III. Detailed Notes On All Funds

Transfers

Net transfers by major funds are as follows (expressed in thousands):

Fund	Net Transfers In	Net Transfers Out
General	$ 184,875	$ 0
Transportation	0	466,885
Transportation-Capital Projects	0	179,732
Health Policy Authority	0	889,178
Non-major Governmental	1,437,089	0
Unemployment Insurance	0	7,836
Health Care Stabilization	0	206
Non-major Enterprise Funds	0	73,743
Internal Service Funds	0	4,384
Total	$ 1,621,964	$ 1,621,964

J. Short-term Obligations

Short-term obligations at June 30, 2010, and changes for the fiscal year then ended (expressed in thousands) are as follows:

	6/30/2009 Beginning Balance	Additions	Deletions	6/30/2010 Ending Balance
Governmental Activities				
Certificates of Indebtedness	$ 0	$ 700,000	$ 700,000	$ 0
Accrued receivables:				
State Building Fund	0	43,735	43,735	0
Children's Initiatives Fund	0	33,443	33,443	0
Correctional Institution Building Fund	0	4,357	4,357	0
State Economic Development	0	20,891	20,891	0
Kansas Endowment for Youth Fund	0	208	208	0
27th Paycheck	0	7,803	7,803	0
Bond Anticipation Notes:				
KDFA Series 2008-4, 1.98%	5,000	0	5,000	0
Total short-term obligations	$ 5,000	$ 810,437	$ 815,437	$ 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 $700 million was issued on July 6, 2009, and redeemed on June 24, 2010.

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

III. Detailed Notes On All Funds

year 2010, $29.2 million was posted to the Kansas Educational Building Fund and $14.6 million to the State Institutions Buildings Fund. The receipts reduced the receivable to zero in June 2010.

Per House Bill 2354, Section 48(f) of the 2009 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 2010 a receivable was posted for $33.4 million and was reduced to zero in April 2010.

Per House Bill 2354, Section 48(h) of the 2009 Session, on July 1, 2009, 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 2010, a receivable was posted for $4.4 million and was reduced to zero in March, 2010.

Per House Bill 2354, Section 48(g) of the 2009 Session, on July 1, 2009, 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 2010, a receivable was posted for $20.9 million and was reduced to zero in December 2009.

Per House Bill 2354, Section 48(i) of the 2009 Session, on July 1, 2009, 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 2010, a receivable was posted for $208 thousand and was reduced to zero in April 2010.

Per House Bill 2354, Section 48(n) of the 2009 Session, on July 1, 2009, receivables are to be posted to the State Treasurer's receivables for the 27th payroll in the amount of $32.7 million. This amount is reduced as moneys are received into the fund. In fiscal year 2010, a receivable was posted for $7.8 million and was reduced to zero in June 2010.

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 $5 million KDFA 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. Permanent financing was obtained with the issuance and sale of revenue bonds, KDFA Series 2010A on January 28, 2010 in the amount of $23.7 million. The bond anticipation note was subsequently redeemed on January 28, 2010.

III. Detailed Notes On All Funds

K. Long-term Obligations

A summary of long-term obligations at June 30, 2010, for the fiscal year then ended is as follows (expressed in thousands):

	Government Activities	Business-Type Activities	Component Units	Total
Revenue bonds payable	$ 2,861,825	$ 749,001	$ 700,808	$ 4,311,634
Less bonds payable on demand	(664,315)	0	0	(664,315)
Sales tax limited obligation bonds	133,192	0	0	133,192
Sales tax accretion bonds	75,233	0	0	75,233
Notes payable	25,843	0	174,530	200,373
Capital leases payable	138,821	0	14,568	153,389
Arbitrage rebate payable	400	1,254	98	1,752
Unemployment benefits loan	0	88,159	0	88,159
Claims and judgments	87,216	215,402	0	302,618
Compensated absences	129,921	68	65,691	195,680
Other post employment benefits	36,270	224	30,404	66,898
Pollution remediation	70,936	0	4,000	74,936
Other	0	17,697	110,928	128,625
Total long-term obligations	$ 2,895,342	$ 1,071,805	$ 1,101,027	$ 5,068,174

III. Detailed Notes On All Funds

Long-term obligations at June 30, 2010, and changes for the fiscal year then ended are as follows (expressed in thousands):

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2009 Beginning Balance	Additions	Deletions	6/30/2010 Ending Balance	Amounts Due In One Year
Governmental Activities									
Revenue bonds payable:									
KDFA Series 2001 M	2002	3.50 - 5.00%	2011	$ 32,390	$ 8,075	$ 0	$ 3,940	$ 4,135	$ 4,135
KDFA Series 2003 H	2004	1.41 - 5.21%	2014	40,250	22,175	0	4,020	18,155	4,210
KDFA Series 2004 A	2004	2.00 - 5.00%	2024	44,920	36,805	0	1,785	35,020	1,835
KDFA Series 2004 C	2004	3.43 - 5.50%	2034	500,000	489,930	0	10,415	479,515	10,805
KDFA Series 2004 G-2	2005	2.50 - 5.13%	2010	1,545	300	0	300	0	0
KDFA Series 2005 H	2006	3.25 - 5.00%	2032	88,175	78,740	0	3,250	75,490	3,380
KDFA Series 2005 N	2006	3.50 - 4.00%	2015	28,165	17,750	0	2,680	15,070	2,790
KDFA Series 2006 A	2006	4.00 - 5.00%	2027	209,490	195,745	0	7,300	188,445	7,600
KDFA Series 2006 L	2007	4.00 - 4.25%	2026	13,210	11,955	0	665	11,290	690
KDFA Series 2007 F	2007	4.00 - 4.97%	2017	34,505	28,945	0	3,085	25,860	3,210
KDFA Series 2007 K	2008	4.00 - 5.25%	2028	59,455	57,575	0	1,955	55,620	2,045
KDFA Series 2008 L	2009	2.00 - 5.25%	2029	43,265	43,265	0	1,510	41,755	1,565
KDFA Series 2009 A	2009	2.50 - 5.00%	2035	3,825	3,825	0	0	3,825	0
KDFA Series 2009 B	2009	5.00%	2019	515	515	0	0	515	0
KDFA Series 2009 F	2009	3.00 - 5.00%	2019	49,425	49,425	0	0	49,425	0
KDFA Series 2009 M-1&M-2	2010	3.00 - 6.31%	2034	85,265	0	85,265	650	84,615	2,215
KDFA Series 2009 N	2010	3.88 - 5.80%	2025	10,050	0	10,050	0	10,050	0
KDFA Series 2010 C	2010	5.00%	2020	52,755	0	52,755	0	52,755	0
KDFA Series 2010 E-1&E-2	2010	2.00 - 6.12%	2035	84,160	0	84,160	0	84,160	0
KDFA Series 2010 F	2010	1.58 - 6.25%	2032	18,400	0	18,400	0	18,400	0
KDOT Series 1998	1998	3.65 - 5.50%	2014	189,195	46,670	0	15,310	31,360	19,895
KDOT Series 2000 B &C*	2001	4.50 - 5.85%	2010	200,000	200,000	0	200,000	0	0
KDOT Series 2002 A	2003	Variable	2012	199,600	55,915	0	22,390	33,525	21,835
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	67,840	0	21,400	46,440	22,590
KDOT Series 2003 A &B	2004	3.13 - 5.00%	2014	248,190	248,190	0	40,830	207,360	40,565
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
KDOT Series 2009 A	2010	2.25 - 5.00%	2021	176,680	0	176,680	0	176,680	0
								2,817,340	149,365
Less bonds payable on demand				(885,715)	(885,715)		(221,400)	(664,315)	(22,590)
Plus deferred amounts:									
Net unamortized premium (discount)				0	44,366	39,438	9,708	74,096	0
Unamortized deferred refunding difference				0	(31,053)	(5,204)	(6,646)	(29,611)	0
Total revenue bonds payable				$ 2,683,700	1,859,113	461,544	123,147	2,197,510	126,775
Sales tax limited obligation bonds:									
1999 KISC	1999	4.20 - 5.25%	2028	17,496	16,821	0	369	16,452	400
2001 Project Area B	2001	4.00 - 5.10%	2021	20,639	16,053	0	904	15,149	1,134
2002 Subordinate KISC	2002	5.00 - 8.00%	2023	4,550	2,052	0	187	1,865	241
400 Acres Refunding	2005	3.25 - 5.54%	2021	3,931	3,654	0	148	3,506	187
2nd Lien 2005 Turbo	2006	4.75 - 5.00%	2021	125,298	117,616	0	23,591	94,025	0
2010 A	2010	6.25%	2010	18,000	0	18,000	18,000	0	0
Salt Museum	2006	5.00%	2021	3,984	2,626	0	431	2,195	432
Total sales tax limited obligation bonds				$ 193,898	158,822	18,000	43,630	133,192	2,394
Notes payable:									
Water supply storage in Federal reservoirs				32,575	21,275	0	625	20,650	711
Expanded Lottery Operations				5,000	5,000	0	0	5,000	0
Printing plant				3,857	380	0	187	193	193
Total notes payable				$ 41,432	26,655	0	812	25,843	904
Capital leases payable					130,533	20,991	12,703	138,821	11,656
Sales Tax Limited Obligation-2010 B Accretion Bonds					0	75,233	0	75,233	0
Arbitrage rebate payable					385	15	0	400	0
Claims and judgments					85,920	424,257	422,961	87,216	45,863
Compensated absences					134,386	0	4,465	129,921	62,777
Other post employment benefits					26,626	18,986	9,342	36,270	0
Pollution remediation					81,092	7,642	17,798	70,936	23,082
Total Governmental Activities					$ 2,503,532	$ 1,026,668	$ 634,858	$ 2,895,342	$ 273,451

III. Detailed Notes On All Funds

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2009 Beginning Balance	Additions	Deletions	6/30/2010 Ending Balance	Amounts Due In One Year
Business-Type Activities									
Revenue bonds payable:									
KDFA Series 1997 1&2	1998	4.13 - 5.00%	2010	$ 45,420	$ 12,825	$ 0	$ 12,825	$ 0	$ 0
KDFA Series 1998 1&2	1999	3.88 - 5.25%	2021	39,690	4,205	0	4,205	0	0
KDFA Series 1998 II	1998	3.75 - 5.25%	2013	80,500	17,275	0	9,820	7,455	4,305
KDFA Series 2000 I&II	2000	4.60 - 6.00%	2012	82,915	8,240	0	3,810	4,430	4,000
KDFA Series 2000 1&2	2000	4.75 - 5.75%	2010	53,500	17,270	0	17,270	0	0
KDFA Series 2001 I&II	2002	3.00 - 5.50%	2022	141,045	115,815	0	5,685	110,130	6,000
KDFA Series 2002 1&2	2002	4.00 - 5.50%	2024	51,805	22,800	0	2,310	20,490	2,045
KDFA Series 2002 II	2003	2.26 - 5.50%	2024	101,575	55,370	0	3,000	52,370	3,450
KDFA Series 2004 II	2004	2.00 - 5.25%	2023	45,140	45,140	0	1,500	43,640	1,750
KDFA Series 2004 1&2	2005	3.00 - 5.00%	2026	176,010	160,430	0	11,530	148,900	7,760
KDFA Series 2005 CW I&II	2006	3.00 - 5.00%	2027	118,860	103,455	0	5,365	98,090	7,215
KDFA Series 2008 CW I&II	2009	3.00 - 5.13%	2030	66,545	66,545	0	0	66,545	1,365
KDFA Series 2008 DW 1&2	2009	5.00 - 6.00%	2029	36,700	36,445	0	1,330	35,115	1,365
KDFA Series 2009 DW 1&2	2010	1.50 - 5.60%	2029	73,040	0	73,040	1,080	71,960	2,515
KDFA Series 2005 TR	2006	3.00 - 5.00%	2026	32,690	28,455	0	2,080	26,375	2,085
KDFA Series 2006 TR	2007	4.00 - 5.00%	2027	24,755	21,595	0	1,705	19,890	1,765
KDFA Series 2008 G	2009	4.60 - 5.05%	2023	14,200	12,758	0	1,145	11,613	1,198
KDFA Series 2009 TR	2009	2.50 - 4.78%	2028	30,950	30,950	0	1,280	29,670	2,175
Plus deferred amounts:									
Net unamortized premium (discount)				0	22,357	(87)	3,045	19,225	0
Unamortized deferred refunding difference				0	(15,954)	(2,630)	(1,687)	(16,897)	0
Total revenue bonds payable				$ 1,215,340	765,976	70,323	87,298	749,001	48,993
Arbitrage rebate payable					2,885	(879)	752	1,254	1,066
Unemployment benefits loan					0	88,159	0	88,159	0
Claims and judgments					218,332	50	2,980	215,402	17,226
Compensated absences					72	0	4	68	57
Other post employment benefits					155	75	6	224	0
Other					17,115	582	0	17,697	0
Total Business-type Activities					$ 1,004,535	$ 158,310	$ 91,040	$ 1,071,805	$ 67,342

III. Detailed Notes On All Funds

	Issue Dates	Interest Rates	Maturity Through	Original Amount of Debt	6/30/2009 Beginning Balance	Additions	Deletions	6/30/2010 Ending Balance	Amounts Due In One Year
Component Units									
Revenue bonds payable:									
KDFA Series 1989 E	1990	6.00 - 7.25%	2010	$ 1,401	$ 128	$ 3	$ 131	$ 0	$ 0
KDFA Series 1995 K	1996	3.75 - 5.40%	2016	3,835	2,020	0	2,020	0	0
KDFA Series 1996 J	1997	3.85 - 5.40%	2010	5,600	70	0	70	0	0
KDFA Series 1997 C	1997	4.70 - 5.30%	2011	3,255	550	0	305	245	245
KDFA Series 1997 G-1	1998	5.05%	2012	626	1,117	57	0	1,174	0
KDFA Series 1998 B	1998	3.90 - 5.00%	2018	9,320	5,690	0	430	5,260	450
KDFA Series 1998 D	1998	3.70 - 5.05%	2010	4,290	3,100	0	3,100	0	0
KDFA Series 1998 E	1999	3.40 - 4.90%	2024	4,750	3,715	0	145	3,570	155
KDFA Series 1998 L	1999	3.80 - 5.00%	2011	5,590	3,480	0	3,195	285	285
KDFA Series 1998 P	1999	3.00 - 4.85%	2019	3,650	2,410	0	160	2,250	170
KDFA Series 1999 A-1&A-2	1999	3.20 - 5.00%	2012	28,210	7,400	0	2,075	5,325	2,025
KDFA Series 1999 B	1999	3.60 - 5.00%	2019	2,920	1,920	0	135	1,785	140
KDFA Series 1999 C	1999	4.00 - 5.10%	2019	3,085	2,045	0	145	1,900	150
KDFA Series 1999 D	1999	4.00 - 4.75%	2010	11,170	4,310	0	4,310	0	0
KDFA Series 1999 H	2000	3.75 - 5.20%	2012	17,830	2,375	0	750	1,625	790
KDFA Series 1999 N	2000	4.00 - 5.13%	2010	21,645	350	0	350	0	0
KDFA Series 2000 B	2000	4.70 - 5.90%	2010	5,705	3,095	0	3,095	0	0
KDFA Series 2000 D	2001	4.60 - 5.60%	2015	1,735	935	0	110	825	115
KDFA Series 2000 V	2001	4.35 - 4.75%	2011	16,370	2,175	0	1,100	1,075	1,075
KDFA Series 2001 B	2001	3.65 - 5.20%	2021	2,805	1,985	0	125	1,860	130
KDFA Series 2001 D	2001	4.25 - 5.25%	2021	48,895	34,975	0	2,180	32,795	2,290
KDFA Series 2001 F	2001	3.30 - 5.50%	2012	29,905	9,195	0	3,560	5,635	1,715
KDFA Series 2001 J	2002	3.50 - 4.30%	2013	5,300	1,760	0	525	1,235	540
KDFA Series 2001 N	2001	4.25 - 5.25%	2014	7,230	3,345	0	590	2,755	620
KDFA Series 2001 S	2002	4.13 - 5.50%	2016	15,095	11,015	0	8,230	2,785	720
KDFA Series 2001 U	2002	3.10 - 5.00%	2021	10,295	6,145	0	645	5,500	670
KDFA Series 2001 W	2002	3.00 - 5.00%	2022	47,855	36,905	0	18,700	18,205	1,705
KDFA Series 2002 A	2002	3.50 - 5.00%	2017	26,560	19,020	0	9,505	9,515	1,330
KDFA Series 2002 C	2002	3.00 - 5.00%	2022	15,830	12,090	0	705	11,385	725
KDFA Series 2002 H	2003	2.50 - 4.10%	2016	3,765	2,715	0	165	2,550	170
KDFA Series 2002 J-1&J-2	2003	3.39 - 3.58%	2010	33,355	29,595	0	29,595	0	0
KDFA Series 2002 K	2003	4.30%	2023	5,120	5,120	0	3,280	1,840	65
KDFA Series 2002 N	2003	3.00 - 5.25%	2018	52,075	41,480	0	30,225	11,255	2,300
KDFA Series 2002 P	2003	3.00 - 5.00%	2021	12,150	9,235	0	540	8,695	560
KDFA Series 2003 A-1&A-2	2003	1.80 - 5.50%	2023	2,610	2,055	0	105	1,950	110
KDFA Series 2003 C	2003	4.67 - 5.00%	2033	72,670	63,295	0	1,830	61,465	575
KDFA Series 2003 D-1&D-2	2003	2.00 - 4.70%	2028	6,470	5,225	0	4,500	725	70
KDFA Series 2003 J	2004	2.00 - 5.25%	2025	34,100	28,395	0	1,215	27,180	1,285
KDFA Series 2004 D	2005	3.00 - 4.75%	2020	1,195	1,055	0	85	970	85
KDFA Series 2004 F	2005	2.00 - 5.25%	2012	44,860	31,515	0	9,745	21,770	12,270
KDFA Series 2004 G-1	2005	2.50 - 5.13%	2024	19,795	15,885	0	800	15,085	820
KDFA Series 2005 A	2005	3.00 - 5.00%	2035	44,535	41,935	0	920	41,015	950
KDFA Series 2005 D	2005	3.79 - 5.18%	2022	66,530	49,260	0	5,035	44,225	6,630
KDFA Series 2005 E-1&E-2	2005	3.00 - 5.00%	2030	19,360	17,920	0	545	17,375	560
KDFA Series 2005 F	2006	3.25 - 4.40%	2026	8,930	8,580	0	375	8,205	380
KDFA Series 2005 G	2006	3.30 - 4.60%	2026	7,205	7,205	0	310	6,895	320
KDFA Series 2006 B	2006	3.50 - 4.13%	2021	9,790	9,650	0	140	9,510	145
KDFA Series 2007 A	2007	3.75 - 4.39%	2037	27,750	26,855	0	530	26,325	555
KDFA Series 2007 E	2007	3.75 - 4.30%	2027	6,275	5,855	0	230	5,625	240
KDFA Series 2007 H	2008	3.60 – 4.50%	2037	17,855	17,520	0	350	17,170	360
KDFA Series 2007 M	2008	3.20 – 4.60%	2027	18,220	17,550	0	695	16,855	715
KDFA Series 2008 A	2008	3.00 – 4.00%	2016	20,000	17,500	0	2,500	15,000	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	21,070	21,070	0	720	20,350	735
KDFA Series 2009 C	2009	3.00 - 5.00%	2017	20,000	20,000	0	2,500	17,500	2,500
KDFA Series 2009 G	2009	2.50 - 4.75%	2023	825	825	0	50	775	45
KDFA Series 2009 H	2009	2.50 - 7.30%	2035	14,630	14,630	0	0	14,630	0
KDFA Series 2009 J	2009	2.50 - 7.00 %	2030	4,545	4,545	0	0	4,545	160
KDFA Series 2009 K	2010	2.63 - 5.63%	2040	6,140	0	6,140	0	6,140	0
KDFA Series 2009 M-1&M-2	2010	3.00 - 6.31%	2030	31,650	0	31,650	0	31,650	0
KDFA Series 2010 A	2010	2.00 - 4.05%	2030	23,700	0	23,700	0	23,700	610
KDFA Series 2010 B	2010	2.05 - 3.75%	2027	21,650	0	21,650	0	21,650	275
KDFA Series 2010 D	2010	3.12%	2015	1,315	0	1,315	0	1,315	200
KDFA Series 2010 G-1&G-2	2010	2.00 - 6.60%	2040	21,565	0	21,565	0	21,565	0
KDFA Series 2010 H	2010	2.00%	2016	1,530	0	1,530	0	1,530	250
KDFA Series 2010 J	2010	0.75 - 4.45%	2030	14,765	0	14,765	0	14,765	595
KDFA Series 2010 K-1&K-2	2010	2.00 - 6.20%	2035	15,050	0	15,050	0	15,050	1,140
KDFA Series 2010 M-1&M-2	2010	2.00 - 5.10%	2026	20,990	0	20,990	0	20,990	0
Plus deferred amounts:									
Net unamortized premium (discount)				0	3,864	2,698	933	5,629	0
Unamortized Deferred Refunding				0	(31)	(1,268)	(49)	(1,250)	0
Total Revenue Bonds Payable				$ 1,116,397	705,223	159,845	164,260	700,808	54,220
Notes payable:									
Component units of university system					146,517	36,237	8,224	174,530	7,894
Total notes payable					146,517	36,237	8,224	174,530	7,894
Arbitrage rebate payable					123	22	47	98	0
Capital leases					14,147	1,745	1,324	14,568	1,358
Compensated absences					61,943	3,748	0	65,691	55,086
Other post employment benefits					20,068	10,362	26	30,404	0
Pollution remediation					0	4,000	0	4,000	300
Other					111,701	8,956	9,729	110,928	2,862
Total Component Units					$ 1,059,722	$ 224,915	$ 183,610	$ 1,101,027	$ 121,720

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, 2010, which have scheduled debt service amounts (expressed in thousands):

	Governmental Activities		Business-type Activities		Component Units	
	Principal	Interest	Principal	Interest	Principal	Interest
Revenue bonds:						
2011	$ 149,365	$ 126,389	$ 52,573	$ 34,996	$ 54,220	$ 30,526
2012	165,340	118,786	48,058	32,849	57,260	28,882
2013	165,460	111,107	49,785	30,523	40,985	26,828
2014	165,825	104,153	52,476	28,083	38,345	25,181
2015	176,980	97,519	48,283	25,628	36,425	23,696
2016-2020	839,950	387,467	230,509	94,012	177,400	93,679
2021-2025	764,805	202,064	181,679	45,662	149,090	53,351
2026-2030	237,400	55,738	83,310	9,807	84,545	26,167
2031-2035	152,215	20,746	0	0	43,670	10,010
2036-2040	0	0	0	0	14,490	1,834
Less bonds payable on demand	(664,315)	(157,578)	0	0	0	0
Unamortized premium	74,095	0	19,225	0	5,628	0
Unamortized deferred refunding	(29,610)	0	(16,897)	0	(1,250)	0
Totals	2,197,510	1,066,391	749,001	301,560	700,808	320,154
Sales tax limited obligation bonds:						
2011	2,394	6,588	0	0	0	0
2012	2,494	6,510	0	0	0	0
2013	2,603	6,428	0	0	0	0
2014	2,716	6,339	0	0	0	0
2015	2,644	6,240	0	0	0	0
2016-2020	85,613	23,317	0	0	0	0
2021-2025	29,759	5,342	0	0	0	0
2026-2030	4,969	5,145	0	0	0	0
Totals	133,192	65,909	0	0	0	0
Notes payable:						
2011	904	778	0	0	7,894	7,905
2012	5,737	1,972	0	0	8,528	7,633
2013	763	725	0	0	8,799	7,259
2014	791	698	0	0	8,682	6,855
2015	819	669	0	0	12,383	6,373
2016-2020	4,564	2,878	0	0	44,410	30,037
2021-2025	5,305	1,980	0	0	36,175	17,348
2026-2030	4,659	996	0	0	22,493	9,176
2031-2035	1,639	401	0	0	16,226	4,022
2036-2040	544	61	0	0	8,940	1,162
2041-2045	118	3	0	0	0	0
Totals	25,843	11,161	0	0	174,530	97,770
Capital leases payable	138,821	48,132	0	0	14,568	3,907
Long-term debt without scheduled debt service:						
Arbitrage rebate payable	400	0	1,254	0	98	0
Sales tax ltd oblig:accretion bonds	75,233	0	0	0	0	0
Unemployment benefits loan	0	0	88,159	0	0	0
Claims and judgments	87,216	0	215,402	0	0	0
Compensated absences	129,921	0	68	0	65,691	0
Other post employment benefits	36,270	0	224	0	30,404	0
Pollution remediation	70,936	0	0	0	4,000	0
Other	0	0	17,697	0	110,928	0
Total long-term obligations	$ 2,895,342	$ 1,191,593	$ 1,071,805	$ 301,560	$ 1,101,027	$ 421,831

III. Detailed Notes On All Funds

Included in the debt service requirements to maturity table above are variable rate debt maturities for the Kansas Department of Transportation. For those variable rate bonds the following table represents the aggregate debt service requirements and net receipts/payments on associated hedging derivative instruments. These amounts assume that current interest rates on variable-rate bonds and the current reference rates of hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and net receipts/payments on the hedging derivative instruments will vary.

Fiscal Year Ended June 30	Principal	Interest	Hedging Derivative Instruments (Net)	Total
2011	$ 22,590	$ 22,856	$ 1,487	$ 46,933
2012	44,825	21,341	1,503	67,669
2013	40,295	19,121	1,506	60,922
2014	45,520	17,741	1,509	64,770
2015	113,110	15,132	1,516	129,758
2016 - 2020	250,975	44,811	7,577	303,363
2021 - 2025	147,000	16,575	4,313	167,888
Total	$ 664,315	$ 157,577	$ 19,411	$ 841,303

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 12 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. KDOT also has four outstanding series secured by pledges of revenues from loans and leases. Please reference Note K. above for KDOT revenue bonds and future principal and interest payments.

The coupon interest rate on outstanding bonds varies from 2.25 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 0.30 percent on the daily adjustable bonds and from 0.30 percent to 1.00 percent on the weekly adjustable bonds. There were no 28-day adjustable bonds. The Series 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, 2010, all bonds tendered have been remarketed. However, since there is not a long-term financing option in place at June 30, 2010, for these tendered bonds, these

III. Detailed Notes On All Funds

bonds have been recorded as obligations of the Transportation - Capital Project Fund resulting in a deficit fund balance in that fund.

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 changed on July1, 2010, with the increase of 1% in the state sales tax rate. In addition, the State's proportional share in the 2010 B bond issue is capped at $144.5 million.

In March 2006, the City of Hutchinson created the Underground Salt Museum Redevelopment District. The District was created for the development of the Kansas Underground Salt Museum as a tourist destination. The City issued Sales Tax Limited Obligation Revenue Bonds (STAR bonds). Pursuant to issuance of the STAR bonds, the City 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 City and the State, based on each entity's respective share of sales taxes generated within the District. The State's proportional share is approximately 83 percent. Therefore, 83 percent of the outstanding obligation on each STAR bond issue has been recorded with the State's long-term debt. This proportional share changed July 1, 2010, with the increase of 1% in the state sales tax rate. 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, 2010, balance sheet. KDFA's special obligation bonds at June 30, 2010, total $2.6 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, 2010, balance sheet. KDFA's private activity bonds at June 30, 2010, total $1.6 billion.

Notes Payable

The Pooled Money Investment Board 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 36 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, 2010, 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.

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, 2010, are as follows (expressed in thousands):

Fiscal Year		
2011	$	12,695
2012		11,725
2013		10,999
2014		9,762
2015		8,539
2016-2020		32,376
2021-2025		15,047
2026-2030		5,483
Total future minimum lease payments	$	106,626
Rent expenditures/expenses for operating leases for the year ended June 30, 2010	$	12,474

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, 2010 (expressed in thousands):

Year Ending	Governmental Activities			
June 30		Principal		Interest
2011	$	11,656	$	5,022
2012		15,948		5,807
2013		16,537		5,311
2014		16,433		6,083
2015		11,464		3,730
2016-2020		24,029		12,533
2021-2025		22,423		7,126
2026-2030		20,331		2,520
Total	$	138,821	$	48,132

III. Detailed Notes On All Funds

Leased land, buildings, and equipment under capital leases in capital assets at June 30, 2010, include the following (expressed in thousands):

	Governmental Activities
Land (non-depreciable)	$ 9,510
Buildings	87,726
Equipment	43,937
Less: Accumulated depreciation	(43,804)
Total	$ 97,369

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, 2010, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2009 Beginning Balance	Current Year Defeased	Payments	6/30/2010 Ending Balance
Governmental Activities				
KDOT Series 1994	$ 19,080	$ 0	$ 9,255	$ 9,825
KDOT Series 1994 A	3,480	0	3,480	0
KDOT Series 1998	55,300	0	0	55,300
KDOT Series 1999	294,705	0	294,705	0
KDOT Series 2000 A	144,900	0	5,000	139,900
KDFA Series 2003 J	4,695	0	385	4,310
KDFA Series 2004 A	4,670	0	315	4,355
STAR Bonds Series 2010 A	0	18,000	18,000	0
Total governmental activities	$ 526,830	$ 18,000	$ 331,140	$ 213,690

KDFA, at the request of the Kansas Secretary of Administration, issued bonds to currently refund certain outstanding KDFA bond payments to achieve near term budgetary relief for the State General Fund. The KDFA Series 2009 M-1 and N were issued in the amount of $26.0 million. This will result in an increase of $47.2 million in future debt service payments and an estimated economic loss of $0.8 million. The KDFA Series 2010 E-1 and F were issued in the amount of $15.0 million. This will result in an increase of $26.5 million in future debt service payments and an estimated economic loss of $0.2 million.

III. Detailed Notes On All Funds

The STAR Bonds Series 2010 A was issued during the fiscal year for the partial financing of the project. It was expected at issuance this bond series would be refunded. The STARS Bonds Series 2010 B was subsequently issued to complete the project financing and refund the Series 2010 A bonds.

Bond Issue	6/30/2009 Beginning Balance	Current Year Defeased	Payments	6/30/2010 Ending Balance
Business-type Activities				
KDFA Series 1997 1 & 2	$ 0	$ 12,825	$ 12,825	$ 0
KDFA Series 1998 1 & 2	0	4,205	4,205	0
KDFA Series 2000 I	1,965	0	0	1,965
KDFA Series 2000 II (Nov.)	54,945	0	0	54,945
KDFA Series 2000 1 & 2	24,635	15,120	0	39,755
KDFA Series 2001 II	2,790	0	0	2,790
KDFA Series 2002 II	26,845	0	0	26,845
KDFA Series 2002 1 & 2	20,315	375	0	20,690
KDFA Series 2004 2	0	4,405	0	4,405
Total business-type activities	$ 131,495	$ 36,930	$ 17,030	$ 151,395

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

Bond Issues	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Sevice Reduction**
Business-type Activities				
KDFA Series 1997 1 & 2, 1998 1 & 2, 2000 1 & 2, 2002 1, 2004 2	$ 36,930	$ 19,900	$ 5,259	$ 9,078
Total defeased	$ 36,930	$ 19,900	$ 5,259	$ 9,078

III. Detailed Notes On All Funds

Component Unit

For financial reporting purposes, the Kansas Development Finance Authority has in substance defeased certain revenue and 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, 2010, and changes for the fiscal year then ended are as follows (expressed in thousands):

Bond Issue	6/30/2009 Beginning Balance	Current Year Defeased	Payments	6/30/2010 Ending Balance
KDFA Series 1995 K	$ 0	$ 1,820	$ 1,820	$ 0
KDFA Series 1998 D	0	3,100	3,100	0
KDFA Series 1998 L	0	2,920	2,920	0
KDFA Series 1999 D	0	3,525	3,525	0
KDFA Series 1999 H	10,030	0	0	10,030
KDFA Series 1999 N	19,240	0	19,240	0
KDFA Series 2000 T	1,150	0	140	1,010
KDFA Series 2000 V	7,215	0	0	7,215
KDFA Series 2001 S	0	7,540	0	7,540
KDFA Series 2001 W	1,240	16,655	130	17,765
KDFA Series 2002 A	0	8,230	0	8,230
KDFA Series 2002 J-1 & J-2	0	29,595	29,595	0
KDFA Series 2002 K	0	3,280	0	3,280
KDFA Series 2002 N	0	28,040	0	28,040
Total component units	$ 38,875	$ 104,705	$ 60,470	$ 83,110

Information on bonds defeased in the current fiscal year is as follows (expressed in thousands):
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Bond Issues	Amount Defeased	Remaining Liability	Economic Gain (Loss)*	Aggregate Debt Sevice Reduction**
KDFA Series 1995 K	$ 1,820	$ 0	$ 161	$ 179
KDFA Series 1998 D	3,100	0	799	992
KDFA Series 1998 L	2,920	0	335	370
KDFA Series 1999 D	3,525	0	255	262
KDFA Series 2001 S	7,540	7,540	733	909
KDFA Series 2001 W	16,655	16,655	1,031	1,118
KDFA Series 2002 A	8,230	8,230	352	576
KDFA Series 2002 J-1 & J-2	29,595	0	0	0
KDFA Series 2002 K	3,280	3,280	160	138
KDFA Series 2002 N	28,040	28,040	1,409	1,486
Total defeased	$ 104,705	$ 63,745	$ 5,235	$ 6,030

It should be noted that the KDFA Series 2002 J-1 & J-2 was changed from a variable rate to a fixed rate obligation and the KDFA Series 2003 D-1 was a cash defeasance.

* The economic gain is defined as the difference between the present values of the old and the 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

Arbitrage Rebate Payable

Estimated arbitrage rebate payables have been calculated and liabilities recorded of $400,000 for Governmental Activities, $1.3 million for Business-type Activities, and $98,000 for Component Units.

Derivative Instruments

Kansas Department of Transportation recently issued and adopted accounting principles

In June 2008, the GASB issued Statement 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). GASB 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The Kansas Department of Transportation (KDOT) adopted GASB 53 in Fiscal Year 2010. All derivatives are to be reported on the statement of net assets at fair value, and all hedges must be tested for effectiveness to qualify for hedge accounting. The tests are outlined in GASB 53. Depending on the test results, the changes in fair value are either reported on the statement of net assets as a deferral, or in the statement of activities as investment revenue or loss. Most derivatives are stand-alone instruments. At certain instances as outlined in GASB 53, for those that have an additional embedded instrument, or hybrid instruments, the statement calls for bifurcating and accounting for the transaction as two separate components.

KDOT engaged an independent party to perform the valuations and required tests on the swaps. Of the swaps that qualify for hedge accounting under GASB 53, the changes in fair value for this period are to be offset by a corresponding deferred inflow/outflow account on the statement of net assets.

All pay-fixed swap transactions are associated with variable debt. Combining a pay-fixed receive-variable rate swap with variable debt results in what is termed “synthetic” fixed rate debt. It is called synthetic because the economics are similar to fixed rate debt, but another instrument is involved unlike regular fixed rate debt. Each time KDOT created synthetic fixed rate debt, a comparison and determination was made that the fixed rate on regular debt would have been higher than the fixed rate on the swap.

For all swaps, there are three main strategies KDOT pursues with respect to each transaction. Each swap can achieve one or more of these strategies. Then as a result of execution of the derivative, its value will change with respect to how prevailing rates on each reporting period compare to when the derivative was put in place. The accumulated changes in fair value, or total fair value of all the derivatives are a function of how prevailing interest rates and other market factors affect each transaction at each reporting period. Pursuant to GASB 53, each swap transaction is then evaluated to determine what type of accounting treatment to apply.

(i) <u>Mitigate the effect of fluctuations in variable interest rates.</u> This is the primary function of the four swaps (one involving two counter-parties) KDOT pays a fixed rate, and receives a floating rate. In an interest rate environment whose level is generally higher than the rate at which KDOT is fixed, the swap would result in a positive value to KDOT. Correspondingly, in a lower rate environment than the rate at which KDOT is fixed, the swap would result in a negative value to KDOT. The value primarily depends on the overall level of interest rates on the reporting date compared to what KDOT pays. The overall level of long term interest rates from period to period is the primary driver of changes in value recorded from the investment derivatives where KDOT pays fixed and receives a floating rate. Interest rates have trended lower since inception of the pay fixed swaps, therefore, the mark-to-market value is generally more negative to KDOT.

(ii) <u>Reduce interest expense by expected change between short and long term rates.</u> This is the function of a swap where KDOT receives floating rates based on a longer term index with the expectation of receiving an ongoing net benefit compared to short term rates paid on the variable bonds being hedged. Longer term interest rates, such as the 10 Year Constant Maturity Swap (CMS) Index, are generally higher than shorter term interest rates, such as a weekly rate, which KDOT pays on the variable bonds. Therefore, when shorter term interest rates came close to, or

III. Detailed Notes On All Funds

exceeded longer term rates, KDOT entered into a swap whose receipts on the floating leg are based on a longer term index that is expected to outperform the payments on KDOT's variable debt. Part of the fair value of this swap is determined by the prevailing level of short term versus long term rates, that is, the steepness of the yield curve. The higher the level of long term rates compared to shorter term rates, the higher the expected benefit to KDOT, therefore, the higher the mark-to-market value of the swap. KDOT pays a fixed rate on one of these two swap transactions, therefore the other part of the value of this swap is determined by the prevailing level of interest rates compared to when KDOT entered into the swap transaction. Since interest rates have trended lower since inception, the mark-to-market value will be more negative to KDOT, even though KDOT may be receiving a net benefit from the receipts based on the 10 Year CMS Index. Since the long term index is expected to out-perform the short-term variable rate, the tests under GASB 53 deem such transactions investment instruments.

(iii) Reduce interest expense from expected benefit resulting from the difference between tax-exempt and taxable rates. This is a function of swaps where KDOT receives a percentage of 1-Month LIBOR when hedging tax-exempt variable debt, with the expectation of receiving an ongoing net benefit from paying a lower fixed rate at the time of putting on the swap transaction. The historical average ratio of 1-Month LIBOR (short-term taxable rates) versus tax-exempt rates, a direct function of tax rates, is approximately 67 percent, but the ratio of long-term taxable rates and long-term tax-exempt rates is normally significantly higher than 67 percent. Therefore, the fixed rate payable in exchange for a smaller percentage of LIBOR will be significantly less than a long-term tax-exempt fixed rate. This reduction in fixed rate is the value of the benefit, the risk being tax rates change over the life of the percentage of LIBOR swap, or the variable rates on KDOT's hedged bonds do not closely match the percentage of LIBOR variable rate on the swap. The value of such a swap is determined by the prevailing level of taxable interest rates, with no reference to tax-exempt interest rates.

The following table provides a summary of the basic terms of the swap agreements as of June 30, 2010 (expressed in thousands):

Associated KDOT Bonds	Current Notional	Effective Date	Maturity Date	Rate Paid	Rate Received	Fair Value	Bank Counterparty	Counterparty Rating
Series 2002 D	$ 45,765	12/17/2002	3/1/2012	5.2400%Contractual; 2.9936%GASB 53 At-the-Market	67%of USD-LIBOR	$ (1,810)	Merrill Lynch Capital Services, Inc.	A2/A/A+
Series 2002 B &C*	$ 200,000	10/23/2002	9/1/2019	3.16%	67%of USD-LIBOR	(19,088)	Goldman Sachs Bank USA	Aa3/A/A+
Series 2002 B &C*	$ 120,005	10/23/2002	9/1/2019	3.16%	67%of USD-LIBOR	(11,448)	Citigroup Financial Products Inc.	A3/A/A+
Series 2008 A	$ 150,275	12/2/2003	9/1/2015	3.3590%Contractual; 2.3493%GASB 53 At-the-Market	Lesser of ABR/71%of USD-LIBOR 'til 9/2010; 71%USD-LIBOR thereafter	(1,366)	Merrill Lynch Capital Services, Inc.	A2/A/A+
Series 2004 C	$ 72,000	11/23/2004	9/1/2024	3.57%	63%USD-LIBOR + 0.29%	(10,224)	Goldman Sachs Bank USA	Aa3/A/A+
Series 2004 C	$ 75,000	7/1/2007	9/1/2024	3.57%	62.329%of 10 Year CMS	(6,765)	Goldman Sachs Bank USA	Aa3/A/A+
Series 2004 B	$ 75,000	7/10/2007	9/1/2024	67%of USD-LIBOR	61.56%of 10 Year CMS	4,742	JPMorgan Chase Bank N.A.	Aa1/AA/AA-
						$(45,959)		

* Two Counterparties

KDOT derivative instruments detailed discussion

Objective of the swaps. In order to protect against the potential of rising interest rates, KDOT has 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.

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, 2010, are shown above. KDOT's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled or anticipated reductions in the associated bonds payable.

KDOT Series 2002D 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 that was paid to 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 prevailing 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% 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 pay a fixed rate of 5.24 percent.

Under GASB 53, the sold option described is a hybrid instrument that is constituted of a companion instrument or borrowing, and an embedded derivative instrument. Therefore swaptions are bifurcated into two parts, the borrowing (intrinsic value) and derivative (time value), and a determination is also made of the at-the-market fixed rate on the date of the swaption is sold. Governments carry borrowings at historic cost, while derivatives are carried at fair value. The subsequent swap that Merrill Lynch exercised with KDOT is also considered a hybrid instrument consisting of an embedded at-the-market swap rate computed at the time the original option was sold, and a borrowing.

KDOT Series 2002B and C Swaps - In connection with the issuance of $320 million of variable-rate KDOT Series 2002B & C Highway Revenue Refunding 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/Citibank 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 traditional tax-exempt cash market.

KDOT Series 2008A Swap (formerly 2003C Swap) - In connection with the issuance of $150.3 million of variable-rate KDOT Series 2003 C 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 $150.3 million 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 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 traditional tax-exempt cash market.

On May 13, 2008, KDOT refunded the Series 2003 C Bonds with KDOT Series 2008 A Bonds. Under GASB 53, a refunding can be viewed as a termination of an existing hedging relationship, and a subsequent new hedging relationship is entered into between the swap and new bonds. This can result in a hybrid instrument that consists of an at-the-market fixed rate swap with a pay fixed rate computed on the date of the refunding, and an imputed borrowing that is considered a cost of refunding, and therefore amortized over the shorter of the life of the new bonds or refunded bonds.

KDOT Series 2004B and C Swaps - In connection with the issuance of $147 million of variable-rate KDOT Series 2004B and 2004C Highway Revenue 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 3.571 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 traditional tax-exempt cash market.

III. Detailed Notes On All Funds

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 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 + 29 basis points to 62.329 percent of the 10-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 that KDOT pays Bear 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 and into 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, 2010, KDOT has credit risk exposure to JPMorgan Chase Bank N.A. on the swap associated with the KDOT Series 2004 B Revenue 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 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.