUCED TO REFLECT ESTIMATED RETURNS."

CONSEQUENTLY, SENATE BILL No. 345 REFLECTS CODIFICATION OF ACCOUNTING PROCEDURES TO ALLOW MORE ACCURATE REFLECTION OF ESTIMATED SALES FROM WHICH 30% WILL BE TRANSFERRED TO THE STATE GAMING REVENUE FUND. THERE IS NO FUND TO BE ESTABLISHED FOR THIS PROCEDURE. THERE IS NO MONEY TO BE IN RESERVE. IT IS SIMPLY AN ACCEPTED ACCOUNTING PROCEDURE TO ARRIVE AT THE BEST POSSIBLE ESTIMATE OF ACTUAL SALES.

HA
3-30-89
Attachment 5

MEMORANDUM OF UNDERSTANDING

The following represents the understanding of the parties following the meeting of July 14, 1988, of the staffs of the Division of Accounts and Reports and the Kansas Lottery:

1. Timing of payments required by K.S.A. 1987 Supp. 74-8711, as amended by House Bill No. 3091:
 - (a) Approval of initial voucher by Executive Director: on or about August 10, 1988.
 - (b) Initial transfer by Accounts and Reports of Operating Fund moneys to the State Gaming Reserves Fund: on or before August 15, 1988.
 - (c) Monthly vouchers approval: on or about the 10th of each month thereafter.
 - (d) Monthly transfers: on or before the 15th of each month thereafter.
 - (e) Final 1988 Fiscal Year Transfer for the Month of June: by July 10, 1989.
2. Transfers to the State Gaming Revenues Fund on the 15th of the month to cover the period from the first to the end of the preceding month.
3. Revenue calculations will be based upon an amount equal to the moneys in the Lottery operating fund in excess of those required for purposes described in subsections (c)(1) through (c)(4) of K.S.A. 1987 Supp. 74-8711 as amended by House Bill No. 3091 of the 1988 Legislature, or 30% of sales of tickets and shares by retailers less returned ticket and shares reserve and less bad debt reserve, whichever is greater.
4. All forms concerning the approval and transfer of moneys from the Lottery Operating Fund to the State Gaming Fund will be designed and provided by the Division of Accounts and Reports.

All moneys in the Lottery Operating Fund are subject to control by the Pooled Money Investment Board, and all interest accruing from investments is credited to the State General Fund.

8-9-88
(Date)

James R. Cobbler
James R. Cobbler
Director, Accounts and Reports

[Handwritten signature]
8/9/88

[Handwritten signature]

Arthur Young

920 Main Street
Kansas City, Missouri 64105
Telephone: (816) 474-5200
Telex: RCA 43-4220

February 23, 1989

Mr. Larry Montgomery
Executive Director
Kansas Lottery
128 North Kansas Avenue
Topeka, Kansas 66603

KANSAS LOTTERY
FEB 25 1989

KANSAS LOTTERY
FEB 25 1989

Dear Larry:

Your June 30, 1988 financial statements disclosed an allowance for estimated instant ticket returns of \$1,301,959. We understand from Kansas Lottery (the Lottery) management that such amount represents an estimate of tickets sold to retailers at June 30, 1988, which will ultimately be returned to the Lottery. The allowance is net of retailer commission expenses and certain prize expenses which will ultimately not be incurred when the tickets are returned.

We also understand that the amount of such return was based upon the following factors:

1. Past experience of the Lottery with respect to instant ticket returns.
2. Other specific judgments made by management. For example, at June 30, 1988, management was aware that an extraordinary number of Game 4 tickets which had been sold were defective and would be returned after June 30, 1988.

The authoritative generally accepted accounting principle for recording such allowance is Statement of Financial Accounting Standards No. 48, "Revenue Recognition When Right of Return Exists" (SFAS 48). Paragraph 7 of SFAS 48 states: "If sales revenue is recognized because the conditions of paragraph 6 (of SFAS 48)* are met, any costs or losses that may be expected in connection with any returns shall be accrued in accordance with (SFAS) 5, "Accounting for

Contingencies."** Sales revenue and cost of sales reported in the income statement shall be reduced to reflect estimated returns."

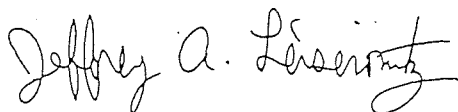
*: The Lottery's policy is to record sales of instant tickets at the time of sale, in accordance with paragraph 6 of SFAS 48.

** : Paragraph 8 of SFAS 5 generally requires accrual of a loss contingency if the loss is probable and the amount of such loss can be reasonably estimated.

Based on the facts presented to us during our compilation of the Kansas Lottery's financial statements for the year ended June 30, 1988 and for the period from March 19, 1987 (inception) through June 30, 1987, such policy of accruing an allowance for estimated instant ticket returns appears to be in accordance with generally accepted accounting principles, and the methodology for determining the amount of such allowance appears rational and systematic. However, it should be noted that our procedures constituted a compilation, which is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the aforementioned financial statements and, accordingly, do not express an opinion or any form of assurance on them, or on any elements, accounts, items, or accounting policies related to such financial statements.

If I can be of further assistance in this or any other matter, please do not hesitate to call.

Sincerely,



Jeffrey A. Leiserowitz

SESSION OF 1989

SUPPLEMENTAL NOTE ON SENATE BILL NO. 345

As Recommended by Senate Committee on
Ways and Means

Brief*

S.B 345 would amend current Law concerning monthly transfers from the Lottery Operating Fund to the State Gaming Revenues Fund. The bill would allow less-than Calculating 30 percent of total monthly revenues from the sales of lottery tickets to be transferred by providing that the Kansas Lottery could deduct from sales to retailers an estimated amount for unsold tickets and for potential uncollectible revenue from ticket sales, up to a maximum of \$1.5 million in a given fiscal year- in estimating retail sales to consumers. The bill also deletes provisions for repaying the State General Fund for the initial loans for the Lottery start-up costs in FY 1987 and FY 1988. The loans plus interest were repaid during FY 1988.

Background

The Senate Ways and Means Committee recommended the bill in order to codify a memorandum of understanding between the Executive Director of the Kansas Lottery and the Director of Accounts and Reports. That agreement allows the Kansas Lottery to transfer less--than 30 percent of monthly estimated retail sales revenues to consumers using a formula including until a reserve---balance calculation of \$1.5 million for returned tickets and bad debts is--reached during a particular fiscal year.

* Supplemental Notes are prepared by the Legislative Research Department and do not express legislative intent.

PROGRAM OVERVIEW

STATE ENERGY CONSERVATION IMPROVEMENT PROGRAM

Introduction

The State of Kansas owns approximately 2,200 buildings with more than 32 million square feet of floor space. Ninety percent of the buildings were constructed prior to 1975, well before the need was perceived for energy conservation. State monies spent on utilities represent a significant level of expenditure. Total utility expenditures on state owned buildings have averaged approximately \$40 million per year (see attached spreadsheet and graph). Although a number of state agencies have undertaken energy conservation programs in the past, there has been no systematic effort in state government to apply energy auditing and make energy improvements.

The Kansas Development Finance Authority (KDFA) in cooperation with the Division of the Budget, Division of Architectural Services, the Kansas Corporation Commission, representatives from the State Board of Regents and the Department of Social and Rehabilitation Services (SRS), has developed a proposal to finance a number of energy conservation improvement projects on state buildings. These energy conservation improvements, when combined with energy conservation management measures, will produce significant energy cost savings which will provide for rapid repayment of the cost of the improvements without additional appropriations.

The Governor's Budget Recommendation

Energy conservation projects totalling approximately \$5.0 million are included in the Governor's Budget submitted to the 1989 Kansas Legislature. The projects to be undertaken in the first conservation improvement program are from regents institutions and from SRS.

The Legislation

The proposed legislation would authorize the financing of energy conservation improvements to state buildings by KDFA, and provide for the use of energy cost savings to repay the financing. The legislation will establish the Energy Conservation Improvement Fund (ECIF), to be administered by KDFA. Important provisions of the proposed legislation include the following:

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Attachment 6

1. Subject to approval by the Secretary of Administration and review by the Joint Committee on State Building Construction, KDFA will enter into financing agreements with state agencies and issue revenue bonds in an amount sufficient to pay the costs of the energy conservation improvements, up to \$5.0 million per fiscal year, plus associated program costs, such as the costs of energy audits and financing costs.

2. Payments made to KDFA pursuant to the financing agreements shall be made from monies credited to the ECIF and in accordance to provisions with appropriations acts. The total amount of payments for a fiscal year shall not exceed the amount of energy cost savings identified by engineering analyses conducted prior to carrying out the improvements.

3. No later than October 1 of each year, KDFA will certify to the Director of the Budget a list of energy conservation improvement projects financed along with repayment schedules for each project. The Division of the Budget will make appropriate adjustments to the budget of each state agency on the project list, recommend transfers from the agency budget to the ECIF and appropriations from the ECIF in sufficient amounts to repay the costs associated with financing the improvements.

Financing

Tax-exempt revenue bonds would be issued by KDFA to pay for the energy conservation improvements. The bonds would be secured by financing agreements between KDFA and state agencies, subject to annual appropriations. Pursuant to the agreements drawn up between KDFA and the agencies, KDFA would lease the improvements to the agencies until the improvements were paid for. Length of payments would be determined by the payback of the particular improvement. It is anticipated that the maximum length of payments would not exceed 5 to 7 years. The principal and interest of these lease payments would be structured to be repaid with the energy savings of the installed improvements.

Bond proceeds, net of financing costs, would be turned over to the state agencies for the implementation of the improvement projects, following normal state capital improvement procedures. Bond proceeds may be used to pay all construction and equipment costs, as well engineering and design costs. In addition, bond proceeds will be set aside to provide funds for future rounds of energy audits.

STATE OF KANSAS

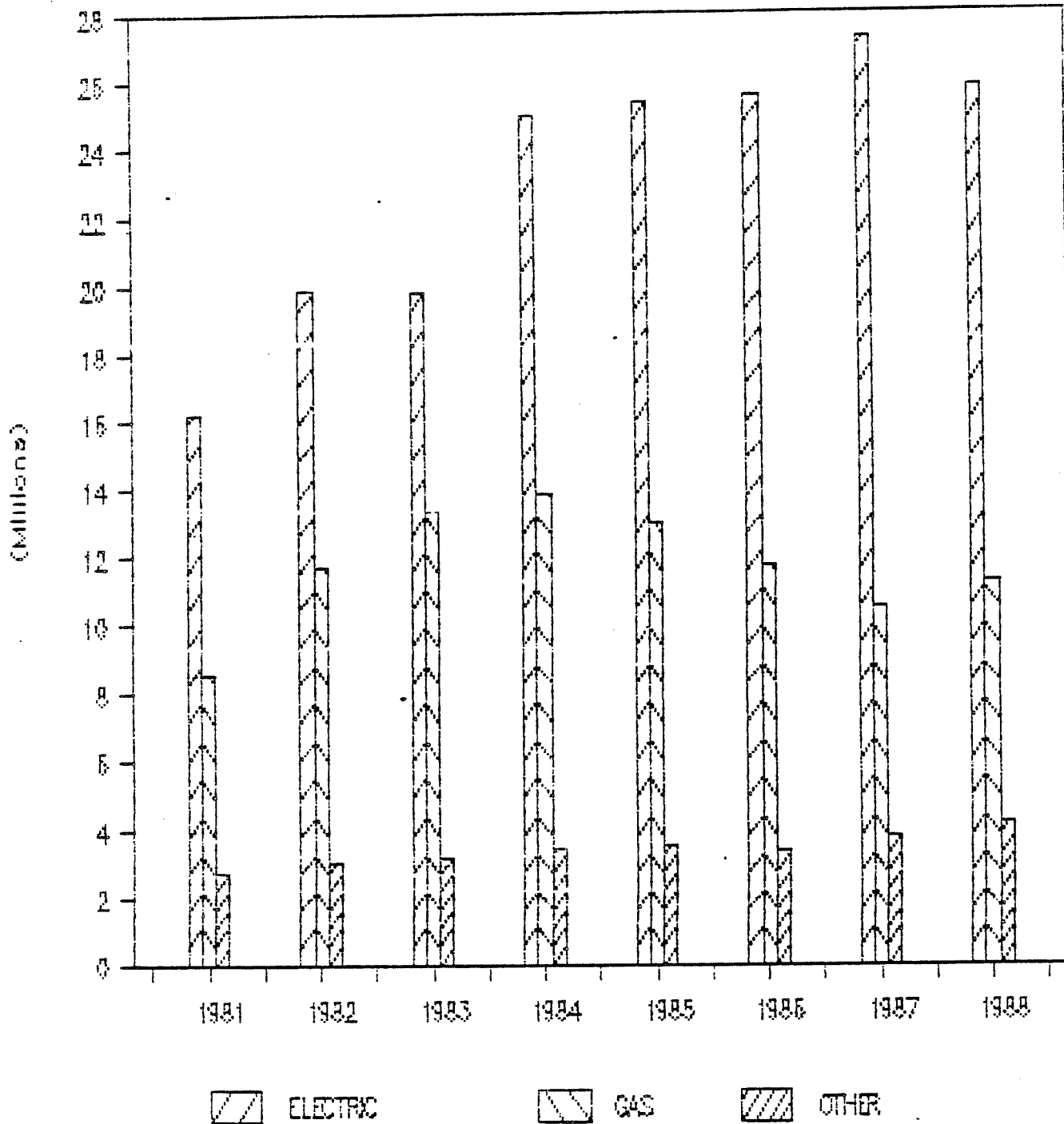
UTILITY EXPENSES - FY 1981 THRU FY 1988 *

YEAR	ELECTRIC	NAT GAS	STEAM	WATER	SEWAGE	SOLID WASTE	OTHR UTIL	TOTAL
1981	\$16,202,686	\$8,525,039	\$533,324	\$1,271,746	\$696,016	\$241,534	\$11,160	\$27,481,505
1982	\$19,901,490	\$11,706,904	\$798,165	\$1,298,061	\$690,543	\$257,456	\$9,350	\$34,561,969
1983	\$19,799,943	\$13,322,004	\$896,302	\$1,276,534	\$749,667	\$288,482	\$8,836	\$36,341,768
1984	\$24,975,637	\$13,828,873	\$783,417	\$1,521,610	\$862,486	\$299,950	\$1,054	\$42,273,027
1985	\$25,374,032	\$12,961,191	\$697,894	\$1,685,978	\$898,748	\$306,508	\$9,253	\$41,933,604
1986	\$25,512,421	\$11,685,039	\$278,310	\$1,677,193	\$1,039,301	\$371,819	\$9,411	\$40,573,494
1987	\$27,224,445	\$10,423,540	\$183,984	\$1,873,583	\$1,128,822	\$609,152	\$6,626	\$41,450,152
1988	\$25,813,594	\$11,177,607	\$266,609	\$2,067,791	\$1,315,442	\$528,132	\$17,865	\$41,187,040
TOTALS	\$184,804,248	\$93,630,197	\$4,438,005	\$12,672,496	\$7,381,025	\$2,903,033	\$73,555	\$305,902,559

* SOURCE: STATE OF KANSAS ANNUAL REPORTS, DIVISION OF ACCOUNTS AND REPORTS

State of Kansas

Utility Expenses: FY81-'88



At Least 10 States May Create Entities To Sell Tax-Exempts For Energy Saving

By Christopher R. O'Dea

CHICAGO, April 16 — At least 10 states are interested in following Iowa's lead by setting up special entities to sell tax-exempt bonds to finance energy-saving improvements in state buildings, underwriters and state officials said this week.

Illinois officials said they have begun work on a similar program. States including Missouri, Oregon, and Arizona, also have discussed such programs with John Nuveen & Co., said John H. Peterson, a vice president of Nuveen. In September, Nuveen underwrote Iowa's first bond issue under the program, Mr. Peterson said.

Mr. Peterson said he expects more states to pursue such financings as more officials come to understand how this kind of program works.

Iowa's program, which began in September, lets state agencies pay immediately for energy-saving changes that could have taken up to 40 years to make if the agencies had to rely on annual appropriations, said Katherine Sibold, program planner with the Iowa Department of Natural Resources' building energy and management division. Iowa sells no long-term general obligation debt because all such debt issued for more than one year and more than \$250,000 must be approved by a statewide referendum.

Under the program, the Iowa State Facilities Improvement Corp. sells bonds and uses the proceeds to pay for the energy improvements, which they lease to state agencies. The agencies, which save money from these improvements, use the excess in their energy budgets to pay off the bonds, Ms. Sibold said. After the leases are paid off, the agencies own the equipment.

Illinois officials see several advantages to this kind of financing plan, said Patricia Donahue, project manager of energy performance contracting at the the Illinois Department of Energy and Natural Resources. The energy improvements do not require new state general obligation debt or new state revenue, and the energy savings accrue quickly and correspond to debt service costs, she said.

Many state officials have called Iowa to ask about the structure of the financing corporation and the need for legislation to start such a program in their states, Ms. Sibold said.

The Iowa legislature in 1985 passed a bill authorizing state agencies to do lease-purchase agreements with the State Facilities Improvement Corp., said Dennis Nagel, a partner at the law firm of Belin Harris Helmick, bond coun-

sel on the Iowa corporation's issue. Because of Iowa's limits on state debt, the five-member state executive council passed a resolution requiring the corporation to issue bonds on the state's behalf for improvements to central government buildings, Mr. Nagel said. The executive council includes the governor, the treasurer, and other top state officials.

The state legislation and executive resolution made a strong statement that Iowa will back the bonds, Mr. Peterson said, adding that new laws probably would not be needed in all states.

Before bonds could be issued in Illinois, the state legislature would have to amend the state Purchasing Act to allow state agencies to enter into lease-purchase agreements for these particular changes, Ms. Donahue said. The Illinois energy department is still considering whether to create a state authority to issue bonds, or, as in Iowa, to create a nonprofit corporation.

Though it is too late to get the plan on the 1987 legislative agenda, the department "is extremely interested in pursuing it," she said.

Illinois agencies need \$90 million of energy improvements on a bit more than 870 million square feet, Ms. Donahue said. The planned projects have a five-year average payback, which would retire bonds between five and seven years after energy savings took effect.

The Iowa State Facilities Improvement Corp. sold \$12.2 million of Series A bonds through negotiation to Nuveen and Securities Corporation of Iowa. The \$12.2 million Series A issue, with serial maturities from 1989 through 2000, was sold at a net interest cost of 7.3%.

The proceeds will pay for improvements to 7.5 million square feet of buildings used by the departments of human services, general services, and corrections. The changes should provide annual energy savings of \$1.2 million, Ms. Sibold said. The corporation plans to sell its second series of bonds in late summer to fund improvements on five million more square feet of space.

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