

State of Kansas
Notes to the Financial Statements
June 30, 2009

III. Detailed Notes On All Funds

J. Short-term Obligations

Short-term obligations at June 30, 2009, and changes for the fiscal year then ended (expressed in thousands) are as follows:

| | 6/30/2008 Beginning Balance | Additions | Deletions | 6/30/2009 Ending Balance |
|--|-----------------------------------|-------------------|-------------------|--------------------------------|
| <i>Governmental Activities</i> | | | | |
| Certificates of Indebtedness | \$ 0 | \$ 775,000 | \$ 775,000 | \$ 0 |
| Accrued receivables: | | | | |
| State Building Fund | 0 | 42,890 | 42,890 | 0 |
| Children's Initiatives Fund | 0 | 32,642 | 32,642 | 0 |
| Correctional Institution Building Fund | 0 | 4,018 | 4,018 | 0 |
| State Economic Development | 0 | 21,216 | 21,216 | 0 |
| Kansas Endowment for Youth Fund | 0 | 208 | 208 | 0 |
| 27 th Paycheck | 0 | 16,181 | 16,181 | 0 |
| Expanded Lottery Operations | 2,632 | 0 | 2,632 | 0 |
| Bond Anticipation Notes: | | | | |
| K DFA Series 2008-1, 3.23% | 1,700 | 0 | 1,700 | 0 |
| K DFA Series 2008-2, 3.86% | 3,000 | 0 | 3,000 | 0 |
| K DFA Series 2008-3, 2.80% | 0 | 1,500 | 1,500 | 0 |
| K DFA Series 2008-4, 1.98% | 0 | 5,000 | 0 | 5,000 |
| K DFA Series 2009-1, 1.32% | 0 | 1,000 | 1,000 | 0 |
| K DFA Series 2009-2, 1.11% | 0 | 4,000 | 4,000 | 0 |
| | <u>0</u> | <u>4,000</u> | <u>4,000</u> | <u>0</u> |
| Total short-term obligations | <u>\$ 7,332</u> | <u>\$ 903,655</u> | <u>\$ 905,987</u> | <u>\$ 5,000</u> |

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. During fiscal year 2009, three Certificates of Indebtedness were issued: \$300 million on July 1, 2008; \$250 million on December 17, 2008; and \$225 million on February 19, 2009. All three Certificates were redeemed on June 25, 2009.

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 2009, \$28.6 million was posted to the Kansas Educational Building Fund and \$14.3 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in June 2009.

Per Senate Bill 534, Section 85(f) of the 2008 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 moneys are received into the fund. In fiscal year 2009 a receivable was posted for \$32.6 million and was reduced to zero in April 2009.

Per Senate Bill 534, Section 85(h) of the 2008 Session, on July 1, 2008, 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 80 percent of the estimated receipts during the year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2009, a receivable was posted for \$4 million and was reduced to zero in March, 2009.

III. Detailed Notes On All Funds

Per Senate Bill 534, Section 85(g) of the 2008 Session, on July 1, 2008, 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 moneys are received into the fund. In fiscal year 2009, a receivable was posted for \$21.2 million and was reduced to zero in December 2008.

Per Senate Bill 534, Section 85(i) of the 2008 Session, on July 1, 2008, receivables are to be posted to the State Treasurer's receivables for the Kansas Endowment for Youth Fund by an amount certified by the director of budget which is to be 80 percent of the amount approved for expenditure during the fiscal year. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2009, a receivable was posted for \$208 thousand and was reduced to zero in April 2009.

Per Senate Bill 534, Section 85(p) of the 2008 Session, on July 1, 2008, receivables are to be posted to the State Treasurer's receivables for the 27th payroll in the amount of \$16.2 million. The receivable amount is reduced as moneys are received into the fund. In fiscal year 2009, a receivable was posted for \$16.2 million and was reduced to zero in June 2009.

Senate Bill 357, Section 10 of the 2007 Session, allowed the executive director of the Kansas Racing and Gaming Commission to request loans from the Pooled Money Investment Board through June 30, 2008, for operating expenditures related to expanded lottery operations. Senate Bill 534, Section 89, and House Bill 2946, Section 20, of the 2008 Session, extended the loan request period through June 30, 2009, and increased the loan limit to \$5 million. House Bill 2354, Section 53 of the 2009 Session extended the repayment date to June 30, 2012. This loan has been reclassified as long term debt.

The Kansas Development Finance Authority is empowered by law to consider, authorize, issue, and sell debt obligations of the State. To date, the K DFA 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 \$1.7 million K DFA Bond Anticipation Note, Series 2008-1, was issued to fund a capital improvement project for the Department of Corrections. The loan was provided by the Pooled Money Investment Board (PMIB) for a term of 365 days (due February 15, 2009) at an interest rate of 3.23 percent. Permanent financing was obtained with the issuance and sale of revenue bonds, K DFA Series 2008L-3, on October 1, 2008, in the amount of \$1 million. The bond anticipation note was subsequently redeemed on October 1, 2008.

The \$3 million K DFA Bond Anticipation Note, Series 2008-2, was issued to fund a capital improvement project for the Kansas Army National Guard Armory. The loan was provided by the PMIB for a term of 183 days (due December 23, 2008) at an interest rate of 3.86 percent. Permanent financing was obtained with the issuance and sale of revenue bonds, K DFA Series 2008L-2, on October 1, 2008, in the amount of \$3.2 million. The bond anticipation note was subsequently redeemed on October 1, 2008.

The \$1.5 million K DFA Bond Anticipation Note, Series 2008-3, was issued to fund a capital improvement project for Pittsburg State University (Student Health Center). The loan was provided by the PMIB for a term of 365 days (due December 1, 2010) at an interest rate of 2.80 percent. Permanent financing was obtained with the issuance and sale of revenue bonds, K DFA Series 2009G, on June 29, 2009, in the amount of \$825 thousand. The bond anticipation note was subsequently redeemed on June 29, 2009.

The \$5 million K DFA Bond Anticipation Note, Series 2008-4, was issued to fund a capital improvement project for University of Kansas (Housing System). The loan was provided by the PMIB for a term of 356 days (due December 1, 2009) at an interest rate of 1.98 percent.

The \$1 million K DFA Bond Anticipation Note, Series 2009-1, was issued to fund a capital improvement project for Pittsburg State University (Housing System). The loan was provided by the PMIB for a term of 122 days (due July 13, 2009) at an interest rate of 1.32 percent. Permanent financing was obtained with the issuance and sale of

State of Kansas
Notes to the Financial Statements
June 30, 2009

III. Detailed Notes On All Funds

revenue bonds, K DFA Series 2009H, on June 29, 2009, in the amount of \$14.6 million. The bond anticipation note was subsequently redeemed on June 29, 2009.

The \$4 million K DFA Bond Anticipation Note, Series 2009-2, was issued to fund a capital improvement project for Pittsburg State University (Parking System). The loan was provided by the PMIB for a term of 88 days (due July 13, 2009) at an interest rate of 1.11 percent. Permanent financing was obtained with the issuance and sale of revenue bonds, K DFA Series 2009J, on June 29, 2009, in the amount of \$4.5 million. The bond anticipation note was subsequently redeemed on June 29, 2009.

K. Long-term Obligations

A summary of long-term obligations at June 30, 2009, for the fiscal year then ended is as follows (expressed in thousands):

| | Government Activities | Business-Type Activities | Component Units | Total |
|------------------------------------|--------------------------|-----------------------------|---------------------|---------------------|
| Revenue bonds payable | \$ 2,744,828 | \$ 765,976 | \$ 705,223 | \$ 4,216,027 |
| Less - Bonds payable on demand | (885,715) | 0 | 0 | (885,715) |
| Sales tax limited obligation bonds | 156,196 | 0 | 0 | 156,196 |
| Notes payable | 26,655 | 0 | 146,517 | 173,172 |
| Capital leases payable | 130,533 | 0 | 14,147 | 144,680 |
| Arbitrage rebate payable | 385 | 2,885 | 123 | 3,393 |
| Claims and judgments | 85,920 | 218,332 | 0 | 304,252 |
| Compensated absences | 134,386 | 72 | 61,943 | 196,401 |
| Other post employment benefits | 26,626 | 155 | 20,068 | 46,849 |
| Pollution remediation | 81,092 | 0 | 0 | 81,092 |
| Other | 0 | 17,115 | 111,701 | 128,816 |
| Total long-term obligations | <u>\$ 2,500,906</u> | <u>\$ 1,004,535</u> | <u>\$ 1,059,722</u> | <u>\$ 4,565,163</u> |

State of Kansas
Notes to the Financial Statements
June 30, 2009

III. Detailed Notes On All Funds

Long-term obligations at June 30, 2009, and changes for the fiscal year then ended are as follows (expressed in thousands):

| | Issue Dates | Interest Rates | Maturity Through | Original Amount of Debt | 6/30/2008 Beginning Balance | Additions | Deletions | 6/30/2009 Ending Balance | Amounts Due In One Year |
|--|-------------|----------------|------------------|-------------------------|-----------------------------|------------|--------------|--------------------------|-------------------------|
| Governmental Activities | | | | | | | | | |
| Revenue bonds payable: | | | | | | | | | |
| KDFA Series 1999 E | 1999 | 4.00 - 5.00% | 2009 | \$ 34,470 | \$ 4,065 | \$ 0 | \$ 4,065 | \$ 0 | \$ 0 |
| KDFA Series 2001 M | 2002 | 3.50 - 5.00% | 2011 | 32,390 | 11,830 | 0 | 3,755 | 8,075 | 3,940 |
| KDFA Series 2003 H | 2004 | 1.41 - 5.21% | 2014 | 40,250 | 26,030 | 0 | 3,855 | 22,175 | 4,020 |
| KDFA Series 2004 A | 2004 | 2.00 - 5.00% | 2024 | 44,920 | 38,525 | 0 | 1,720 | 36,805 | 1,785 |
| KDFA Series 2004 C | 2004 | 3.43 - 5.50% | 2034 | 500,000 | 500,000 | 0 | 10,070 | 489,930 | 10,415 |
| KDFA Series 2004 G-2 | 2005 | 2.50 - 5.13% | 2010 | 1,545 | 580 | 0 | 280 | 300 | 300 |
| KDFA Series 2005 H | 2006 | 3.25 - 5.00% | 2032 | 88,175 | 81,870 | 0 | 3,130 | 78,740 | 3,250 |
| KDFA Series 2005 N | 2006 | 3.50 - 4.00% | 2015 | 28,165 | 20,340 | 0 | 2,590 | 17,750 | 2,680 |
| KDFA Series 2006 A | 2006 | 4.00 - 5.00% | 2027 | 209,490 | 202,755 | 0 | 7,010 | 195,745 | 7,300 |
| KDFA Series 2006 L | 2007 | 4.00 - 4.25% | 2026 | 13,210 | 12,595 | 0 | 640 | 11,955 | 665 |
| KDFA Series 2007 F | 2007 | 4.00 - 4.97% | 2017 | 34,505 | 31,915 | 0 | 2,970 | 28,945 | 3,085 |
| KDFA Series 2007 K | 2008 | 4.00 - 5.25% | 2028 | 59,455 | 59,455 | 0 | 1,880 | 57,575 | 1,955 |
| KDFA Series 2008 L | 2009 | 2.00 - 5.25% | 2029 | 43,265 | 0 | 43,265 | 0 | 43,265 | 1,510 |
| KDFA Series 2009 A | 2009 | 2.50 - 5.00% | 2035 | 3,825 | 0 | 3,825 | 0 | 3,825 | 0 |
| KDFA Series 2009 B | 2009 | 5.00% | 2019 | 515 | 0 | 515 | 0 | 515 | 0 |
| KDFA Series 2009 F | 2009 | 3.00 - 5.00% | 2019 | 49,425 | 0 | 49,425 | 0 | 49,425 | 0 |
| KDOT Series 1998 | 1998 | 3.65 - 5.50% | 2015 | 189,195 | 58,265 | 0 | 11,595 | 46,670 | 15,310 |
| KDOT Series 2000 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 | 77,040 | 0 | 21,125 | 55,915 | 22,390 |
| 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 | 20,270 | 67,840 | 21,400 |
| KDOT Series 2003 A & B | 2004 | 3.13 - 5.00% | 2014 | 248,190 | 248,190 | 0 | 0 | 248,190 | 40,830 |
| KDOT Series 2004 A | 2004 | 4.50 - 5.50% | 2023 | 250,000 | 250,000 | 0 | 0 | 250,000 | 0 |
| KDOT Series 2004 B | 2005 | 4.30 - 5.00% | 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 2008 A* | 2008 | 3.36% | 2016 | 150,870 | 150,870 | 0 | 0 | 150,870 | 0 |
| | | | | | | | | 2,731,515 | 140,835 |
| | | | | | | | | (885,715) | (21,400) |
| *Less-Bonds payable on demand | | | | | | | | | |
| Plus deferred amounts: | | | | | | | | | |
| Net unamortized premium (discount) | | | | 0 | 35,653 | 14,683 | 5,970 | 44,366 | 0 |
| Unamortized deferred refunding difference | | | | 0 | (38,123) | 0 | (7,070) | (31,053) | 0 |
| Total revenue bonds payable | | | | \$ 3,176,575 | 2,726,970 | 111,713 | 93,855 | 1,859,113 | 119,435 |
| Sales tax limited obligation bonds: | | | | | | | | | |
| 1999 KISC | 1999 | 4.20 - 5.25% | 2028 | 17,496 | 17,116 | 0 | 295 | 16,821 | 369 |
| 2001 Project Area B | 2001 | 4.00 - 5.10% | 2021 | 20,639 | 16,769 | 0 | 716 | 16,053 | 904 |
| 2002 Subordinate KISC | 2002 | 5.00 - 8.00% | 2023 | 4,550 | 2,318 | 0 | 2,66 | 2,052 | 187 |
| 400 Acres Refunding | 2005 | 3.25 - 5.54% | 2021 | 3,931 | 3,766 | 0 | 112 | 3,654 | 148 |
| 1 st Lien 2005B Turbo | 2006 | 3.75% | 2009 | 36,281 | 8,248 | 0 | 8,248 | 0 | 0 |
| 1 st Lien 2005C Turbo | 2006 | 3.85% | 2009 | 12,409 | 12,409 | 0 | 12,409 | 0 | 0 |
| 2 nd Lien 2005 Turbo | 2006 | 4.75 - 5.00% | 2021 | 125,298 | 125,298 | 0 | 7,682 | 117,616 | 0 |
| Total sales tax limited obligation bonds | | | | \$ 220,604 | 185,924 | 0 | 29,728 | 156,196 | 1,608 |
| Notes payable: | | | | | | | | | |
| Water supply storage in Federal reservoirs | | | | 32,575 | 17,040 | 5,159 | 924 | 21,275 | 677 |
| Expanded Lottery Operations | | | | 5,000 | 2,632 | 2,368 | 0 | 5,000 | 0 |
| Printing plant | | | | 3,857 | 557 | 0 | 177 | 380 | 187 |
| Total notes payable | | | | \$ 41,432 | 20,229 | 7,527 | 1,101 | 26,655 | 864 |
| Capital leases payable | | | | | 140,106 | 3,168 | 12,741 | 130,533 | 12,087 |
| Arbitrage rebate payable | | | | | 481 | 404 | 500 | 385 | 0 |
| Claims and judgments | | | | | 82,858 | 378,897 | 375,835 | 85,920 | 49,315 |
| Compensated absences | | | | | 12,125 | 13,131 | 0 | 134,386 | 60,874 |
| Other post employment benefits | | | | | 16,813 | 17,208 | 7,395 | 26,626 | 0 |
| Pollution remediation | | | | | 0 | 81,092 | 0 | 81,092 | 25,164 |
| Total Governmental Activities | | | | \$ 3,294,636 | \$ 613,140 | \$ 521,155 | \$ 2,500,906 | \$ 269,347 | |

State of Kansas
Notes to the Financial Statements
June 30, 2009

III. Detailed Notes On All Funds

| | Issue Dates | Interest Rates | Maturity Through | Original Amount of Debt | 6/30/2008 Beginning Balance | Additions | Deletions | 6/30/2009 Ending Balance | Amounts Due In One Year |
|---|----------------|-------------------|---------------------|-------------------------------|-----------------------------------|-------------------|------------------|--------------------------------|-------------------------------|
| Business-Type Activities | | | | | | | | | |
| Revenue bonds payable: | | | | | | | | | |
| KDFA Series 1997 I&2 | 1998 | 4.13 - 5.00% | 2020 | \$ 45,420 | \$ 12,825 | \$ 0 | \$ 0 | \$ 12,825 | \$ 0 |
| KDFA Series 1998 1&2 | 1999 | 3.88 - 5.25% | 2021 | 39,690 | 13,105 | 0 | 8,900 | 4,205 | 0 |
| KDFA Series 1998 II | 1998 | 3.75 - 5.25% | 2020 | 80,500 | 32,640 | 0 | 15,365 | 17,275 | 6,105 |
| KDFA Series 2000 I&II | 2000 | 4.60 - 6.13% | 2012 | 82,915 | 11,760 | 0 | 3,520 | 8,240 | 3,810 |
| KDFA Series 2000 1&2 | 2000 | 4.75 - 5.75% | 2023 | 53,500 | 19,315 | 0 | 2,045 | 17,270 | 2,150 |
| KDFA Series 2001I&II | 2002 | 3.00 - 5.50% | 2022 | 141,045 | 120,990 | 0 | 5,175 | 115,815 | 5,685 |
| KDFA Series 2002 1&2 | 2002 | 4.00 - 5.50% | 2024 | 51,805 | 24,680 | 0 | 1,880 | 22,800 | 1,935 |
| KDFA Series 2002 II | 2003 | 2.26 - 5.50% | 2024 | 10,1575 | 58,220 | 0 | 2,850 | 55,370 | 3,000 |
| KDFA Series 2004 I&II | 2004 | 2.00 - 5.25% | 2023 | 50,140 | 46,140 | 0 | 1,000 | 45,140 | 1,500 |
| KDFA Series 2004 1&2 | 2005 | 3.00 - 5.00% | 2026 | 176,010 | 167,310 | 0 | 6,880 | 160,430 | 7,125 |
| KDFA Series 2005 CW | 2006 | 3.00 - 5.00% | 2027 | 118,860 | 108,995 | 0 | 5,540 | 103,455 | 5,365 |
| KDFA Series 2008 CW | 2009 | 3.00 - 5.13% | 2030 | 66,545 | 0 | 66,545 | 0 | 66,545 | 0 |
| KDFA Series 2008 DW | 2009 | 5.00 - 6.00% | 2029 | 36,700 | 0 | 36,700 | 255 | 36,445 | 1,330 |
| KDFA Series 2005 TR | 2006 | 3.00 - 5.00% | 2026 | 32,690 | 30,490 | 0 | 2,035 | 28,455 | 2,080 |
| KDFA Series 2006 TR | 2007 | 4.00 - 5.00% | 2027 | 24,755 | 23,305 | 0 | 1,710 | 21,595 | 1,705 |
| KDFA Series 2008 G | 2009 | 4.60 - 5.05% | 2023 | 14,200 | 0 | 14,200 | 1,442 | 12,758 | 1,145 |
| KDFA Series 2009 TR | 2009 | 2.50 - 4.78% | 2028 | 30,950 | 0 | 30,950 | 0 | 30,950 | 1,280 |
| Plus deferred amounts: | | | | | | | | | |
| Net unamortized premium (discount) | | | | 0 | 25,174 | 339 | 3,156 | 22,357 | 0 |
| Unamortized deferred refunding difference | | | | 0 | (17,477) | 0 | (1,523) | (15,954) | 0 |
| Total revenue bonds payable | | | | <u>\$ 1,147,300</u> | <u>677,472</u> | <u>148,734</u> | <u>60,230</u> | <u>765,976</u> | <u>44,215</u> |
| Arbitrage rebate payable | | | | | 1,755 | 1,548 | 418 | 2,885 | 657 |
| Claims and judgments | | | | | 205,766 | 12,566 | 0 | 218,332 | 12,917 |
| Compensated absences | | | | | 56 | 16 | 0 | 72 | 60 |
| Other post employment benefits | | | | | 89 | 71 | 5 | 155 | 0 |
| Other | | | | | 14,703 | 2,412 | 0 | 17,115 | 0 |
| Total Business-type Activities | | | | | <u>\$ 899,841</u> | <u>\$ 165,347</u> | <u>\$ 60,653</u> | <u>\$ 1,004,535</u> | <u>\$ 57,849</u> |

State of Kansas
Notes to the Financial Statements
June 30, 2009

III. Detailed Notes On All Funds

| Component Units | Issue Dates | Interest Rates | Maturity Through | Original Amount of Debt | 6/30/2008 Beginning Balance | Additions | Deletions | 6/30/2009 Ending Balance | Amounts Due In One Year |
|--------------------------------------|-------------|----------------|------------------|-------------------------|-----------------------------|------------|-----------|--------------------------|-------------------------|
| Revenue bonds payable: | | | | | | | | | |
| Board of Regents Series 1969 | 1970 | 3.00 - 7.13% | 2009 | \$ 1,100 | \$ 30 | \$ 0 | \$ 30 | \$ 0 | \$ 0 |
| KDFA Series 1989 E | 1990 | 6.00 - 7.25% | 2010 | 1,401 | 247 | 12 | 131 | 128 | 128 |
| KDFA Series 1993 L | 1994 | 3.40 - 5.15% | 2009 | 3,975 | 445 | 0 | 445 | 0 | 0 |
| KDFA Series 1995 K | 1996 | 3.75 - 5.40% | 2016 | 3,835 | 2,210 | 0 | 190 | 2,020 | 200 |
| KDFA Series 1996 J | 1997 | 3.85 - 5.40% | 2010 | 5,600 | 245 | 0 | 175 | 70 | 70 |
| KDFA Series 1997 C | 1997 | 4.70 - 5.30% | 2011 | 3,255 | 840 | 0 | 290 | 550 | 305 |
| KDFA Series 1997 G-1 | 1998 | 5.05% | 2012 | 626 | 1,063 | 54 | 0 | 1,117 | 0 |
| KDFA Series 1998 B | 1998 | 3.90 - 5.00% | 2018 | 9,320 | 6,100 | 0 | 410 | 5,690 | 430 |
| KDFA Series 1998 D | 1998 | 3.70 - 5.05% | 2023 | 4,290 | 3,230 | 0 | 130 | 3,100 | 135 |
| KDFA Series 1998 E | 1999 | 3.40 - 4.90% | 2024 | 4,750 | 3,850 | 0 | 135 | 3,715 | 145 |
| KDFA Series 1998 L | 1999 | 3.80 - 5.00% | 2019 | 5,590 | 3,740 | 0 | 260 | 3,480 | 275 |
| KDFA Series 1998 P | 1999 | 3.00 - 4.85% | 2019 | 3,650 | 2,560 | 0 | 150 | 2,410 | 160 |
| KDFA Series 1999 A-1 & A-2 | 1999 | 3.20 - 5.00% | 2012 | 28,210 | 9,380 | 0 | 1,980 | 7,400 | 2,075 |
| KDFA Series 1999 B | 1999 | 3.60 - 5.00% | 2019 | 2,920 | 2,050 | 0 | 130 | 1,920 | 135 |
| KDFA Series 1999 C | 1999 | 4.00 - 5.10% | 2019 | 3,085 | 2,180 | 0 | 135 | 2,045 | 145 |
| KDFA Series 1999 D | 1999 | 4.00 - 4.75% | 2014 | 11,170 | 5,060 | 0 | 750 | 4,310 | 785 |
| KDFA Series 1999 H | 2000 | 3.75 - 5.20% | 2012 | 17,830 | 3,090 | 0 | 715 | 2,375 | 750 |
| KDFA Series 1999 N | 2000 | 4.00 - 5.88% | 2035 | 2,1645 | 685 | 0 | 335 | 350 | 350 |
| KDFA Series 2000 B | 2000 | 4.70 - 5.90% | 2010 | 5,705 | 3,445 | 0 | 350 | 3,095 | 370 |
| KDFA Series 2000 D | 2001 | 4.60 - 5.60% | 2015 | 1,735 | 1,040 | 0 | 105 | 935 | 110 |
| KDFA Series 2000 V | 2001 | 4.35 - 4.75% | 2011 | 16,370 | 3,075 | 0 | 900 | 2,175 | 1,100 |
| KDFA Series 2001 B | 2001 | 3.65 - 5.20% | 2021 | 2,805 | 2,105 | 0 | 120 | 1,985 | 125 |
| KDFA Series 2001 D | 2001 | 4.25 - 5.25% | 2021 | 48,895 | 37,050 | 0 | 2,075 | 34,975 | 2,180 |
| KDFA Series 2001 F | 2001 | 3.30 - 5.50% | 2012 | 29,905 | 12,575 | 0 | 3,380 | 9,195 | 3,560 |
| KDFA Series 2001 J | 2002 | 3.50 - 4.30% | 2013 | 5,300 | 2,265 | 0 | 505 | 1,760 | 525 |
| KDFA Series 2001 N | 2001 | 4.25 - 5.25% | 2014 | 7,230 | 3,910 | 0 | 565 | 3,345 | 590 |
| KDFA Series 2001 S | 2002 | 4.13 - 5.50% | 2021 | 15,940 | 11,810 | 0 | 795 | 11,015 | 690 |
| KDFA Series 2001 U | 2002 | 3.10 - 5.00% | 2021 | 10,295 | 6,765 | 0 | 620 | 6,145 | 645 |
| KDFA Series 2001 W | 2002 | 3.00 - 5.00% | 2022 | 47,855 | 39,015 | 0 | 2,110 | 36,905 | 2,045 |
| KDFA Series 2002 A | 2002 | 3.50 - 5.00% | 2027 | 26,560 | 20,255 | 0 | 1,235 | 19,020 | 1,275 |
| KDFA Series 2002 C | 2002 | 3.00 - 5.00% | 2022 | 15,830 | 12,765 | 0 | 675 | 12,090 | 705 |
| KDFA Series 2002 H | 2003 | 2.50 - 4.70% | 2022 | 3,765 | 2,875 | 0 | 160 | 2,715 | 165 |
| KDFA Series 2002 J-1 & J-2 | 2003 | 3.39 - 3.58% | 2035 | 33,355 | 30,440 | 0 | 845 | 29,595 | 880 |
| 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 | 43,560 | 0 | 2,080 | 41,480 | 2,185 |
| KDFA Series 2002 P | 2003 | 3.00 - 5.00% | 2021 | 12,150 | 9,755 | 0 | 520 | 9,235 | 540 |
| KDFA Series 2003 A-1 & A-2 | 2003 | 1.80 - 5.50% | 2023 | 2,610 | 2,155 | 0 | 100 | 2,055 | 105 |
| KDFA Series 2003 C | 2003 | 4.67 - 5.00% | 2033 | 72,670 | 65,035 | 0 | 1,740 | 63,295 | 1,830 |
| KDFA Series 2003 D-1 & D-2 | 2003 | 2.00 - 4.70% | 2028 | 6,470 | 5,450 | 0 | 225 | 5,225 | 225 |
| KDFA Series 2003 J | 2004 | 2.00 - 5.25% | 2025 | 34,100 | 29,555 | 0 | 1,160 | 28,395 | 1,215 |
| KDFA Series 2004 D | 2005 | 3.00 - 4.75% | 2020 | 1,195 | 1,140 | 0 | 85 | 1,055 | 85 |
| KDFA Series 2004 F | 2005 | 2.00 - 5.25% | 2012 | 44,860 | 40,800 | 0 | 9,285 | 31,515 | 9,745 |
| KDFA Series 2004 G-1 & G-2 | 2005 | 2.50 - 5.13% | 2024 | 19,795 | 16,635 | 0 | 750 | 15,885 | 800 |
| KDFA Series 2005 A | 2005 | 3.00 - 5.00% | 2035 | 44,535 | 42,830 | 0 | 895 | 41,935 | 920 |
| KDFA Series 2005 D | 2005 | 3.79 - 5.18% | 2022 | 66,530 | 54,080 | 0 | 4,820 | 49,260 | 5,035 |
| KDFA Series 2005 E-1 & E-2 | 2005 | 3.00 - 5.00% | 2030 | 19,360 | 18,445 | 0 | 525 | 17,920 | 545 |
| KDFA Series 2005 F | 2006 | 3.25 - 4.40% | 2026 | 8,930 | 8,930 | 0 | 350 | 8,580 | 375 |
| KDFA Series 2005 G | 2006 | 3.30 - 4.60% | 2026 | 7,790 | 7,505 | 0 | 300 | 7,205 | 310 |
| KDFA Series 2006 B | 2006 | 3.50 - 4.13% | 2021 | 9,790 | 9,790 | 0 | 140 | 9,650 | 140 |
| KDFA Series 2007 A | 2007 | 3.75 - 4.39% | 2037 | 27,750 | 27,365 | 0 | 510 | 26,855 | 530 |
| KDFA Series 2007 E | 2007 | 3.75 - 4.30% | 2027 | 6,275 | 6,075 | 0 | 220 | 5,855 | 230 |
| KDFA Series 2007 H | 2008 | 3.60 - 4.50% | 2037 | 17,855 | 17,855 | 0 | 335 | 17,520 | 350 |
| KDFA Series 2007 M | 2008 | 3.20 - 4.60% | 2027 | 18,220 | 18,220 | 0 | 670 | 17,550 | 695 |
| KDFA Series 2008 A | 2008 | 3.00 - 4.00% | 2016 | 20,000 | 20,000 | 0 | 2,500 | 17,500 | 2,500 |
| KDFA Series 2008 D | 2008 | 5.10% | 2038 | 1,600 | 1,600 | 0 | 0 | 1,600 | 0 |
| KDFA Series 2008 L | 2009 | 2.00 - 5.25% | 2029 | 2,1070 | 0 | 2,1070 | 0 | 2,1070 | 720 |
| KDFA Series 2009 C | 2009 | 3.00 - 5.00% | 2017 | 20,000 | 0 | 20,000 | 0 | 20,000 | 2,500 |
| KDFA Series 2009 G | 2009 | 2.50 - 4.75% | 2023 | 825 | 0 | 825 | 0 | 825 | 50 |
| KDFA Series 2009 H | 2009 | 2.50 - 7.30% | 2035 | 14,630 | 0 | 14,630 | 0 | 14,630 | 0 |
| KDFA Series 2009 J | 2009 | 2.50 - 7.00% | 2030 | 4,545 | 0 | 4,545 | 0 | 4,545 | 0 |
| Plus deferred amounts: | | | | | | | | | |
| Net unamortized premium (discount) | | | | 0 | 3,768 | 913 | 817 | 3,864 | 0 |
| Unamortized Deferred Refunding | | | | 0 | (38) | 0 | (7) | (31) | 0 |
| Total Revenue Bonds Payable | | | | \$ 964,547 | 692,025 | 62,049 | 48,851 | 705,223 | 52,683 |
| Notes payable: | | | | | | | | | |
| Component units of university system | | | | | 119,073 | 34,588 | 7,144 | 146,517 | 7,368 |
| Total notes payable | | | | | 119,073 | 34,588 | 7,144 | 146,517 | 7,368 |
| Arbitrage rebate payable | | | | | 163 | 38 | -78 | 123 | 0 |
| Capital leases | | | | | 15,019 | 308 | 1,180 | 14,147 | 1,293 |
| Compensated absences | | | | | 58,743 | 3,200 | 0 | 61,943 | 51,131 |
| Other post employment benefits | | | | | 11,775 | 8,313 | 20 | 20,068 | 0 |
| Other | | | | | 110,071 | 6,888 | 5,258 | 111,701 | 4,486 |
| Total Component Units | | | | | \$ 1,006,869 | \$ 115,384 | \$ 62,531 | \$ 1,059,722 | \$ 116,961 |

State of Kansas
Notes to the Financial Statements
June 30, 2009

III. Detailed Notes On All Funds

The following table presents annual debt service requirements for those long-term debts outstanding, including bonds payable on demand, at June 30, 2009, which have scheduled debt service amounts (expressed in thousands):

| | Governmental | | Business-type | | Component | |
|---|---------------------|---------------------|---------------------|-------------------|---------------------|-------------------|
| | Activities | | Activities | | Units | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| Revenue bonds: | | | | | | |
| 2010 | \$ 140,835 | \$ 141,249 | \$ 44,215 | \$ 36,684 | \$ 52,683 | \$ 31,284 |
| 2011 | 147,150 | 134,929 | 48,738 | 34,405 | 54,105 | 29,348 |
| 2012 | 156,055 | 127,833 | 50,033 | 32,193 | 54,422 | 27,044 |
| 2013 | 155,315 | 120,200 | 51,315 | 29,876 | 38,570 | 25,001 |
| 2014 | 153,245 | 113,295 | 52,491 | 27,367 | 38,025 | 23,296 |
| 2015-2019 | 700,410 | 465,873 | 233,294 | 100,782 | 186,835 | 90,341 |
| 2020-2024 | 803,650 | 234,933 | 180,377 | 48,337 | 156,475 | 47,158 |
| 2025-2029 | 308,990 | 77,140 | 97,125 | 13,933 | 64,795 | 21,352 |
| 2030-2034 | 165,585 | 27,597 | 1,985 | 51 | 41,905 | 8,465 |
| 2035-2039 | 280 | 14 | 0 | 0 | 13,575 | 1,179 |
| Unamortized premium | 44,366 | 0 | 22,357 | 0 | 3,864 | 0 |
| Unamortized deferred refunding | (31,053) | 0 | (15,954) | 0 | (31) | 0 |
| Totals | <u>2,744,828</u> | <u>1,443,063</u> | <u>765,976</u> | <u>323,628</u> | <u>705,223</u> | <u>304,468</u> |
| Sales tax limited obligation bonds: | | | | | | |
| 2010 | 1,608 | 7,639 | 0 | 0 | 0 | 0 |
| 2011 | 1,963 | 7,590 | 0 | 0 | 0 | 0 |
| 2012 | 2,044 | 7,537 | 0 | 0 | 0 | 0 |
| 2013 | 2,127 | 7,481 | 0 | 0 | 0 | 0 |
| 2014 | 2,213 | 7,419 | 0 | 0 | 0 | 0 |
| 2015-2019 | 88,095 | 28,255 | 0 | 0 | 0 | 0 |
| 2020-2024 | 51,950 | 7,152 | 0 | 0 | 0 | 0 |
| 2025-2029 | <u>6,196</u> | <u>6,076</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Totals | <u>156,196</u> | <u>79,149</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Notes payable: | | | | | | |
| 2010 | 864 | 824 | 0 | 0 | 7,368 | 6,582 |
| 2011 | 904 | 779 | 0 | 0 | 7,272 | 6,243 |
| 2012 | 5,737 | 1,972 | 0 | 0 | 7,338 | 5,917 |
| 2013 | 763 | 4,725 | 0 | 0 | 7,805 | 5,574 |
| 2014 | 790 | 698 | 0 | 0 | 7,761 | 5,234 |
| 2015-2019 | 4,404 | 3,038 | 0 | 0 | 43,618 | 23,794 |
| 2020-2024 | 5,269 | 2,173 | 0 | 0 | 31,899 | 13,627 |
| 2025-2029 | 4,526 | 1,156 | 0 | 0 | 21,477 | 5,441 |
| 2030-2034 | 2,633 | 356 | 0 | 0 | 11,979 | 1,507 |
| 2035-2039 | 530 | 75 | 0 | 0 | 0 | 0 |
| 2040-2044 | <u>235</u> | <u>10</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Totals | <u>26,655</u> | <u>15,806</u> | <u>0</u> | <u>0</u> | <u>146,517</u> | <u>73,919</u> |
| Capital leases payable | 130,533 | 51,609 | 0 | 0 | 14,147 | 3,659 |
| Long-term debt without scheduled debt service: | | | | | | |
| Arbitrage rebate payable | 385 | 0 | 2,885 | 0 | 123 | 0 |
| Claims and judgments | 85,920 | 0 | 218,332 | 0 | 0 | 0 |
| Compensated absences | 134,386 | 0 | 72 | 0 | 61,943 | 0 |
| Other post employment benefits | 26,626 | 0 | 155 | 0 | 20,068 | 0 |
| Pollution remediation | 81,092 | 0 | 0 | 0 | 0 | 0 |
| Other | <u>0</u> | <u>0</u> | <u>17,115</u> | <u>0</u> | <u>111,701</u> | <u>0</u> |
| Total long-term obligations | <u>\$ 3,386,621</u> | <u>\$ 1,589,627</u> | <u>\$ 1,004,535</u> | <u>\$ 323,628</u> | <u>\$ 1,059,722</u> | <u>\$ 382,046</u> |

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

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. These revenue bonds are secured by and payable from various pledged revenues, which include selected tax receipts such as withholding taxes, fees for services such as parking and residential halls, and appropriations. Please reference Note K. above for KDFA revenue bonds and future principal and interest payments.

Kansas Department of Transportation (KDOT) has 13 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. Please reference Note K. above for KDOT revenue bonds and future principal and interest payments.

The coupon interest rate on outstanding bonds varies from 3.13 percent to 5.50 percent. In addition, various 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 0.05 percent to 9.93 percent on the daily adjustable bonds, from 0.08 percent to 9.50 percent on the weekly adjustable bonds, and from 1.70 percent to 3.00 percent on the 28-day adjustable bonds. The Series 2000 B and C, 2002 B, C and D, 2004 C and 2008 A 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, 2009, all bonds tendered have been remarketed. However, since there is not a long-term financing option in place at June 30, 2009, for these tendered bonds, these bonds have been recorded as obligations of the Transportation - Capital Project Fund resulting in a deficit fund balance in that fund.

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. Please reference Note K. above for KDOT revenue bonds and future principal and interest payments.

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 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, based on each entity's respective share of sales taxes generated within the District. The State's proportional share is approximately 72 percent. Therefore, 72 percent of the outstanding obligation on each STAR bond issue has been recorded with the State's 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 K.

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 KDFA, where 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 KDFA or the State. Accordingly, such special obligation bonds are not included in KDFA's June 30, 2009, balance sheet. KDFA's special obligation bonds at June 30, 2009, total \$2.3 billion.

Private activity bonds are special limited obligations of KDFA 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 KDFA's June 30, 2009, balance sheet. KDFA's private activity bonds at June 30, 2009, total \$1.1 billion.

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 K, Long-term Obligations and Section J, 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 35 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, 2009, 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.

State of Kansas
Notes to the Financial Statements
June 30, 2009

III. Detailed Notes On All Funds

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, 2009, are as follows (expressed in thousands):

| <u>Fiscal Year</u> | | |
|---|----|-----------------------|
| 2010 | \$ | 11,814 |
| 2011 | | 11,283 |
| 2012 | | 10,409 |
| 2013 | | 9,822 |
| 2014 | | 8,441 |
| 2015-2019 | | 28,515 |
| 2020-2024 | | 14,748 |
| 2025-2029 | | <u>7,420</u> |
| Total future minimum lease payments | \$ | <u><u>102,452</u></u> |
| Rent expenditures/expenses for operating leases for the year ended June 30, 2009 | | |
| | \$ | <u><u>11,521</u></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, 2009 (expressed in thousands):

| <u>Year Ending June 30</u> | <u>Governmental Activities</u> | |
|--------------------------------|--------------------------------|-------------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2010 | \$ 12,088 | \$ 5,456 |
| 2011 | 10,922 | 4,953 |
| 2012 | 9,822 | 4,484 |
| 2013 | 9,641 | 4,900 |
| 2014 | 9,848 | 5,909 |
| 2015-2019 | 30,393 | 14,187 |
| 2020-2024 | 23,606 | 8,141 |
| 2025-2029 | 21,726 | 3,469 |
| 2030-2034 | <u>2,487</u> | <u>110</u> |
| Total | <u><u>\$ 130,533</u></u> | <u><u>\$ 51,609</u></u> |

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2009, include the following (expressed in thousands):

| | |
|--------------------------------|------------------------------------|
| | <u>Governmental Activities</u> |
| Land (non-depreciable) | \$ 9,664 |
| Buildings | 89,113 |
| Equipment | 52,848 |
| Less: Accumulated depreciation | <u>(43,227)</u> |
| Total | <u><u>\$ 108,398</u></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.

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, 2009, and changes for the fiscal year then ended are as follows (expressed in thousands):

| Bond Issue | Balance | Payments | Balance |
|---------------------------------|------------|-----------|------------|
| Governmental Activities | | | |
| KDOT Series 1994 | \$ 27,915 | \$ 8,835 | \$ 19,080 |
| KDOT Series 1994 A | 6,715 | 3,235 | 3,480 |
| KDOT Series 1998 | 58,190 | 2,890 | 55,300 |
| KDOT Series 1999 | 297,140 | 2,435 | 294,705 |
| KDOT Series 2000 A | 150,000 | 5,100 | 144,900 |
| KDFA Series 2003 J | 5,070 | 375 | 4,695 |
| KDFA Series 2004 A | 4,970 | 300 | 4,670 |
| Total governmental activities | \$ 550,000 | \$ 23,170 | \$ 526,830 |
| Business-type Activities | | | |
| KDFA Series 1998 II | \$ 28,670 | \$ 28,670 | \$ 0 |
| KDFA Series 2000 I | 1,965 | 0 | 1,965 |
| KDFA Series 2000 II (Nov.) | 54,945 | 0 | 54,945 |
| KDFA Series 2000 1 & 2 | 24,635 | 0 | 24,635 |
| KDFA Series 2001 II | 2,790 | 0 | 2,790 |
| KDFA Series 2002 II | 26,845 | 0 | 26,845 |
| KDFA Series 2002 1 & 2 | 20,315 | 0 | 20,315 |
| Total business-type activities | \$ 160,165 | \$ 28,670 | \$ 131,495 |

No bonds were defeased during the current fiscal year.

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, 2009, and changes for the fiscal year then ended are as follows (expressed in thousands):

| Bond Issue | 6/30/2008 Beginning Balance | Payments | 6/30/2009 Ending Balance |
|-----------------------|-----------------------------------|-----------------|--------------------------------|
| KDFA Series 1999 D | \$ 1,060 | \$ 1,060 | \$ 0 |
| KDFA Series 1999 H | 10,030 | 0 | 10,030 |
| KDFA Series 1999 N | 19,240 | 0 | 19,240 |
| KDFA Series 2000 T | 1,285 | 135 | 1,150 |
| KDFA Series 2000 V | 7,215 | 0 | 7,215 |
| KDFA Series 2001 N | 600 | 600 | 0 |
| KDFA Series 2001 W | 1,370 | 130 | 1,240 |
| Total component units | <u>\$ 40,800</u> | <u>\$ 1,925</u> | <u>\$ 38,875</u> |

No bonds were defeased in the current fiscal year.

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of \$385,000 for Governmental Activities, \$2.9 million for Business-type Activities, and \$123,000 for Component Units.

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 \$21.8 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 an indicative value of negative \$318,000 as of June 30, 2009.

Kansas Department of Transportation

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

State of Kansas
Notes to the Financial Statements
June 30, 2009

III. Detailed Notes On All Funds

Terms, fair values, and credit risk. The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2009, are included below. KDOT'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 (expressed in thousands).

| 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 | 12/17/2002 | 5.24% | 67% of USD-LIBOR | \$ (5,915) | 3/1/2012 | A2/A |
| KDOT Series 2002 B & C* | 200,000 | 10/23/2002 | 3.16% | 67% of USD-LIBOR | (13,295) | 9/1/2019 | Aa3/A |
| KDOT Series 2002 B & C* | 120,005 | 10/23/2002 | 3.16% | 67% of USD-LIBOR | (7,986) | 9/1/2019 | A3/A |
| KDOT Series 2003 C | 150,275 | 12/3/2003 | 3.36% | 71% of USD-LIBOR** | (10,506) | 9/1/2015 | A2/A |
| KDOT Series 2004 B & C*** | 72,000 | 11/23/2004 | 3.57% | 63.5% of USD-LIBOR +.29% | (6,703) | 9/1/2024 | Aa3/A |
| KDOT Series 2004 B & C | 75,000 | 7/1/2007 | 3.57% | 63.329% of 10 Year LIBOR | (4,558) | 9/1/2024 | Aa3/A |
| KDOT Series 2004 B | 75,000 | 7/10/2007 | 67% of USD-Libor | 6156% of 10 Year LIBOR | 3,037 | 9/1/2024 | Aa1/AA- |
| | <u>\$ 779,155</u> | | | | <u>\$ (45,926)</u> | | |

*-two counterparties

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

***-reduces from \$147,000 on July 1, 2007

KDOT Series 2002 D Swap - In connection with the issuance of \$86.9 million of variable-rate bonds to refund outstanding KDOT Series 1993A Bonds, on August 27, 2002, KDOT 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 \$11.9 million to be paid to the KDOT in two installments of \$6.5 million on March 1, 2006, and \$5.4 million on March 1, 2007. The swaption allowed the 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 \$10.4 million (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, whereby KDOT pays a fixed rate of 5.24 percent.

KDOT Series 2002 B & C Swap - In connection with the issuance of \$320 million of variable-rate KDOT Series 2002 B & C Bonds, on October 3, 2002, KDOT competitively bid a floating-to-fixed 67 percent of LIBOR interest rate swap. Goldman Sachs was awarded \$200 million of notional principal and Salomon Smith Barney was awarded \$120 million of notional principal. The executed transaction consisted of a \$320 million 17-year amortizing interest rate swap under which KDOT pays Goldman/Salomon a fixed rate of 3.16 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 \$150.3 million of variable-rate KDOT Series 2003 C Bonds, on November 20, 2003, KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$150.3 million 12-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.36 percent and receives the lesser of the Actual Bond Rate and 71 percent of one 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 2004 B and C Swaps - In connection with the issuance of \$147 million of variable-rate Series 2004 B and C Bonds, on November 12, 2004, KDOT competitively bid a floating-to-fixed interest rate swap. The executed transaction consisted of a \$147 million 20-year amortizing floating-to-fixed interest rate swap whereby KDOT pays the counterparty a fixed rate of 3.57 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.

Since many tax-exempt and municipal issuers fund capital projects with long-term traditional or synthetic fixed-rate debt, but are constrained to investing short-term for liquidity reasons, in a normal or upwardly sloped yield curve they incur "negative carry" (cost of borrowing exceeds investment rate). KDOT determined that it could mitigate

III. Detailed Notes On All Funds

this imbalance through the execution of the two Constant Maturity Swaps (CMS). On June 15, 2007, based on the results of a previously distributed competitively bid request for quotes for a swap provider, effective July 1, 2007, KDOT amended the floating index from 63.5 percent plus 29 basis points to 62.33 percent of the ten year LIBOR CMS rate on \$75 million of the existing \$147 million swap. On July 10, 2007, a CMS became effective on the previously unhedged 2004 B series bonds so KDOT pays Bears Stearns Financial Products Inc. ("BSFP") 67 percent of one month LIBOR and receives 61.56 percent of the 10 year LIBOR CMS rate on \$75 million. Following the merger of BSFP with JPMorgan Chase Bank N.A. ("JPM"), and an Assignment Agreement dated as of March 18, 2009, by and among BSFP, KDOT and JPM, the bank counterparty on this swap is now JPM.

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, 2009, KDOT has credit risk exposure to JP Morgan Chase Bank N.A. on the swap associated with the KDOT Series 2004 B Bonds. This is because the transaction has a positive fair value, meaning KDOT is exposed to the counterparty in the amount of the derivative's fair value. However, should interest rates change and the fair value of the swap become negative, KDOT would not be exposed to credit risk.

KDOT has no credit risk exposure on the rest of the swap transactions because the swaps have negative fair values, meaning the counterparties are exposed to KDOT in the amount of the derivatives' fair values. However, should interest rates change and the fair values of the swaps become positive, KDOT would 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 KDOT on the underlying variable rate bonds to bondholders differs from the variable swap rate received from the applicable counterparty. KDOT 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. KDOT 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.