

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

I. Short-term Obligations

Short-term obligations at June 30, 2006 and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/05 Beginning Balance	Additions	Deletions	6/30/06 Ending Balance
<i>Governmental Activities</i>				
Certificates of Indebtedness	\$ 0	\$ 450,000	\$ 450,000	\$ 0
Accrued receivables:				
State Building Fund	0	35,593	35,593	0
Children's Initiatives Fund	0	26,746	26,746	0
Correctional Institution Building Fund	0	3,994	3,994	0
State Economic Development	0	21,216	21,216	0
27 th Paycheck	0	32,690	32,690	0
Bond Anticipation Notes:				
KDFA Series 2005-1, 4.26%	6,000	0	6,000	0
KDFA Series 2004-1, 3.10%	3,082	0	3,082	0
KDFA Series 2005-2	0	1,700	1,700	0
Total short-term obligations	\$ 9,082	\$ 571,939	\$ 581,021	\$ 0

A Certificate of Indebtedness may be written and issued by the Pooled Money Investment Board (PMIB), an agency of the State, per K.S.A. 75-3725a. This occurs when it appears estimated resources are sufficient in the State General Fund (SGF) to meet the State's expenditures and obligations for that fiscal year, but may not be sufficient to do so in a particular month(s) when obligations are due. Once approval has been granted as prescribed in K.S.A. 75-3725a, the written Certificate of Indebtedness is issued by the PMIB subject to redemption from the SGF not later than June 30, immediately following the issuance of the indebtedness. No interest is accrued or paid. A Certificate of Indebtedness of \$450 million was issued on July 1, 2005 and redeemed on June 30, 2006.

Per K.S.A. 76-6b11, on July 1 of each year ad valorem tax and receivables are posted to the State Treasurer's receivables for the State Buildings Fund. The receivable is reduced as the ad valorem taxes are received. In fiscal year 2006, \$22.7 million was posted to the Kansas Educational Building Fund and \$11.9 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in March 2006.

Per Senate Bill 225, Section 98(g) of the 2005 Session, receivables are to be posted to the State Treasurer's receivables for the Children's Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as monies are received into the fund. In fiscal year 2006 a receivable was posted for \$26.7 million and was reduced to zero in April 2006.

Per Senate Bill 225, Section 98(i) of the 2005 Session, on July 1, 2005, receivables are to be posted to the State Treasurer's receivables for the Correctional Institutions Building Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as monies are received into the fund. In fiscal year 2006, a receivable was posted for \$4 million and was reduced to zero in March, 2006.

Per Senate Bill 225, Section 98(h) of the 2005 Session, on July 1, 2005, receivables are to be posted to the State Treasurer's receivables for the State Economic Development Initiatives Fund by an amount certified by the director of budget which is to be 50 percent of the estimated receipts during the year. The receivable amount is reduced as monies are received into the fund. In fiscal year 2006, a receivable was posted for \$21.2 million and was reduced to zero in December 2005.

III. Detailed Notes On All Funds

Per House Bill 2482, Section 5(g), on July 1, 2005, receivables are to be posted to the State Treasurer's receivables for the 27th Payroll in the amount of \$32.7 million. The receivable amount is reduced as monies are received into the fund. In fiscal year 2006, a receivable was posted for \$32.7 million and was reduced to zero in June 2006.

The Kansas Development Finance Authority is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the KDFA has authorized the issuance of notes in anticipation of revenue bond financing. When this short-term debt does not meet long-term financing criteria, it is classified among fund liabilities.

The \$6 million KDFA Bond Anticipation Note, Series 2005-1, was issued to fund a capital improvement project for the Kansas Army National Guard Armory. The loan was provided by the Pooled Money Investment Board for a term of 365 days (due June 15, 2006) at an interest rate of 4.26%. Permanent financing was obtained with the issuance and sale of revenue bonds, KDFA Series 2005H-3 on May 1, 2006, in the amount of \$21 million. The bond anticipation note was subsequently redeemed on November 22, 2005.

The \$3.08 million KDFA Bond Anticipation Note, Series 2004-1, was issued to fund the Kansas Department of Labor unemployment insurance benefit system upgrade project. The loan was provided by the Pooled Money Investment Board for a term of 534 days (due April 1, 2006) at an interest rate of 3.10%. Permanent financing was obtained with the issuance and sale of revenue bonds, KDFA Series 2005-H-2 on May 1, 2006, in the amount of \$21 million. The bond anticipation note was subsequently redeemed on May 1, 2006.

The \$1.7 million KDFA Bond Anticipation Note, Series 2005-2, was issued to fund Public Broadcasting Council Digital Conversion Project for the Department of Administration. The loan was provided by the Pooled Investment Board for a term of 65 days (due October 1, 2006) at an interest rate of 4.63%.

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

J. Long-term Obligations

A summary of long-term obligations at June 30, 2006 for the fiscal year then ended is as follows (expressed in thousands):

	Government Activities	Business-type Activities	Component Units	Total
Revenue bonds payable	\$ 2,764,949	\$ 720,978	\$ 691,253	\$ 4,177,180
Sales tax limited obligation bonds	232,322	0	0	232,322
Notes payable	20,448	0	109,783	130,231
Capital leases payable	152,483	0	4,666	157,149
Arbitrage rebate payable	93	963	80	1,136
Claims and judgements	68,033	186,871	0	254,904
Compensated absences	109,214	47	49,655	158,916
Other	0	12,961	103,761	116,722
Total long-term obligations	<u>\$ 3,347,542</u>	<u>\$ 921,820</u>	<u>\$ 959,198</u>	<u>\$ 5,228,560</u>

Long-term obligations at June 30, 2006 and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/05 Beginning Balance	Additions	Deletions	6/30/06 Ending Balance	Amounts Due In One Year
Governmental Activities									
<u>Revenue bonds payable:</u>									
KDFA Series 1996 SK-1	1996	3.30 – 4.75%	2006	\$ 8,890	\$ 1,065	\$ 0	\$ 1,065	\$ 0	\$ 0
KDFA Series 1998 V	1999	4.25 – 5.00%	2008	11,195	4,305	0	1,365	2,940	1,435
KDFA Series 1999 E	1999	4.00 – 5.00%	2009	34,470	15,310	0	3,600	11,710	3,745
KDFA Series 2001 M	2002	3.50 – 5.00%	2011	32,390	22,145	0	3,305	18,840	3,435
KDFA Series 2003 H	2004	1.41 – 5.21%	2014	40,250	36,820	0	3,495	33,325	3,585
KDFA Series 2003 J	2004	2.00 – 5.25%	2025	6,135	6,135	0	6,135	0	0
KDFA Series 2004 A	2004	2.00 – 5.00%	2024	50,730	49,255	0	7,410	41,845	1,640
KDFA Series 2004 C	2004	3.43 – 5.50%	2034	500,000	500,000	0	0	500,000	0
KDFA Series 2004 G-1 & G-2	2005	2.50 – 5.13%	2024	1,545	1,545	0	430	1,115	265
KDFA Series 2005 H	2006	3.25 – 5.00%	2032	31,270	0	31,270	45	31,225	1,780
KDFA Series 2005 N	2006	3.5 0– 4.00%	2015	28,165	0	28,165	2,905	25,260	2,420
KDFA Series 2006A	2006	4.00 – 5.00%	2027	209,490	0	209,490	0	209,490	0
KDOT Series 1993 A	1993	2.65 – 5.63%	2012	147,405	20,080	0	1,000	19,080	11,920
KDOT Series 1998	1998	3.65 – 5.50%	2015	189,195	105,850	0	15,000	90,850	15,845
KDOT Series 1999	2000	4.40 – 5.75%	2019	325,000	6,655	0	6,655	0	0
KDOT Series 2000 A, B & C	2001	4.50 – 5.85%	2021	200,000	200,000	0	0	200,000	0
KDOT Series 2002 A	2003	Variable	2012	199,600	152,825	0	24,100	128,725	25,255
KDOT Series 2002 B & C	2003	3.39%	2020	320,005	320,005	0	0	320,005	0
KDOT Series 2002 D	2003	Variable	2012	88,110	88,110	0	0	88,110	0
KDOT Series 2003 A & B	2004	3.13 – 5.00%	2014	248,190	248,190	0	0	248,190	0
KDOT Series 2003 C	2004	3.36%	2016	150,275	150,275	0	0	150,275	0
KDOT Series 2004 A	2004	4.50 – 5.50%	2023	250,000	250,000	0	0	250,000	0
KDOT Series 2004 B	2005	Variable	2025	200,000	200,000	0	0	200,000	0
KDOT Series 2004 C	2005	Variable	2025	147,000	147,000	0	0	147,000	0
KDOT Series 2005 H	2006	3.25 – 5.00%	2032	56,905	0	56,905	335	56,570	1,135
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	39,779	10,784	6,608	43,955	0
Unamortized deferred refunding difference				0	(61,827)	(1,074)	(9,340)	(53,561)	0
Total revenue bonds payable				<u>3,476,215</u>	<u>2,503,522</u>	<u>335,540</u>	<u>74,113</u>	<u>2,764,949</u>	<u>72,460</u>
<u>Sales tax limited obligation bonds:</u>									
1999 KISC	1999	4.20 – 5.25%	2027	17,496	17,496	0	0	17,496	183
2001 Project Area B	2001	4.00 – 5.10%	2020	20,639	20,639	0	3,096	17,543	281
2001 NFM	2001	7.27%	2006	46,300	45,860	0	45,860	0	0
2001 Cabelas Series C-1	2001	Variable	2006	37,080	33,500	0	33,500	0	0
2001 Cabelas Series C-2	2001	7.27%	2006	9,720	8,453	0	8,453	0	0
2002 Subordinate KISC	2002	5.00 – 8.00%	2022	4,550	3,654	0	580	3,074	371
RED Development	2003	Variable	2006	38,912	31,471	0	31,471	0	0
Beaumont Hotel	2004	Variable	2006	2,160	2,130	0	2,130	0	0
RED 2005	2005	Variable	2006	10,035	10,035	0	10,035	0	0
400 Acres Refunding	2005	3.25 – 5.54%	2020	3,931	3,931	0	0	3,931	72
1 st Lien 2005A Turbo	2006	4.67%	2009	16,708	0	16,708	418	16,290	0
1 st Lien 2005B Turbo	2006	3.75%	2012	36,281	0	36,281	0	36,281	0
1 st Lien 2005C Turbo	2006	3.85%	2013	12,409	0	12,409	0	12,409	0
2 nd Lien 2005 Turbo	2006	4.75 – 5.00%	2020	125,298	0	125,298	0	125,298	0
Total sales tax limited obligation bonds				<u>381,519</u>	<u>177,169</u>	<u>190,696</u>	<u>135,543</u>	<u>232,322</u>	<u>907</u>
<u>Notes payable:</u>									
Water supply storage assurance				1,972	462	0	230	232	232
Water supply storage in Federal reservoirs				27,418	18,465	0	476	17,989	493
Landon State Office Building				11,245	1,125	0	562	563	562
Wildlife & Parks – Tuttle Creek				1,264	1,264	0	500	764	764
Printing plant				3,857	1,075	0	175	900	177
Total notes payable				<u>45,756</u>	<u>22,391</u>	<u>0</u>	<u>1,943</u>	<u>20,448</u>	<u>2,228</u>
Capital leases payable					159,781	3,413	10,711	152,483	12,650
Arbitrage rebate payable					388	19	314	93	0
Claims and judgments					54,642	203,281	189,890	68,033	46,861
Compensated absences					100,030	9,184	0	109,214	57,062
Total Governmental Activities				<u>\$ 3,017,923</u>	<u>\$ 742,133</u>	<u>\$ 412,514</u>	<u>\$ 3,347,542</u>	<u>\$ 192,168</u>	

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/05 Beginning Balance	Additions	Deletions	6/30/06 Ending Balance	Amounts Due In One Year
Business-type Activities									
<u>Revenue bonds payable:</u>									
KDFA Series 1997 I & 2	1998	4.13 - 5.00%	2020	\$ 45,420	\$ 16,440	\$ 0	\$ 1,770	\$ 14,670	\$ 1,845
KDFA Series 1997 I & II	1997	4.10 - 5.60%	2017	39,260	6,225	0	4,380	1,845	1,845
KDFA Series 1998 I & 2	1999	3.88 - 5.25%	2021	39,690	17,730	0	1,465	16,265	1,540
KDFA Series 1998 II	1998	3.75 - 5.25%	2020	80,500	69,410	0	31,170	38,240	2,725
KDFA Series 2000 I & II	2000	4.60 - 6.13%	2022	82,915	22,825	0	4,620	18,205	2,995
KDFA Series 2000 I & 2	2000	4.75 - 5.75%	2023	53,500	24,870	0	1,760	23,110	1,850
KDFA Series 2001 I & II	2002	3.00 - 5.50%	2022	141,045	134,800	0	5,880	128,920	3,095
KDFA Series 2002 I & 2	2002	4.00 - 5.50%	2024	51,805	29,885	0	1,670	28,215	1,735
KDFA Series 2002 II	2003	2.26 - 5.50%	2024	101,575	94,990	0	27,195	67,795	4,700
KDFA Series 2004 I & II	2004	2.00 - 5.25%	2023	50,140	49,140	0	1,000	48,140	1,000
KDFA Series 2004 I & 2	2005	3.00 - 5.00%	2026	176,010	176,010	0	380	175,630	3,170
KDFA Series 2005 CW	2005	3.00 - 5.00%	2027	118,860	0	118,860	1,905	116,955	3,140
KDFA Series 2005 TR	2006	3.00 - 5.00%	2026	32,690	0	32,690	0	32,690	200
<u>Plus deferred amounts:</u>									
Net unamortized premium (discount)				0	26,962	9,008	4,942	31,028	0
Unamortized deferred refunding difference				0	(19,094)	(1,636)	0	(20,730)	0
Total revenue bonds payable				1,013,410	650,193	158,922	88,137	720,978	29,840
Arbitrage rebate payable					2,003	434	1,474	963	257
Claims and judgments					187,474	297	900	186,871	14,853
Compensated absences					49	0	2	47	41
Other					11,393	1,568	0	12,961	0
Total Business-type Activities				\$ 851,112	\$ 161,221	\$ 90,513	\$ 921,820	\$ 44,991	
Component Units									
<u>Revenue bonds payable:</u>									
Board of Regents Series 1969	1970	3.00 - 7.13%	2009	\$ 1,100	\$ 170	\$ 0	\$ 45	125	\$ 45
KDFA Series 1989 E	1990	6.00 - 7.25%	2010	1,401	558	35	131	462	128
KDFA Series 1993 L	1994	3.40 - 5.15%	2009	3,975	625	0	85	540	45
KDFA Series 1995 E	1996	4.10 - 5.20%	2007	2,734	225	0	200	25	25
KDFA Series 1995 K	1996	3.75 - 5.40%	2016	3,835	2,720	0	160	2,560	170
KDFA Series 1996 A	1996	4.00 - 5.20%	2008	5,105	505	0	175	330	175
KDFA Series 1996 J	1997	3.85 - 5.40%	2010	5,600	1,195	0	350	845	345
KDFA Series 1997 C	1997	4.70 - 5.30%	2011	3,255	1,625	0	250	1,375	260
KDFA Series 1997 G-1 & G-2	1998	3.75 - 5.50%	2012	109,281	22,820	47	7,905	14,962	7,000
KDFA Series 1998 B	1998	3.90 - 5.00%	2018	9,320	7,220	0	355	6,865	375
KDFA Series 1998 D	1998	3.70 - 5.05%	2023	4,290	3,580	0	110	3,470	120
KDFA Series 1998 E	1999	3.40 - 4.90%	2024	4,750	4,225	0	120	4,105	125
KDFA Series 1998 H	1998	3.75 - 4.80%	2013	2,320	1,510	0	135	1,375	140
KDFA Series 1998 L	1999	3.80 - 5.00%	2019	5,590	4,450	0	225	4,225	235
KDFA Series 1998 P	1999	3.00 - 4.85%	2019	3,650	2,975	0	130	2,845	140
KDFA Series 1999 A-1 & A-2	1999	3.20 - 5.00%	2012	28,210	19,370	0	3,180	16,190	3,330
KDFA Series 1999 B	1999	3.60 - 5.00%	2019	2,920	2,410	0	115	2,295	120
KDFA Series 1999 C	1999	4.00 - 5.10%	2019	3,085	2,555	0	120	2,435	125
KDFA Series 1999 D	1999	4.00 - 4.75%	2014	11,170	8,190	0	2,580	5,610	400
KDFA Series 1999 H	2000	3.75 - 5.63%	2020	17,830	15,085	0	10,655	4,430	650
KDFA Series 1999 N	2000	4.00 - 5.88%	2035	21,645	1,590	0	285	1,305	300
KDFA Series 2000 B	2000	4.70 - 5.90%	2015	5,705	4,395	0	300	4,095	315
KDFA Series 2000 D	2001	4.60 - 5.60%	2015	1,735	1,325	0	90	1,235	95
KDFA Series 2000 R	2001	4.35 - 4.60%	2005	4,530	995	0	995	0	0
KDFA Series 2000 T	2001	4.35 - 5.13%	2015	2,090	1,660	0	1,660	0	0
KDFA Series 2000 V	2001	4.35 - 5.38%	2021	16,370	13,415	0	8,265	5,150	1,050
KDFA Series 2001 B	2001	3.65 - 5.20%	2021	2,805	2,435	0	105	2,330	110
KDFA Series 2001 D	2001	4.25 - 5.25%	2021	48,895	42,705	0	1,795	40,910	1,885
KDFA Series 2001 F	2001	3.30 - 5.50%	2012	29,905	21,740	0	2,900	18,840	3,050
KDFA Series 2001 J	2002	3.50 - 4.30%	2013	5,300	3,685	0	460	3,225	475
KDFA Series 2001 N	2001	4.25 - 5.25%	2014	11,640	7,705	0	1,085	6,620	1,135
KDFA Series 2001 S	2002	4.13 - 5.50%	2021	18,955	15,350	0	1,135	14,215	1,190
KDFA Series 2001 U	2002	3.10 - 5.00%	2021	10,295	8,485	0	550	7,935	575
KDFA Series 2001W	2002	3.00 - 5.00%	2022	49,865	45,905	0	3,330	42,575	1,705
KDFA Series 2002 A	2002	3.50 - 5.00%	2027	26,560	23,710	0	1,115	22,595	1,150
KDFA Series 2002 C	2002	3.00 - 5.00%	2022	15,830	14,655	0	610	14,045	630
KDFA Series 2002 H	2003	2.50 - 4.70%	2022	3,765	3,325	0	145	3,180	150
KDFA Series 2002 J-1 & J-2	2003	3.39 - 3.58%	2035	33,355	32,810	0	760	32,050	790
KDFA Series 2002 K	2003	4.30 - 5.00%	2023	5,120	5,120	0	0	5,120	0
KDFA Series 2002 N	2003	3.00 - 5.25%	2023	52,075	49,295	0	1,845	47,450	1,905
KDFA Series 2002 P	2003	3.00 - 5.00%	2021	12,150	11,235	0	480	10,755	490
KDFA Series 2003 A-1 & A-2	2003	1.80 - 5.50%	2023	2,610	2,440	0	85	2,355	100
KDFA Series 2003 C	2003	4.67 - 5.00%	2033	72,670	69,780	0	1,500	68,280	1,585
KDFA Series 2003 D-1 & D-2	2003	2.00 - 4.70%	2028	6,470	6,080	0	205	5,875	210
KDFA Series 2003 J	2004	2.00 - 5.25%	2025	34,100	34,100	0	2,405	31,695	1,045
KDFA Series 2004 D	2005	3.00 - 4.75%	2020	1,195	1,195	0	0	1,195	0
KDFA Series 2004 F	2005	2.00 - 5.25%	2012	44,860	44,105	0	75	44,030	1,400
KDFA Series 2004 G-1 & G-2	2005	2.50 - 5.13%	2024	19,795	18,825	0	700	18,125	740
KDFA Series 2005 A	2005	3.00 - 5.00%	2035	44,535	44,535	0	0	44,535	840
KDFA Series 2005 D	2005	3.79 - 5.18%	2022	66,530	66,530	0	1,000	65,530	6,820
KDFA Series 2005 E-1 & E-2	2005	3.00 - 5.00%	2030	19,360	19,360	0	0	19,360	400
KDFA Series 2005 F	2006	3.25 - 4.40%	2026	8,930	0	8,930	0	8,930	0
KDFA Series 2005 G	2006	3.30 - 4.60%	2026	7,790	0	7,790	0	7,790	0
KDFA Series 2006 B	2006	3.50 - 4.13%	2021	9,790	0	9,790	0	9,790	0

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

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<i>Plus deferred amounts:</i>									
Net unamortized premium (discount)				0	6,031	(196)	719	5,116	0
Unamortized Deferred Refunding Difference				0	0	(55)	(3)	(52)	0
Total Revenue Bonds Payable				<u>946,646</u>	<u>726,534</u>	<u>26,341</u>	<u>61,622</u>	<u>691,253</u>	<u>44,093</u>
<i>Notes payable:</i>									
KSU Grain Science Center				3,875	2,875	0	525	2,350	0
KSU line of credit – oracle project				2,590	923	523	778	668	669
Component units of university system				166,069	65,928	45,721	4,884	106,765	6,448
Total notes payable				<u>172,534</u>	<u>69,726</u>	<u>46,244</u>	<u>6,187</u>	<u>109,783</u>	<u>7,117</u>
Arbitrage rebate payable					62	18	0	80	0
Capital leases					0	4,674	8	4,666	477
Compensated absences					47,919	1,736	0	49,655	44,570
Other					106,726	2,396	5,361	103,761	5,695
Total Component Units					<u>\$ 950,967</u>	<u>\$ 81,409</u>	<u>\$ 73,178</u>	<u>\$ 959,198</u>	<u>\$ 101,952</u>

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

The following table presents annual debt service requirements for those long-term debts outstanding at June 30, 2006, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
<u>Revenue bonds:</u>						
2007	\$ 72,460	\$ 133,686	\$ 29,840	\$ 34,337	\$ 44,093	\$ 31,197
2008	77,215	128,908	34,370	32,964	43,964	29,150
2009	89,465	122,459	36,855	31,421	43,941	27,206
2010	133,620	114,893	38,755	29,796	45,243	25,237
2011	139,640	108,715	40,870	27,940	46,465	23,177
2012-2016	673,845	438,654	220,145	108,511	165,912	90,236
2017-2021	695,645	299,977	201,310	54,694	159,865	53,346
2022-2026	628,840	126,949	107,805	11,020	85,025	19,772
2027-2031	163,005	52,850	730	16	33,835	8,059
2032-2036	100,820	11,057	0	0	17,846	1,609
Unamortized premium	43,955	0	31,028	0	5,116	0
Unamortized deferred refunding	(53,561)	0	(20,730)	0	(52)	0
Totals	2,764,949	1,538,148	720,978	330,699	691,253	308,989
<u>Sales tax limited obligation bonds:</u>						
2007	907	10,606	0	0	0	0
2008	5,745	10,481	0	0	0	0
2009	6,976	10,269	0	0	0	0
2010	7,735	9,985	0	0	0	0
2011	13,069	9,585	0	0	0	0
2012-2016	78,343	39,674	0	0	0	0
2017-2021	110,005	18,759	0	0	0	0
2022-2026	5,894	4,694	0	0	0	0
2027-2028	3,648	4,228	0	0	0	0
Totals	232,322	118,281	0	0	0	0
<u>Notes payable:</u>						
2007	2,228	739	0	0	7,117	4,571
2008	688	651	0	0	8,816	4,185
2009	707	632	0	0	7,583	3,799
2010	727	612	0	0	5,791	3,523
2011	748	591	0	0	5,989	4,828
2012-2016	3,134	2,637	0	0	48,176	14,396
2017-2021	3,727	2,044	0	0	13,923	4,703
2022-2026	3,993	1,333	0	0	12,388	1,273
2027-2031	3,014	625	0	0	0	0
2032-2036	921	153	0	0	0	0
2037-2041	561	46	0	0	0	0
Totals	20,448	10,063	0	0	109,783	41,278
Capital leases payable	152,483	78	0	0	4,666	1,301
<u>Long-term debt without scheduled debt service:</u>						
Arbitrage rebate payable	93	0	963	0	80	0
Claims and judgments	68,033	0	186,871	0	0	0
Compensated absences	109,214	0	47	0	49,655	0
Other	0	0	12,961	0	103,761	0
Total long-term obligations	\$ 3,347,542	\$ 1,666,570	\$ 921,820	\$ 330,699	\$ 959,198	\$ 351,568

III. Detailed Notes On All Funds

General Obligation Bonds

The State does not have the statutory authority to issue general obligation bonds. However, the Legislature has authorized the issuance of specific purpose revenue bonds and other forms of long-term obligations.

Revenue Bonds

The **Kansas Development Finance Authority (KDFA)** was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses. The KDFA has issued numerous outstanding series of bonds. Please reference Note J. above for KDFA revenue bonds.

The **Kansas Department of Transportation (KDOT)** has issued 15 outstanding series of Highway Revenue Bonds to finance part of the costs of construction, reconstruction, maintenance or improvement of highways in the State as part of the State's Comprehensive Transportation Program. The State's Comprehensive Transportation Program was developed by KDOT after extensive study of the transportation needs in the State and was implemented by the 1999 Kansas Legislature. Principal and interest payments on these bond issues are paid from revenues collected in the State Highway Fund, which include motor fuels taxes, state sales taxes, compensating use taxes, and drivers' license and vehicle registration fees.

The coupon interest rate on outstanding bonds varies from 2.125 percent to 5.5 percent. In addition, the Series 2000 B and C Bonds and Series 2002 B, C and D Bonds were issued as variable rate instruments whose rates change on a daily, weekly, or 28-day basis depending on their respective individual modes. During the year, interest rates ranged from 0.83 percent to 2.95 percent on the daily adjustable bonds, from 0.9 percent to 2.7 percent on the weekly adjustable bonds and 1.19 percent to 2.95 percent on the 28-day adjustable. The 2000 B and C Bonds and 2002 B, C, D and 2004 C Bonds are subject to tender under certain conditions. If the tendered bonds cannot be remarketed, the liquidity provider has agreed to purchase the bonds and hold them for a maximum of 180 days. Through June 30, 2006, all bonds tendered have been remarketed. However, since there is not a long-term financing option in place at June 30, 2006 for tendered bonds, the Series 2000 B and C Bonds, 2002 B, C and D Bonds and 2004 C Bonds have been recorded as obligations of the Transportation - Capital Project Fund resulting in a deficit fund balance in that fund.

The **Board of Regents of the State of Kansas (Regents)** has issued one outstanding series of Revenue Bonds to construct a dormitory at Emporia State University. Principal and interest payments on the bonds are paid from revenues collected from the operation of the dormitory.

Sales Tax Limited Obligation Bonds

In March 1998, the Unified Government of Wyandotte County/Kansas City, KS established the Prairie Delaware Redevelopment District. The District was created for development of a major tourism area, including the Kansas International Speedway. In connection with various projects in the District, the Unified Government has issued Sales Tax Limited Obligation Revenue Bonds (STAR bonds). Pursuant to issuance of the STAR bonds, the Unified Government and the State of Kansas have entered into a Redevelopment District Tax Distribution Agreement. The agreement provides that the principal of, accreted value, and interest on the STAR bonds will be paid proportionally by the Unified Government and the State of Kansas, based on each entity's respective share of sales taxes generated within the District. The State of Kansas' proportional share is approximately 72 percent. Therefore, 72 percent of the outstanding obligation on each STAR bond issue has been recorded with the State of Kansas' long-term debt. This proportional share may change in the future if the sales taxes assessed by the local or state governments are modified. Further details regarding STAR bonds may be found in the chart at the beginning of Note III, Section J.

III. Detailed Notes On All Funds

Special Obligation and Private Activity Bonds

Special obligation bonds have various revenue streams that are pledged for repayment of principal and interest. These bonds are special, limited obligations of K DFA, neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by K DFA or the State. Accordingly, such special obligation bonds are not included in K DFA's June 30, 2006 balance sheet. K DFA's special obligation bonds at June 30, 2006 total \$2,081,948,483.

Private activity bonds are special limited obligations of K DFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on K DFA's June 30, 2006 balance sheet. K DFA's private activity bonds at June 30, 2006 total \$982,152,906.

Notes Payable

PMIB is authorized as directed by statute to loan funds from the State treasury to state agencies for various capital projects including the purchase of the State's printing plant and the renovation and purchase of the Landon state office building. These internal loans are recorded as loans receivable in the State treasury's cash balance in Note III, Section A, Deposits and Investments, and in corresponding amounts of notes payable in Note III, Section J, Long-term Obligations - Primary Government, Governmental Funds and Section I, Short-term Obligations.

The Kansas Water Office is charged by statute to meet, as nearly as possible, the anticipated future water supply needs of the citizens of Kansas. The agency has executed several water supply storage agreements with the Federal Government over the past 23 years for water supply storage capacity in large Federal multipurpose lakes under the provisions of the 1958 Federal Water Supply Act. Nine of these agreements provide for long-term (fifty-year) repayment with interest of the costs incurred by the Federal Government in construction of the water supply storage space. The Kansas Water Office is authorized by K.S.A. 82a-934 to enter into such agreements, subject to legislative approval through appropriations. Generally, however, receipts from the sale of water to local municipal and industrial water supply users are adequate to make the annual payments due under the long-term contracts with the Federal Government. Portions of the storage in some reservoirs have been designated as "future use" storage, and as such; the State is not required to make payments on that portion of storage until it is needed by users. The State has not recorded a liability at June 30, 2006 for portions of the storage designated as "future use" storage.

Lease Commitments

The State leases office buildings, space, and equipment. Although the lease terms vary under a variety of agreements, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If a legislative appropriation is reasonably assured, leases are considered non-cancelable for financial reporting purposes. Any escalation clauses, sublease rentals, and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures.

Operating Leases

The State has commitments with non-state entities to lease certain buildings and equipment. Future minimum rental commitments for building and equipment operating leases as of June 30, 2006 are as follows (expressed in thousands):

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

<u>Fiscal Year</u>	
2007	\$ 9,615
2008	8,130
2009	6,657
2010	5,712
2011	5,433
2012-2016	24,195
2017-2021	2,989
Total future minimum lease payments	<u>\$ 62,731</u>
Rent expenditures/expenses for operating leases for the year ended June 30, 2006	<u>\$ 9,551</u>

Capital Leases

The State has entered into agreements to lease various facilities and equipment. Such agreements are, in substance, purchases and are reported as capital lease obligations. At the date of acquisition, the assets are valued on the statement of net assets at the present value of the future minimum lease payments. Interest expense for capital leases is not capitalized.

The following schedule presents future minimum lease payments as of June 30, 2006 (expressed in thousands):

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 12,650	\$ 7,308
2008	9,789	6,353
2009	8,980	5,917
2010	8,228	5,511
2011	7,701	5,135
2012-2016	40,415	23,774
2017-2021	22,729	13,477
2022-2026	19,530	8,069
2027-2031	22,461	2,954
Total	<u>\$ 152,483</u>	<u>\$ 78,498</u>

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2006, include the following (expressed in thousands):

Land (non-depreciable)	\$ 9,926
Buildings	91,474
Equipment	69,514
Less: Accumulated depreciation	(28,992)
Total	<u>\$ 141,922</u>

III. Detailed Notes On All Funds

Master Lease Purchase Program

The Master Lease Purchase Program, administered by the Department of Administration, provides low interest, equipment lease purchase financing and energy conservation project financing to State agencies. The Program began in 1985 with the issuance of Certificates of Participation and evolved into the current Program, which utilizes lines of credit. Lease purchase obligations under the Program are not general obligations of the State, but are payable from appropriations of State agencies participating in the Program, subject to annual appropriation. Financing terms of two years through fifteen years are available. The financing term should not exceed the useful life of the purchased item. The interest component of each lease/purchase payment is subject to a separate determination.

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

Defeasance of Debt

Primary Government

For financial reporting purposes, the State has in substance defeased certain bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2006 and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/05 Beginning Balance	Current Year Defeased	Payments	6/30/06 Ending Balance
Governmental Activities				
KDOT Series 1992	\$ 15,820	\$ 0	\$ 15,820	\$ 0
KDOT Series 1993 A	17,930	0	0	17,930
KDOT Series 1994	52,110	0	7,715	44,395
KDOT Series 1994 A	6,715	0	0	6,715
KDOT Series 1998	58,190	0	0	58,190
KDOT Series 1999	318,345	0	7,425	310,920
KDOT Series 2000 A	150,000	0	0	150,000
KDFA Series 2003 J	0	5,790	0	5,790
KDFA Series 2004 A	0	5,810	0	5,810
Total governmental activities	<u>\$ 619,110</u>	<u>\$ 11,600</u>	<u>\$ 30,960</u>	<u>\$ 599,750</u>
Business-type Activities				
KDFA Series 1997 1 & 2	\$ 21,175	\$ 0	\$ 0	\$ 21,175
KDFA Series 1997 I	0	2,680	0	2,680
KDFA Series 1997 II	26,515	0	0	26,515
KDFA Series 1998 1 & 2	16,110	0	0	16,110
KDFA Series 1998 II	0	28,670	0	28,670
KDFA Series 2000 I	0	1,965	0	1,965
KDFA Series 2000 II (Nov.)	54,945	0	0	54,945
KDFA Series 2000 1 & 2	24,635	0	0	24,635
KDFA Series 2002 II	4,000	25,635	0	29,635
KDFA Series 2002 1 & 2	20,315	0	0	20,315
Total business-type activities	<u>\$ 167,695</u>	<u>\$ 58,950</u>	<u>\$ 0</u>	<u>\$ 226,645</u>

Information for bonds defeased in the current fiscal year is as follows (expressed in thousands):

Bond Issue	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Service Reduction**
Governmental Activities				
KDFA Series 2003 J	\$ 5,790	\$ 5,790	\$ 29	\$ (159)
KDFA Series 2004 A	5,810	5,810	18	(4)
Total defeased	<u>\$ 11,600</u>	<u>\$ 11,600</u>	<u>\$ 47</u>	<u>\$ (163)</u>
Business-type Activities				
KDFA Series 1997 1 & 2, 1998 2, 2000 1 & 2, 2001 1& 2, 2002 2	\$ 58,950	\$ 58,950	\$ 2,473	\$ 3,562
Total defeased	<u>\$ 58,950</u>	<u>\$ 58,950</u>	<u>\$ 2,473</u>	<u>\$ 3,562</u>

State of Kansas
Notes to the Financial Statements
June 30, 2006

III. Detailed Notes On All Funds

Component Unit

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain lease revenue bonds by issuing additional debt. Thus, the related liability and trust assets to pay the defeased lease revenue bonds have been removed from the financial statements in the year of defeasance. Defeased debt at June 30, 2006 and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/05 Beginning Balance	Current Year Defeased	Payments	6/30/06 Ending Balance
FHSU Series 1968	\$ 60	\$ 0	\$ 20	\$ 40
KDFA Series 1997 G-1 & G-2	43,935	0	16,435	27,500
KDFA Series 1999 D	0	1,920	0	1,920
KDFA Series 1999 H	0	10,030	0	10,030
KDFA Series 1999 N	19,240	0	0	19,240
KDFA Series 2000 T	0	1,540	0	1,540
KDFA Series 2000 V	0	7,215	0	7,215
KDFA Series 2001 N	1,540	0	300	1,240
KDFA Series 2001 W	0	1,610	0	1,610
KSU Series 1966	104	0	104	0
Total component units	<u>\$ 64,879</u>	<u>\$ 22,315</u>	<u>\$ 16,859</u>	<u>\$ 70,335</u>

Information for bonds defeased in the current fiscal year is as follows (expressed in thousands):

Bond Issue	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Service Reduction**
KDFA Series 2000 T	\$ 1,540	\$ 1,540	\$ 32	\$ 10
KDFA Series 2001 W	1,610	1,610	22	(14)
KDFA Series 2000 V	7,215	7,215	220	136
KDFA Series 1999 H	10,030	10,030	331	94
KDFA Series 1999 D	1,920	1,920	13	(383)
Total defeased	<u>\$ 22,315</u>	<u>\$ 22,315</u>	<u>\$ 618</u>	<u>\$ (157)</u>

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$93,000 for Governmental Activities, \$963,000 for Business-type Activities, and \$80,000 for Component Units.

*The economic gain is defined as the difference between the present values of the old and new debt service payments.

**The aggregate debt service reduction is defined as the difference between the refunded debt and the refunding debt.

III. Detailed Notes On All Funds

Derivative Instruments

Interest rate swap

KDFA Series 2002 J-2

Objective of the interest rate swap. As a means to lower its borrowing costs, when compared against fixed-rate bonds at the time of issuance in August 2002, the Kansas Development Finance Authority entered into an interest rate swap in connection with its 2002 J-2 lease revenue bonds. The intention of the swap was to effectively change the variable interest rate of the bonds to a synthetic fixed rate of 3.39 percent.

Terms. The lease revenue bonds mature in December 2034 and the related swap agreement matures in December 2009. The swap's notional amount of \$22.58 million is equal to the par amount of the variable rate bonds. The swap agreement was executed at the same time the bonds were issued. Under the terms of the swap agreement, the KDFA pays the counterparty a fixed rate of 3.39 percent and receives a variable payment computed on the Bond Market Association Municipal Swap Index™ (BMA).

Fair Value. Because interest rates declined subsequent to the date of execution, the swap had a negative indicative value of \$332,814 as of June 30, 2006.

Kansas Department of Transportation

Objective of the swaps. In order to protect against the potential of rising interest rates, the Department of Transportation entered into three separate pay-fixed, receive-variable interest rate swaps at a cost less than what the Department would have paid to issue fixed-rate debt.

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2006, are included below. The Department's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Associated Bond Issue	Notional Amount	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values	Swap Termination Date	Counterparty Credit Rating
KDOT Series 2002 D	\$ 86,875	12/17/02	5.240%	67% of USD-LIBOR	\$ 93	03/01/12	Aa3/A+
KDOT Series 2002 B & C*	200,000	10/23/02	3.164%	67% of USD-LIBOR	(5,646)	09/01/19	Aa3/A+
KDOT Series 2002 B & C*	120,005	10/23/02	3.164%	67% of USD-LIBOR	(3,389)	09/01/19	As1/AA-
KDOT Series 2003 C	150,275	12/03/03	3.359%	71% of USD-LIBOR**	(4,835)	09/01/15	Aa3/A+
KDOT Series 2004 B & C	147,000	11/23/04	3.571%	63.5% of USD-LIBOR + .29%	(8,298)	09/01/24	Aa3/A+
	<u>\$ 704,155</u>				<u>\$ (22,075)</u>		

* - two counterparties

** - or the lessor of the Actual Bond Rate until September 1, 2010

KDOT Series 2002 D Swap - In connection with the issuance of \$86,875 of variable-rate bonds to refund outstanding KDOT Series 1993A bonds, on August 27, 2002 the Department of Transportation competitively bid the sale of an option on a floating-to-fixed 67 percent of LIBOR interest rate swap. Merrill Lynch provided the winning bid with a swaption premium amount of \$11,905 to be paid to KDOT in two installments of \$6,500 on March 1, 2006 and \$5,405 on March 1, 2007. The swaption allowed KDOT to effect a synthetic forward refunding of the Bonds to lock in savings based on then current market conditions. Under U.S. tax law, the Bonds were not eligible for a traditional current refunding until December 1, 2002. The terms of the option were structured to mirror the terms on the optional redemption feature on the Series 1993A Bonds. The swaption generated expected PV savings of \$10,360 (11.92 percent of the Bonds' par amount). Merrill Lynch has since exercised the option resulting in a floating-to-fixed 67 percent of LIBOR interest rate swap.

III. Detailed Notes On All Funds

KDOT Series 2002B & C Swap - In connection with the issuance of \$320,005 of variable-rate KDOT Series 2002B & C Highway Revenue Refunding Bonds, on October 3, 2002 the Department of Transportation competitively bid a floating-to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded \$200,000 of notional principal and Salomon Smith Barney was awarded \$120,005 of notional principal. The executed transaction consisted of a \$320,005 17-year amortizing interest rate swap under which KDOT pays Goldman/Salomon a fixed rate of 3.164 percent and receives 67 percent of LIBOR. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

KDOT Series 2003C Swap - In connection with the issuance of \$150,275 of variable-rate KDOT Series 2003C Highway Revenue Refunding Bonds, on November 20, 2003 the KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$150,275 12-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.359 percent and receives the lesser of the Actual Bond Rate and 71 percent of 1-month LIBOR until September 1, 2010, and 71 percent of LIBOR thereafter. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

KDOT Series 2004B and C Swaps - In connection with the issuance of \$147,000 of variable-rate Series 2004B and 2004C Highway Revenue Bonds, on November 12, 2004 the KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$147,000 20-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.571 percent and receives 63.5 percent of LIBOR plus 29 basis points. KDOT was able to take advantage of market conditions and effectively create fixed-rate debt at a rate lower than available in the cash market.

Fair Value. These fair values take into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

Credit risk. As of June 30, 2006, the State has no credit risk exposure on all of its outstanding swaps because the swaps had negative or very small fair values meaning the counterparties are exposed to the State in the amount of the derivatives' fair value. However, should interest rates change and the fair values of the swaps become positive, the State could be exposed to credit risk.

The swap agreements contain varying collateral agreements with the counterparties. The swaps require collateralization of the fair value of the swap should the counterparty's credit rating fall below the applicable thresholds.

Basis risk. Basis risk is the risk that the interest rate paid by the Department of Transportation on the underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. The Department of Transportation bears basis risk on each of its swaps. The Swaps have basis risk since KDOT receives a percentage of LIBOR to offset the actual variable bond rate KDOT pays on its bonds. KDOT is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate KDOT pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost savings from the swap may not be realized.

Termination risk. The Department of Transportation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the respective contracts. If any of the swaps are terminated, the associated variable-rate bonds would no longer be hedged to a fixed rate. If at the time of termination the swap has a negative fair value, KDOT would be liable to the counterparty for a payment equal to the swap's fair value.