

Approved: February 15, 2010
Date

MINUTES OF THE HOUSE GOVERNMENT EFFICIENCY AND FISCAL OVERSIGHT
COMMITTEE

The meeting was called to order by Chairman Jim Morrison at 3:30 p.m. on February 11, 2010, in Room 546-S of the Capitol.

All members were present except Representative Sloan, who was excused.

Committee staff present:

Renaë Jefferies, Office of the Revisor of Statutes
Gordon Self, Office of the Revisor of Statutes
Julian Efird, Kansas Legislative Research Department
Artur Bagyants, Intern, Kansas Legislative Research Department
Gary Deeter, Committee Assistant

Conferees appearing before the Committee:

Allan Foster, Legislative Division of Post Audit
Larry Kettlewell, Security Officer, Division of Information Systems and Communications
Joe Hennes, Director, Division of Information Systems and Communications
Steve Weatherford, President, Kansas Development Finance Authority
Jim McMurray, Senior Vice President for Finance, Kansas Development Finance Authority

The minutes for the February 10 meeting were approved. (Motion by Representative Spalding and seconded by Representative McCray-Miller)

The Chairman distributed Attachment 1 to illustrate the need for revisions to the Whistle-blower Act, a reference to HB 2249, which was heard in the Committee on February 2, 2010.

The Chairman opened the hearing on HB 2408 - State agencies' periodic reviews of network security.

Staff Renaë Jefferies briefed the Committee on the bill, saying that it requires each state agency to perform a vulnerability scan of its computers at least once a year, the schedule set by the Chief Information Technology Officer of that branch of government. Responding to a question, Ms. Jefferies said the fiscal note of \$103,000 includes 1.25 employees and training for agency staff (Attachment 2).

Allan Foster, Legislative Division of Post Audit, reviewed an audit assessing how agencies manage computer vulnerability (Attachment 3 and 4). He said the audit found reasonably effective security for computer operating systems, but agencies fared poorly in protecting applications from hacker incursions. He said the proposed legislation would help protect agencies from such intrusions.

Larry Kettlewell, Security Officer, Division of Information Systems and Communications, Kansas Department

CONTINUATION SHEET

Minutes of the House Government Efficiency and Fiscal Oversight Committee at 3:30 p.m. on February 11, 2010, in Room 546-S of the Capitol.

of Administration (DISC), spoke in support of the bill, saying that the scans are an important component in safeguarding Information Technology (IT) assets (Attachment 5). He noted that the cost associated with the bill can be recovered through a DISC charge to state agencies. Responding to questions, Mr. Kettlewell said that most (60-70%) malicious intrusions are caused by state employees, not hackers. Morey Sullivan, Deputy Director, DISC, said a fee-for-service charge to agencies is the most cost-effective way to meet the additional cost. Mr. Sullivan suggested, as an alternative, accessing federal rates for the expenditures. Mr. Kettlewell replied that the scans will obviate costs associated with repairing virus damage, but quantifying cost-avoidance is difficult.

The Chairman closed the hearing on **HB 2408** and opened the hearing on **HB 2572 - Authorizing a feasibility study of consolidation opportunities for the information technology of the state.**

Ms. Jefferies, explaining the bill, stated that it initiates a feasibility study to consider consolidation of agency IT resources state-wide, the study to be submitted to the Information Technology Executive Council.

Joe Hennes, Director of DISC, testified in support of the bill (Attachment 6). He referenced a previous meeting (February 4, 2010) where discussion centered on national trends; he noted that 90% of states are presently involved in consolidation initiatives and that the bill could be implemented with existing staff at no additional cost to the state. Responding to questions, Mr. Hennes said that his office will work with Bill Roth, the state's Chief IT Architect, to establish boundaries for the study, which could include quasi-governmental agencies and the Regents institutions. When a member noted that some universities were denied research grants because of limited bandwidth, Mr. Hennes referenced previous initiatives to utilize additional bandwidth from the Kansas Department of Transportation and plans to access bandwidth along the Kansas Turnpike. Don Heiman, Legislative Chief IT Officer, explained that the KAN-Ed network runs on KANREN (Kansas Research and Education Network) and that KAN-Ed has significant bandwidth available.

The Chairman closed the hearing on **HB 2572** and welcomed Steve Weatherford, President, Kansas Development Finance Authority (KDFA), who reviewed the history of the agency and outlined the services provided by the quasi-governmental entity (Attachment 7). Created in 1987 by the Kansas legislature as an independent corporation, the agency is governed by a five-member board, which is authorized as a finance corporation to access capital markets for the benefit of state agencies. He said KDFA is also authorized to create subsidiary corporations such as the Kansas Housing Resource Corporation. He commented on the increasingly complex regulatory environment associated with public financing, requiring the agency to develop an extensive post-issuance administration, and he noted that KDFA is entirely fee-funded and receives no state appropriations. Nevertheless, the agency works with the Governor, the Division of the Budget, and the Legislature to develop the state's financial information. He stated that, by consolidating financial transactions, the agency can offer competitive financing rates.

Mr. Weatherford noted the financial statements and auditor's report for KDFA (Attachment 8) and introduced Jim McMurray, Senior Vice President for Finance, KDFA, who reviewed the agency's 2009 Kansas Debt Study (Attachment 9). Mr. McMurray commented that the study is a snapshot of the state's debt, saying that

CONTINUATION SHEET

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total state debt on June 30, 2009, was \$4.2 billion, an increase of \$147 million from FY 2008; however, only 25% of the debt is paid by the State General Fund and only 1.5% of the state's expenditures is allocated to debt service. He explained that the largest factors in the growth of debt can be attributed to bonds issued to augment the Kansas Public Employees Retirements System (2004, \$500 million), the State Capitol Restoration Project (\$215.1 million) and the 2006 Comprehensive Transportation Program (\$209.5 million). He said Moody's rating for the state remains A1; however, Moody's revised its credit rating for the state to a negative outlook because of the state's current budget shortfalls. Mr. McMurray commented on several members' questions, saying that the federal debt is 15 times higher than Kansas' debt and that no consistent parameters govern a Moody's rating.

The meeting was adjourned at 4:45 p.m. The next meeting is scheduled for February 15, 2010.

Postmark - Wichita 670
hand written printed address

I AM SENDING THIS ANONYMOUSLY DUE TO BEING A STATE EMPLOYEE AND FEAR OF RETALIATION. I KEEP READING ABOUT POSSIBLE FURLOUGHS FOR STATE EMPLOYEES, MORE CUTS IN STATE PROGRAMS, NEEDING TO PRIVITIZE AND DECIDED IT WAS TIME I EXPRESSED MY OPINION.

HOW MANY OF YOU PEOPLE HAVE BEEN IN AN SRS OFFICE AND LOOKED AT THE WORK THAT STATE EMPLOYEES DO? PROBABLY LITTLE TO NONE. MAYBE YOU SHOULD ALL TAKE THE TIME TO VISIT YOUR LOCAL OFFICES AND TALK TO THE WORKERS.

FIRST. HEALTHWAVE IS TERRIBLE. YOU PRIVATIZED THAT AND I HAVE HEARD THEY ARE WAY BEHIND ON APPLICATIONS AND WHAT IS THE COST THERE????

SECOND: I HAVE ENCLOSED DIFFERENT SHEETS OF INFORMATION THAT I FEEL ARE CONCERNS OF WASTED MONEY. YOU GUYS THINK PRIVATIZATION IS THE ANSWER TO THE BUDGET BUT IF TAXPAYERS ONLY KNEW WHAT WAS BEING PAID TO CONTRACTORS AND THEY THINK OKAY WE DOWNSIZED STATE GOVERNMENT BUT THEY HAVE NO IDEA THAT THE COST IS WAY HIGHER. ESPECIALLY IF THEY KNEW THAT SRS GAVE A FEDERALLY FUNDED PROGRAM (LIEAP) THAT WAS NOT COSTING THE STATE HARDLY ANY MONEY TO USA 800 FOR \$1.14 MILLION AT A TIME THAT THE STATE WAS IN A FINANCIAL CRUNCH. AND FOR WHY? A PERSON FROM USA 800 WAS QUOTED AS SAYING ""THEY LIKE WORKING FOR THE STATE AS THE STATE BUYS OR GIVES THEM THE MONEY FOR THE SOFTWARE AND THEN THEY ARE ABLE TO USE IT FOR OTHER BUSINESSES THEY OBTAIN FOR THEIR COMPANY"". I THINK THIS IS DISGUSTING.

I AM SENDING THIS INFORMATION TO YOU AND HOPE TO SEE SOME CHANGES IN POLICY OF CONTRACTING OUT SERVICES THINKING IT IS SAVING THE STATE MONEY . FOSTER CARE, HEALTHWAVE, CSE....WHAT NEXT???? AND IS THE SERVICES BETTER? I DON'T THINK SO.

ONE THING I DO AGREE WITH....START CUTTING SALARIES AT THE TOP.

SENT TO:

SENATOR MORRIS SENATOR KELLY SENATOR UMBARGER SENATOR EMLER
SENATOR BRUCE REP FEUERBORN REP MAST REP PECK REP MORRISON ✓
REP YODER GOVERNOR PARKINSON

Attachment 1
6 EFO 2-11-10

Subject: Bring SRS Services Closer to Topeka and Wichita

Question: We have been told for months that there would be no layoffs but now have been notified that 8 PRC Units will be closed and people can move either to Wichita or Topeka for jobs or will be laid off. Then we hear the LIEAP program is being moved to the Call Center in Halstead which eliminates more jobs. Is this the start of a move to bring all SRS services closer to Topeka and Wichita?

Answer: In recent years the agency has benefitted from regional consolidation of PRCs and from centralized management of routine CSE related calls. These efforts have garnered system improvements, created practice consistency and maximized resources on the front line. The latest PRC consolidation from 8 to 2 locations creates additional efficiencies while sustaining a quality gateway to protective services. The PRC workgroup's recommendation to retain the Wichita PRC in addition to the 24-hour DSOB PRC was largely based on issues of workforce capacity and technological needs. ~~At an annualized savings of \$772,000, 17 fewer~~ staff will be needed to perform PRC functions. Consolidation of LIEAP business functions also generates organizational efficiencies for SRS with the upcoming program transition to USA800. Since SRS has historically used seasonal help for LIEAP, no staff layoffs occur with this change. The agency remains committed to examining creative ways to meet workload demands, yet has no plan to bring all SRS services to Wichita or Topeka.

Date: 9/2009

Responder: Candy Shively, Integrated Service Delivery

What are our children worth?? Do you want more negative results from abuse of children not getting reported in a timely fashion?? Hasn't the State + SRS been ~~thru~~ thru this all before??

Privatization Does Not Save Money It costs the State more!

Subject: LIEAP Contract

Question: What was the rationale of moving LIEAP from SRS to USA 800? What is SRS paying USA800. What are people that need help filling out applications going to do? What is being done to keep fraud from happening?

Answer: We are excited to have this opportunity to partner with USA 800 on a more efficient service delivery model for the annual LIEAP program. The Year 1 contract with USA 800 is \$1.14 million, which provides for related staffing, marketing and outreach, benefit processing and an array of administrative reports and technology not previously available under the former SRS administered program. We recognize this transition year will be a change for both staff and consumers. LIEAP central office has worked with regional staff to plan for the transition to the new service model and ask for continued assistance in guiding customers to the 800 number (1-800-432-0043) or the online LIEAP application (www.ks-energy-assistance.com). USA 800 has hired a cadre of staff, including some experienced LIEAP temporary staff from the area surrounding Halstead. LIEAP funds paid for temporary staff in the regions in the past. The call center is staffed 7 am to 7 pm, and has been receiving LIEAP related calls since November 2, 2009. The LIEAP application has been updated to allow for document imaging, yet households needing assistance will have the opportunity of being guided through the application process by trained agents. Similarly, agents will be able to reconcile discrepant information to mitigate against potential program fraud. Benefit processing has been streamlined with the use of a wraparound workflow system which integrates with the current LIEAP system. For the nearly 80% of LIEAP applicants with open Food Assistance cases a simplified eligibility process has been approved. These households will have the income reported on the LIEAP application electronically matched with the income currently used for determining food assistance benefits. When the income variance and other factors are met, the household will meet income eligibility without having to provide further verification. We are also excited to learn how the imaging and wraparound technology used by USA 800 for the LIEAP program can assist other program staff in the future.

Date: 12/2009

Responder: Candy Shively, Integrated Service Delivery

Did not cost State anything till this year?
LIEAP is a Federally funded program which SRS has been doing for over 20 yrs. All SRS did was give use of office space. Why now that there is a budget crunch would SRS pay \$1.14 million to someone for less than 6 months work. Why was this not put out for bid?? Why was this so hush hush. Why was it even done at all??

Why stuff the pockets of USA-800

Let's stop this insanity!

Subject: What is the State Paying Contractors

Question: With talk again about furloughs, what is the State paying for Contractors ... **Young Williams and USA 800**? We feel as taxpayers, we should know what is being paid for these contracts. Is any consideration being done to cut back on those contracts?

Answer: A. Several significant federally required Child Support Enforcement functions are outsourced in Kansas, including enforcement, payment collection and distribution, and paternity testing, in addition to supporting a Customer Service Call Center. By contracting with vendors to perform these functions, CSE staff are able to focus on the remaining critical program functions that include establishment, locate, interstate processing, and system maintenance. **The total amount of the CSE contracts for SFY2010 is approximately \$17.8 million.** As the gap widens between state expenditures and revenues, agencies are faced with many difficult choices about services and how those services are administered. Although furloughs are not a preferred SRS budget reduction strategy, we recognize it as one option in meeting shrinking salary budgets. Similarly, contract reductions for our vendors may also be necessary.

Date: 11/2009

Responder: Michelle Ponce, Director of Communications

because SRS kept cutting staff to increase positions in management

CSE staff still does most of the wo. but Young gets cred

for 1 year ??

Does this include their Bonuses?

Talk about wasting money !!
State would save money by getting rid of these contractors & hiring people & keeping staff in SRS !! Why does the State have to make other Companies richer? Young Williams pays office managers \$40,000 yr - So what does the higher up get paid at State expense. Where is privatization saving Kansas Tax payors money??

Do you know how many communities ~~of~~ ^{of} ~~are~~ ^{are} free office space to SRS, to keep office open in their communities 5 yrs ago & they had a whole lot more workers than 3.

Question: We are constantly being told we are to conserve and transparency in government. Why did our organization keep Greensburg SRS Office open when other offices were closed years ago. Transparency, tell everyone the monthly cost, how many SRS employees are based there, and the distance to the next service center? *Political*

Answer: When SRS initiated field realignment and select office closures in 2003, the Greensburg Service Center was one of ten which remained open in the forty-six county West Region. Service delivery needs, proximity to other service centers, caseload size and number of staff were among considerations at that time. Greensburg is 31 miles from the nearest SRS service center and retention of the office in Greensburg proved to be invaluable on the heels of the devastating tornado of 2007. At an inclusive rental cost of just over \$20,000 annually, the service center ~~bases 3 SRS staff positions~~ and continues to be a community congregation site. SRS is among numerous partners who have received national attention for their role in helping the community to rebuild while providing critical support services to those in need.

Date: 10/2009

Responder: Candy Shively, Integrated Service Delivery

*Does this make any sense??
What a bunch of crap!!*

~~A state office to help those in need in Abilene will close this spring.~~

The local Social and Rehabilitation Services office, 505 N.W. Third, will close on April 30, confirmed Michelle Ponce, director of communications for SRS, a state agency that delivers a number of assistance programs. An office in Wamego will also close as part of a state decision to streamline efficiency.

"Largely the decision was made based on the low level of staff and the number of offices in the vicinity," Ponce said about the decision to close the Abilene and Wamego office. "It was not so much a decision based on the budget, it was about efficiencies and based on caseloads. It was a business decision."

~~Abilene has five employees while the Wamego office has four employees,~~ Ponce said. Staff members may be able to relocate to other offices, she said.

"SRS is contracting (reducing) the number of regional offices due to budget constraints," said state senator Pete Brungardt, R-Salina, whose district includes Abilene.

Brungardt said a state official said that recipients who need personal attention will still receive those services.

The telephone will ring in Salina for people in Abilene, he said. Chapman will be served by Junction City offices, he said.

Generally recipients who are in Abilene and the western part of the Dickinson County will likely use Salina offices and those in Chapman and eastern part will go to Junction City, Ponce said. Their needs will still be met.

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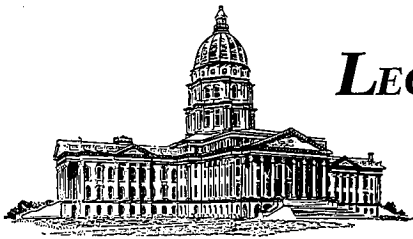
MEMORANDUM

To: House Committee on Government Efficiency and Fiscal Oversight
From: Renae Jefferies, Assistant Revisor
Date: February 11, 2010
Subject: HB 2408

HB 2408 requires each state agency to perform a vulnerability scan of such agencies computers on a schedule set by the chief information technology officer of the branch of government of which the state agency is a part. The vulnerability scan shall be conducted in a cost effective manner, at least once a year and according to policies adopted by such chief information technology officer in consultation with the enterprise security office of the division of information systems and communications.

The act shall take effect upon publication in the statute book.

The fiscal note indicates that DISC will have additional expenditures of \$101,500.



LEGISLATURE OF KANSAS

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Testimony for the House Efficiency Committee on HB 2408

Allan Foster, IT Auditor

February 11, 2010

Mr. Chairman and members of the Committee, thank you for allowing me to appear before you on behalf of the Legislative Post Audit Committee to provide neutral testimony on HB 2408.

As you may know, this bill would implement recommendations made in our July 2009 IT security audit, *State Agency Information Systems: Reviewing Selected Security Controls in State Agencies*. Based on our recommendation, the JCIT Committee introduced this bill. The Post Audit Committee also considered introducing it but decided to defer to JCIT.

Our audit focused on several things, one of which was how agencies were managing the vulnerabilities in their servers and workstations. "Vulnerabilities" are flaws in the computer code that make up an operating system or an application on the computer. There are millions of lines of code in any one computer. These flaws are what allow viruses to infect a computer or allow a criminal to take over your computer and steal your identity. One of the things we did to evaluate that was to work with the staff of the Enterprise Security Office of DISC to actually scan their servers and a sample of workstations with software designed to identify such vulnerabilities. Using such software is really the only effective way to find out what vulnerabilities exist on your systems.

The table on page 9 of the report shows the results of our scans of the five agencies. Overall, we found that agencies did a pretty good job of controlling the vulnerabilities in their operating systems, with only 5% of servers and 2% of workstations having three or more unpatched vulnerabilities. This was not totally unexpected because Microsoft makes it fairly easy to keep operating systems patched.

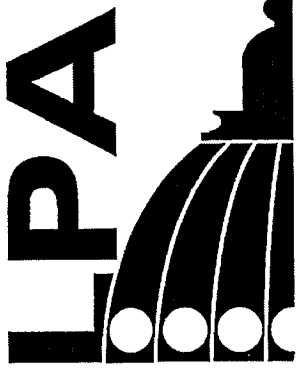
However, the results were far worse when we looked at vulnerabilities in applications on servers, such as Adobe Reader and Windows Office. Nearly one quarter of the servers were susceptible to three or more vulnerabilities. It used to be that hackers focused almost totally on operating system vulnerabilities, but in the last couple years that focus has shifted to application vulnerabilities, so not patching Adobe can be a very dangerous thing.

Since there are so many different types of applications that can be on servers it is almost impossible to know when you have vulnerabilities that need to be patched unless you

Attachment 3
GEFO 2-11-10

periodically run vulnerability scanning software. Thus our recommendation that JCIT consider legislation requiring vulnerability scans. Also, because this software isn't free, and takes some skill to use well, it would be most efficient if some central office such as the Enterprise Security Office purchase the software and do the scans for agencies.

I'd be happy to answer any questions you may have.



COMPUTER SECURITY AUDIT REPORT

**State Agency Information Systems: Reviewing
Selected Security Controls in State Agencies**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
July 2009**

09CC03

*Attachment 4
GEFO 2-11-10*

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$10 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators

or committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

LEGISLATIVE POST AUDIT COMMITTEE

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Representative Tom Burroughs
Representative John Grange
Representative Peggy Mast
Representative Tom Sawyer

Senator Terry Bruce, Vice-Chair
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LEGISLATIVE DIVISION OF POST AUDIT

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Barbara J. Hinton, Legislative Post Auditor

DO YOU HAVE AN IDEA FOR IMPROVED GOVERNMENT EFFICIENCY OR COST SAVINGS?

The Legislative Post Audit Committee and the Legislative Division of Post Audit have launched an initiative to identify ways to help make State government more efficient. If you have an idea to share with us, send it to ideas@lpa.state.ks.us, or write to us at the address above.

You won't receive an individual response, but all ideas will be reviewed, and Legislative Post Audit will pass along the best ones to the Legislative Post Audit Committee.

The Legislative Division of Post Audit supports full access to the services of State government for all citizens. Upon request, Legislative Post Audit can provide its audit reports in large print, audio, or other appropriate alternative format to accommodate persons with visual impairments. Persons with hearing or speech disabilities may reach us through the Kansas Relay Center at 1-800-766-3777. Our office hours are 8:00 a.m. to 5:00 p.m., Monday through Friday.



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June 25, 2009

To: Members, Legislative Post Audit Committee

Representative Virgil Peck Jr., Chair	Senator Terry Bruce, Vice-Chair
Representative Tom Burroughs	Senator Anthony Hensley
Representative John Grange	Senator Derek Schmidt
Representative Peggy Mast	Senator Chris Steineger
Representative Tom Sawyer	Senator Dwayne Umbarger

This report contains the findings, conclusions, and recommendations from our completed performance audit, *State Agency Information Systems: Reviewing Selected Security Controls in State Agencies*.

The report includes several recommendations for the Judicial Branch, the Department of Transportation, the Kansas Public Employees Retirement System, the Board of Nursing, the State Treasurer's Office, the State's Enterprise Security Office, and the Joint Committee on Information Technology. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton
Legislative Post Auditor

READER'S GUIDE

<i>The Big Picture</i>		<i>The Details</i>	
Executive Summary	Provides an overview of the questions we asked and the answers we found	"At-a-Glance Box"	Used to describe key aspects of the audited agency; generally appears in the first few pages of the main report
Conclusions and Recommendations	Located at the end of the report sections, and referenced in the Executive Summary	Side Headings	Point out key issues and findings
Agency Response	Included as the last Appendix in the report	Charts, Tables, and Graphs	Visually help tell the story of what we found
List of Figures	Lists all figures used in the report and their location (as shown at the end of the Executive Summary)	Narrative Text Boxes	Highlight interesting information or provide detailed examples

This audit was conducted by Allan Foster. Scott Frank was the audit manager. If you need any additional information about the audit's findings, please contact Allan Foster at the Division's offices.

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State Agency Information Systems: Reviewing Selected Security Controls in State Agencies

Each year State agencies become more dependent on their computer systems and on the data those systems contain to make decisions and fulfill their missions. More and more, computing is moving out of the data center and into the hands of staff who use the data to make decisions. Computers and computer networks also are being used to communicate with the public, provide services, and conduct business.

While these are positive developments that can result in increased efficiency, effectiveness, and better service, there are also significant risks associated with advances in technology that agencies should address and manage. At present there is little oversight of agencies' computer operations to monitor whether these risks are being adequately managed. This information system audit looks at two particularly important areas of IT security across a broad selection of State agencies, and answers the following question:

How well do selected State agencies control network passwords and keep operating systems up-to-date?

To answer the question we chose to review five State agencies of various sizes for this audit: the Judicial Branch, the Department of Transportation, the Kansas Public Employees Retirement System, the Board of Nursing, and the State Treasurer's Office. At each agency, we reviewed password policies and server settings, obtained the agency's encrypted password file and attempted to crack its employees' passwords, and conducted a vulnerability assessment. The Enterprise Security Office—part of the Division of Information Systems and Communications within the Department of Administration—did the vulnerability scans for us and assisted us with interpreting the results.

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in *Appendix A*.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

How Well Do Selected State Agencies Control Network Passwords and Keep Operating Systems Up-To-Date?

Answer in Brief:

Each of the five agencies we reviewed could do a better job of controlling passwords. Three of the five agencies had weak password policies. Although most of the agencies had good password settings on their servers, we still were able to crack a significant percentage of the agencies' passwords—primarily because many users create passwords that meet the network's requirements for strong passwords, but still are relatively easy to crack. In general, the agencies did a good job of installing security patches on server and workstation operating systems (such as Microsoft Windows), but didn't do as good a job of installing patches on applications (such as Adobe Reader and Java). These and other findings are discussed in more detail in the sections that follow.

Each of the Five Agencies We Reviewed Could Do a Better Job of Controlling Passwords

Using passwords to control access to networks and computers is inherently risky, because it's become relatively easy to crack passwords. Despite the risk, passwords remain the most common form of security because they are far less expensive to use than more secure alternatives, such as tokens and thumbprint identification.

Because passwords are risky, it's extremely important that all aspects of an agency's system for controlling passwords are sound. To help ensure that users create strong passwords, agencies need the following:

- **Strong password policies**—Policies document important agency password requirements and help ensure consistency by making these requirements clear to everybody who needs to know them.
- **Strong password controls**—These are the agency's procedures that actually put the policies into practice. The following are the most important elements of a good system of password controls:
 - Training to help ensure that users understand the agency's policies and know how to make strong passwords.
 - Server settings that help ensure that users' passwords comply with the agency's policies. For example, if an agency's policies require users to create passwords that are at least eight characters long, the server should be set to reject passwords that are shorter than eight characters.
 - Periodic testing of the passwords to identify weak passwords, and areas where users need more training. This can be done with any number of inexpensive password cracking software packages that are available on line.

In this audit, we evaluated the password controls for five State entities:

- Board of Nursing
- Department of Transportation
- Kansas Public Employees Retirement System (KPERS)
- Office of Judicial Administration
- State Treasurer's Office

In order to evaluate the password controls for each agency, we compared the agency's password policies and the password settings that control access to its networks against best practices. We also had each agency provide us a copy of its master password file and attempted to crack the passwords using free software. This was strictly a test of strength of the agencies' passwords, and not an assessment of whether we could get through their firewalls and other layers of security to access their networks.

Our results are summarized in *Figure 1-1* on pages 6 and 7. The shaded cells in the figure indicate areas where the agencies' policies or control settings didn't meet best practices. Because of the highly confidential nature of these findings, we haven't identified the entities by name.

As the figure shows:

- **Three of the five agencies we reviewed had weak password policies.** Only two agencies had adopted strong password policies. One agency had almost no password policies but has since adopted strong policies and instituted the stronger requirements for their staff. Although the other two agencies had more complete policies, those policies were deficient in many areas such as requiring too few characters for passwords and not having policies to prevent people from reusing passwords.
- **Two of the agencies had weakly configured password settings on the servers that control access to their networks.** These are the settings that help ensure that the user's passwords comply with the agency's policies. While the agencies did better in this area, there were still some significant problems:
 - *One agency had very few control settings. For that agency, the risk was extremely high, because it allowed very short (five character) passwords and didn't require users to ever change them. These settings would allow a user to create incredibly weak passwords like "12345" or "password" and use those passwords forever.*
 - *Three agencies used a weak method of encryption for storing users' passwords, making them much easier to crack. Encryption methods systematically scramble passwords so they can't be easily read. There is an older encryption format that isn't as strong, and agencies generally should avoid storing passwords in this format unless they use very old systems that can't handle the newer format. Because none of the three agencies were using old systems, there was no reason to store passwords this way.*
 - *Three agencies required fewer than eight characters for passwords. Until recently either seven or eight characters was considered acceptable. However, many sources, including us, no longer consider seven characters sufficient.*

- **We cracked a significant number of passwords at each of the four agencies we were able to test, despite the fact that they had decent passwords.** There were two major reasons we were so successful:

- *Many of the users had "good" but not "great" passwords. Three of the four agencies we tested required complex passwords—passwords that include three of the four possible character types (uppercase, lowercase, numbers, and special characters). However, even complex passwords can be fairly easy to crack, depending on where the user places the numbers or special characters in their passwords. The overwhelming majority of the passwords we cracked met the complexity requirements, but they were constructed in a way that made them easy to crack. For example, a password such as "Password1" contains three of the four possible character types and contains 9 characters, yet is easy to crack. The accompanying profile box provides more information on how to create strong passwords.*
- *Three agencies used older, weak encryption. As described above, networks store users' passwords in one of two types of encrypted formats, and the weaker one allows passwords to be cracked more easily.*

Passwords That Seem Complex May Be Easy To Crack

One of the important best practices for passwords is to require complex passwords. Complex passwords include a combination of three of the four types of characters on the keyboard—uppercase letters, lowercase letters, numbers, and special characters. The reason such passwords are considered complex is that it takes a long time to try every combination of characters—even for password cracking software. However, that statement assumes that passwords are random.

Unfortunately, people generally don't create random passwords. Studies have shown that when people use uppercase letters in passwords, they tend to use them at the start of the password. When people use numbers or special characters, they tend to use them at the end of the password. People also tend to use only those special characters that are on the top row of the keyboard. When you take those patterns into account, you eliminate a lot of possibilities.

People who develop password cracking software take advantage of these studies. Most software uses dictionary words or combinations of lower case letters for the base of a password, and then randomly substitutes other types of characters at the beginning and end of the password. This method only cracks those passwords that follow the patterns described above, but it may only take one password to break into a system.

Here are a few typical examples of passwords that meet the complexity requirements (each incorporates three of the four types of characters), but are pretty easy to crack (in our case, within five minutes) because of where the numbers and special characters have been placed:

- Computer1
- Mortimer11
- William#1
- Easter12
- steelers#1
- Abcdefg1

There are many strategies for creating passwords that are very strong and easy to remember, but one of the easiest is just to take a dictionary word and mix in some numbers and special characters. From the examples above, if we took "William#1" and made a couple easy changes it could be "wiL#1iam." It's basically the same password, but the character types are in different places. This password would be extremely difficult to crack.

**Figure 1-1
Comparing Agency Password Controls to Best Practice**

PASSWORD POLICY AND CONTROL AREAS	Agency									
	1		2		3		4		5	
	Policy	Settings	Policy	Settings	Policy	Settings	Policy	Settings	Policy	Settings
PASSWORD CHARACTERISTICS										
Passwords should be at least 8 characters long.	6	5	7	7	8	8	7	7	7	8
Passwords should include at least 3 of 4 types of characters (uppercase, lowercase, numbers, special characters).	3 of 4	Disabled	2 of 4	Enabled	3 of 4	Enabled	3 of 4	Enabled	Enabled	No Setting (a)
CHANGING PASSWORDS										
Users should have to change passwords every 30-90 days.	No Policy	No Setting	30 days	35 days	60 days	56 days	30 days	42 days	60 days	No Setting (a)
Users should have to keep a new password for at least 1-2 days before they can change it.	(b)	No Setting	(b)	1 day	(b)	3 days	(b)	1 day	(b)	No Setting (a)
Users shouldn't be allowed to reuse a password for at least 1 year.	No Policy	No Setting	60 days	420 days	120 days	336 days	No Policy	1,008 days	365 days	No Setting (a)
ACCOUNT LOCKOUT										
Users' accounts should be locked out after 3-10 invalid attempts to log in.	No Policy	5 attempts	3 attempts	3 attempts	3 attempts	3 attempts	No Policy	5 attempts	3 attempts	(c)
Accounts should be locked out for 15-30 minutes.	No Policy	30 minutes	No Policy	5 minutes	Until Admin Unlocks	Until Admin Unlocks	No Policy	30 minutes	No Policy	(c)
The account lockout counter shouldn't reset for at least 15-30 minutes.	(b)	10 minutes	(b)	5 minutes	(b)	30 minutes	(b)	30 minutes	(b)	(c)

4-11

PASSWORD STORAGE											
Agency should not store passwords with weak encryption.	(b)	Weak	(b)	Strong	(b)	Weak	(b)	Strong	(b)	Strong	Weak
OVERALL ASSESSMENT OF POLICIES AND SETTINGS											
Policies	Very Weak		Weak		Strong		Incomplete		Strong		
Settings	Very Weak		Fairly Strong		Fairly Strong		Strong		Weak		
PASSWORD CRACKING RESULTS											
Percent of passwords cracked within <u>5 minutes</u>	Not tested (d)		3%		35%		30%		39%		
Percent of passwords cracked within <u>24 hours</u>			23%		43%		45%		58%		
Issues with passwords	Not tested (d)										
<i>Weak Encryption</i>					X				X		
<i>Some Passwords Weak</i>			X (e)						X (f)		
<i>Good But Not Great Passwords</i>			X		X		X		X		
<i>Group Passwords</i>							X				
<p>Gray shading indicates areas that don't meet best practices.</p> <p>(a) This agency has its IT administrator assign all passwords, and employees aren't allowed to change them. The agency hasn't ever changed its passwords.</p> <p>(b) Policies don't typically address these areas.</p> <p>(c) The agency doesn't use account lockout, but has another control that accomplishes the same purpose.</p> <p>(d) We weren't able to extract this agency's password file, and therefore couldn't test the strength of the passwords. However, because of the agency's very weak password controls, agency officials agreed that the passwords also were likely to be very weak.</p> <p>(e) Some passwords were created before the agency adopted its current policies and were set to not expire. These passwords tended to be very short and weak.</p> <p>(f) Many of the passwords assigned by the administrator were well-constructed, but some only included two types of characters and thus were weak.</p> <p>Source: LPA analysis of agency policies, server settings, and password crack results.</p>											

One agency's experience illustrates the importance of using strong password encryption and training on how to create strong passwords. After we cracked 43% of the agency's passwords on our first test, officials corrected the problems with how passwords were encrypted and trained their staff on password best practices. They asked us to repeat our test to see if their efforts paid off. In the second test, we were able to crack only 4% of their passwords.

The Agencies Did a Good Job of Patching Operating Systems, But Not as Good a Job of Patching Applications On Servers and Workstations

The second major piece of this audit was to evaluate how well each of the agencies keeps its software up-to-date. Over time, vulnerabilities in computer software are discovered that could allow someone to break into or otherwise harm an agency's network. Software manufacturers are constantly developing fixes, or "patches," for the vulnerabilities as they are discovered. It's up to each agency's information technology staff to install the patches in order to keep their systems up-to-date.

Given the number of different types of software installed on modern networks, keeping up with patching can be a very difficult and time-consuming job. The most effective method of checking for missing patches is to periodically scan the network with vulnerability scanning software.

To determine whether the agencies did a good job of patching their software, we worked with staff from the State's Enterprise Security Office to conduct vulnerability scans of the agencies' servers and workstations. We looked for three types of things at each agency:

- patches missing from operating systems (e.g., Microsoft Windows or Linux)
- patches missing from applications (e.g., Microsoft Office, Adobe Reader)
- miscellaneous vulnerabilities not related to patches

All of the scans were done with the full knowledge and cooperation of the agencies. The vulnerability scans produce volumes of information about potential vulnerabilities—some of which are considered severe, but many of which are fairly minor. We provided the detailed results to each agency, but limited our analyses to only the most severe vulnerabilities.

The agencies have done a good job of keeping the operating systems on their servers and workstations up-to-date. The results of our vulnerability scan for operating systems are summarized in the top section of *Figure 1-2*. As was the case with passwords, these results are highly confidential, so we haven't matched the agency names with the results. Also, the agency letters used in this section don't correspond with the agency numbers in the password section.

3
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**Figure 1-2
Summary of the Operating System and Application Vulnerabilities
Found on Servers and Workstations**

	AGENCY (a)										Total	
	A		B		C		D		E			
OPERATING SYSTEMS												
Servers												
# scanned	34	100%	41	100%	10	100%	10	100%	38	100%	133	100%
# missing <u>at least one</u> operating system patch	6	18%	3	7%	1	10%	5	50%	2	5%	17	13%
# missing <u>3 or more</u> operating system patches	3	9%	0	0%	1	10%	1	10%	1	3%	6	5%
Workstations												
# scanned	18	100%	12	100%	23	100%	55	100%	53	100%	161	100%
# missing <u>at least one</u> operating system patch	1	6%	1	8%	1	4%	14	25%	3	6%	20	12%
# missing <u>3 or more</u> operating system patches	0	0%	0	0%	1	4%	2	4%	1	2%	4	2%
APPLICATIONS												
Servers												
# scanned	34	100%	41	100%	10	100%	10	100%	38	100%	133	100%
# missing <u>at least one</u> application patch	16	47%	21	51%	3	30%	3	30%	6	16%	49	37%
# missing <u>3 or more</u> application patches	6	18%	18	44%	1	10%	2	20%	3	8%	30	23%
Workstations												
---not quantified---												
(a) The agency letters in this figure don't correspond with the agency numbers in <i>Figure 1-1</i> to help ensure that specific agencies can't be identified.												
Source: LPA analysis of vulnerability scan results.												

- **Only six of 133 servers (5%) were significantly behind (missing three or more) on operating system patches.** We did identify one server that was missing more than 100 patches. This turned out to be a test server that the agency wasn't actively using, and it took the server out of service after the scan.
- **Only four of 161 workstations (2%) were significantly behind on operating system patches.**

In addition to the servers noted in the figure, several agencies had unpatched servers that we didn't include in our analysis. In most cases, these servers had old, but critical applications that will fail if new operating system patches are installed. This can happen with poorly written software, or old software that's no longer supported and updated by the vendor. Another agency was having a new system developed and the vendor couldn't patch a couple of servers until the project was finished. Because these agencies presented sound business cases for continuing to operate these servers without patches, we didn't include them in the analysis that's presented in *Figure 1-2*.

The agencies haven't done as good a job of patching the applications on servers and workstations. The results of our vulnerability scan for application patches are summarized in bottom section of *Figure 1-2*. As the figure shows, the percent of servers missing three or more application patches ranged from 8% to 44%. By comparison, the range for operating system patches was much lower (0% to 10%).

Here's some more information about the missing application patches:

- **Each agency had at least one server with multiple Java vulnerabilities.** Java was by far the most common application vulnerability on servers. Java is a flexible programming language that is widely used in all kinds of software applications, especially in web applications. Java vulnerabilities can enable an attacker to launch malicious code on a server to take it over. In some cases agencies were running applications that required older versions of Java. While the agencies may not be able to upgrade to the newest version, they can still download patches for the older versions they use.
- **Two agencies had antivirus software that was significantly out-of-date on at least one server.** This is a very dangerous situation because new viruses are released every day. Servers should always have up-to-date antivirus software.
- **Some of the vulnerabilities could be avoided by removing unnecessary applications from servers.** According to best practices, an agency should only install applications on servers that need to be there. In general, there's no need to have common desktop software such as Microsoft Office, Adobe Reader, or Windows Media Player on a server, yet we found vulnerabilities associated with each of these. (The exception to best practice would be if these types of software are needed to help run other applications that really do need to be on a server.) Limiting the number of applications installed on a server reduces the chances for vulnerabilities.

In addition to the servers, there also were numerous unpatched applications on the workstations we scanned. However, because of the volume of results (there generally are more applications on workstations than servers, and we scanned three times as many workstations) we didn't attempt to quantify the number of missing application patches.

One agency had workstations exposed to the Internet. During the scans we also observed a few workstations in Agency D whose locations were visible from the Internet—one of which had a number of operating system vulnerabilities. (Best practice is for all agency workstations to be visible only inside the agency network and not be exposed directly to the Internet.) Agency officials told us those workstations weren't housed in their main offices and that they were in the process of changing their addresses so they would no longer be visible outside the agency's network.

Conclusion:

While security policies and network controls are important aspects of an agency's security management, not all security can be built in up front. The findings of this audit emphasize how important it is for agencies to continue to monitor the security of their networks on an on-going basis. The number of passwords we were able to "crack" using free and widely available password-cracking software—even in the agencies that had adopted good policies and strong server settings—shows that agencies still need to check periodically to make sure their staff have created strong passwords. The number of missing patches we identified on servers and workstations—especially the application patches—illustrates how important it is for agencies to scan their networks periodically to identify the patches they've missed.

Passwords can be tested using inexpensive software and the results of those tests are easy to interpret—either the passwords could be cracked quickly or they couldn't. On the other hand, the software used to scan networks can be very expensive, and interpreting the results can be very difficult. In order to ensure that all agencies are able to have their networks scanned periodically, while also keeping the cost manageable, it might make sense for the State to have a central agency responsible for periodically scanning all networks on behalf of the agencies.

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~~4-16~~

Recommendations for Executive Action:

1. To help ensure that users within the agencies we audited create strong passwords, those agencies should do the following:
 - a. Adopt new policies or amend existing policies to address each of the policy weaknesses identified in *Figure 1-1* on page 6 and 7.
 - b. Change their server configurations to address each of the control setting issues identified in *Figure 1-1*.
 - c. Provide periodic training to staff on how to create strong passwords.
 - d. Periodically test the strength of their users' passwords with password cracking software.
2. To help ensure that the agencies we audited have up-to-date networks, those agencies should do the following:
 - a. Install the missing patches to address the "severe" vulnerabilities identified through our vulnerability scans.
 - b. Arrange to have their networks periodically scanned for vulnerabilities, either in-house, through the State's Enterprise Security Office (within the Division of Information System and Communications), or by an outside vendor.
 - c. In addition, Agency D should follow through with its plan to obtain new addresses for the workstations we identified that were exposed to the Internet.
3. To help ensure that all agencies periodically scan for vulnerabilities on their servers and workstations, the State's Enterprise Security Office should communicate to all State agencies the importance of vulnerability scanning.

Recommendations for Legislative Action:

1. To ensure that all agency networks are scanned for vulnerabilities on a regular basis, and that it is done in the most cost-effective manner, the Joint Committee on Information Technology should introduce legislation that would require all State agencies to have a periodic vulnerability scan conducted by the Enterprise Security Office.

APPENDIX A

Scope Statement

This appendix contains the scope statement for this audit of selected information technology security controls. This audit was conducted as part of the ongoing information system security audit work authorized by the Legislative Post Audit Committee.

SCOPE STATEMENT

State Agency Information Systems: Reviewing Selected Security Controls in State Agencies

Each year State agencies become more dependent on their computer systems and on the data those systems contain to make decisions and fulfill their missions. More and more, computing is moving out of the data center and into the hands of staff who use the data to make decisions. Computers and computer networks also are being used to communicate with the public, provide services, and conduct business. While these are positive developments that can result in increased efficiency and effectiveness and better service, there also are significant risks associated with advances in technology that agencies should be address and manage. At present there is little oversight of agencies' computer operations to monitor whether these risks are being adequately managed.

To help address these risks, the Legislative Post Audit Committee approved information system audits to be done as an adjunct to the Division's compliance and control audits. This information system audit looks at three particularly important areas of IT security across a broad selection of State agencies:

- 1. How well do select State agencies control network passwords and keep operating systems up-to-date?** For a sample of agencies, we would test the strength of the agencies' passwords with password-cracking software, and would use vulnerability scanning software to check a sample of the agencies' networks for missing security patches and other known vulnerabilities. For any agencies where we find problems, we would conduct in-depth interviews and review policies and procedures as necessary to determine the causes.

Estimated time to complete: 7-9 weeks.

APPENDIX B

Agency Responses

On June 17 we provided copies of the draft audit report to the Judicial Branch, the Department of Transportation, the Kansas Public Employees Retirement System, the Board of Nursing, the State Treasurer's Office, and the Division of Information Systems and Communication (DISC). Because the responses from the audited agencies contained confidential information, we have summarized them below. DISC didn't have anything confidential to respond to, so we've included its entire response.

The agencies generally concurred with the report's findings, conclusions, and recommendations, and all report already having started addressing the recommendations. One agency indicated it can't comply with one of our recommendations until after it does a major upgrade to its network operating system, but is committed to doing so. Another agency pointed out that the password tests and network scans we conducted bypassed its normal security measures.



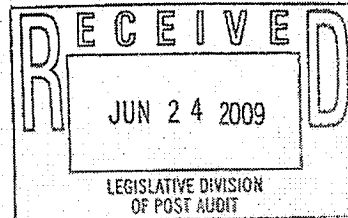
Division of Information Systems and Communications

Mark Parkinson, Governor
Joe Hennes, Director

<http://www.da.ks.gov/disc/>

June 23, 2009

Barbara Hinton, LPA
800 Southwest Jackson Street, Suite 1200
Topeka, KS 66612-2212



Dear Ms. Hinton,

I am delighted to respond to the recent audit findings (09CC03) of July 2009 performed by your office on 5 state entities over the past several weeks. As you are aware, the Enterprise Security Office assisted in one aspect of this inspection and consequently, some of the findings contained in the report come as no surprise.

The first area of consideration in this audit concerns how well selected state agencies control network passwords. The Kansas IT Security Council was responsible for recommending policy concerning this issue resulting in ITEC policy 7230, General Information Technology Enterprise Security Policy and its adjunct 7230A, the Security Requirements document. The latter is explicit in its treatment of passwords.

Passwords must be:

- *Individually owned*
- *kept confidential and not shared with other users*
- *changed whenever disclosure has occurred or may have occurred, and*
- *changed at least every 60 days*
- *changed significantly (i.e., not a minor variation of the current password)*
- *a minimum of seven characters and contain alphanumeric characters and*
- *where allowed include special characters*

Passwords must not be:

- *repeated for at least six cycles of change or a year*
- *repeating sequences of letters or numbers (e.g. rrr, 123123)*
- *names of persons, places, or things that can be closely identified with the*
- *user (i.e., spouse, children or pet names)*
- *the same as the user id*
- *words that can be found in a dictionary*
- *displayed during the entry process*
- *written down and displayed in an obvious place*
- *the same for all systems the user accesses*
- *stored in any file program, command list, procedure, macro or script where*
- *It is susceptible to disclosure or use by anyone other than its owner.*

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June 23, 2009

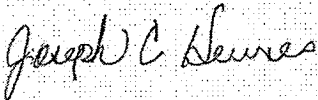
Page 2

Notwithstanding this policy, it is at once disappointing and understandable that some agencies are not in compliance, as an enforcement mechanism does not exist under the current governance structure. ITEC 7230/7230A was constructed with the understanding that if agencies had no organic security policy, that the ITEC policy documents would be the minimum defaults standard. It appears that some agencies in the audit failed to either have their own standard or to follow ITEC 7230A. What this highlights is the need for more periodic audits of this nature with the findings ultimately made public giving transparency to the policy and compliance process.

Regarding the Operating Systems and Applications Vulnerabilities' findings, it should be encouraging that awareness of operating systems vulnerabilities and the need for patching was found to be very good. Efforts to add additional applications patching (e.g., Adobe, Java and Microsoft Office) would appear to be in order. Over time, the later has not received as much publicity and effort and this should be addressed in an enterprise wide notification program.

Regarding the Recommendations for Executive Action, we concur with all of the suggestions. The Enterprise Security Office currently has capabilities to perform scans on a limited basis. To engage in an expanded, legislated, enterprise wide scanning program will require additional resources given the current and envisioned work load of the office. The current software package used for scanning has some inherent limitations with respect to false positive generation and reporting. As such, to follow the proposed recommendations, the need for one additional full time employee and software enhancements should be considered.

Sincerely,



Joe Hennes
DISC Director

cc: Larry Kettlewell

**Legislative Division of Post Audit
Performance Audit Reports on
Computers/DP
Issued In Recent Years**

09CC01	Regents' Information Systems: Following Up On Computer-Security Issues at Various Universities	February 2009
08CC01	State Agency Information Systems: The Kansas Health Policy Authority's Management of Those Systems	August 2008
08CC03	Determining Whether State Agencies Remove Software From Surplus Computer Equipment	June 2008
07PA01	Animal Health Department: Reviewing Issues Related to a Recent Animal Tracking Technology Project	October 2006
06PA03	VIPS and CAMA: Funding Earmarked To Improve These Computer Systems (limited-scope audit)	February 2006
05IT101	Board of Regents' Information Systems: Reviewing Computer Security at Various Universities	April 2005
04IT102	Dept. of Administration's SHaRP System: Reviewing the Department's Upgrading of That System	August 2004
04PA21	Information Technology Projects: Has the CITO Followed Approval/Notification Requirements	June 2004
03-H	KDHE Information Systems: Reviewing the Department's Management of Those Systems	October 2003
03PA14	Information Network of Kansas: Reviewing Revenues, Expenditures, and Administrative Structure (100-hour audit)	April 2003
03-G	Juvenile Justice Authority Information Systems: Reviewing the Authority's Management of Those Systems	March 2003



Mark Parkinson, Governor
Joe Hennes, Director

Division of Information Systems and Communications

<http://www.da.ks.gov/disc/>

MEMORANDUM

Date: February 11, 2010
To: Government Efficiency and Fiscal Oversight
From: Larry Kettlewell
Subject: Testimony related to House Bill 2408

I am Larry Kettlewell, Enterprise Chief Information Security Officer. Thank you for the opportunity to speak to House Bill 2408. The bill calls for each state agency to conduct an IT security vulnerability scan at least once per year. The scan uses software that examines agency IT infrastructure and application environments to determine if the infrastructure and environments are susceptible to attack and compromise. The scans are an important component in safeguarding IT assets. Scans help agencies identify vulnerabilities and the scans, when combined with other important security best practices, help agencies avoid compromises and increase the reliability of IT systems. Scans are an important starting point for protecting IT assets. I endorse the bill and encourage its passage. The bill has a \$103,000 cost which can be recovered through a DISC charge to state agencies of \$50 per scanning hour. The scans would be performed by my office and for a medium size agency the scan would take about 40 hours -- \$2,000 total cost. Large agencies would take longer. Again I endorse the bill and would be happy to answer your questions.

Attachment 5
@EFO 2-11-10



Division of Information Systems and Communications

Mark Parkinson, Governor
Joe Hennes, Director

<http://www.da.ks.gov/disc/>

MEMORANDUM

Date: February 11, 2010
To: Government Efficiency and Fiscal Oversight
From: Joe Hennes
Subject: Testimony related to House Bill 2572

I am Joe Hennes, DISC Director and Chief Information Technology Officer for the Executive Branch. I endorse House Bill 2572 which calls for a feasibility study to examine the costs, benefits, investment amounts, and savings from various forms of IT consolidation. Last week in testimony to this committee with Don Heiman (LCITO) and Eric Sweden (NASCIO Senior Architect) we discussed the national trends among the states for consolidating IT services through data center collocation strategies, sharing of hardware and software, and consolidation through shared applications. Over 90% of the states are involved in IT consolidation initiatives. The feasibility study referenced in the bill would be done with existing resources and carries no additional cost to the state. Again, I support the bill and look forward to its passage.

*Attachment 6
GEFO 2-11-10*

Kansas Development Finance Authority: A Statewide Multipurpose Conduit Issuer

Stephen R. Weatherford, President

Kansas Development Finance Authority ("K DFA") was created by the 1987 Kansas legislature as a public body politic and corporate, with corporate succession, to be an independent instrumentality of the State of Kansas. K DFA was created as an independent instrumentality, to clearly establish a separate entity from the State of Kansas for purposes of debt issuance in order that the debt may clearly be characterized as debt of the Authority, and not direct debt of the State of Kansas. The Authority's independent public corporation status also serves to contain liability exposure related to its debt issuance and post-issuance administration practices to K DFA, and not the State of Kansas.

K DFA's enabling Act also provides that the Authority may create subsidiary corporations as independent and separated entities to administer activities which are not related to the Authority's primary mission of serving as a finance corporation. As an example, an Executive Order directed K DFA, in accordance with the K DFA Act to organize the then Division of Housing. K DFA created Kansas Housing Resources Corporation which now serves as the State's primary housing administrative and services entity.

K DFA is the State's only statewide, multi-purpose finance authority, created for the primary purposes of providing the State, and other public and private entities, access to the capital markets to finance capital projects and public programs. K DFA issues debt on behalf of state agencies, pursuant to specific authorizing legislation and at the further request of the Secretary of Administration and implicated agency. K DFA serves to centralize the function of debt issuance and management, and has streamlined access to long-term capital financing for State agencies, political subdivisions, public and private organizations and businesses. K DFA is authorized and empowered to acquire, mortgage and dispose of real and personal property and to issue revenue bonds and various other debt instruments for the purpose of financing agricultural business enterprises, capital improvement facilities, transportation facilities, educational facilities, health care facilities, housing developments, industrial enterprises and Kansas basic enterprises. K DFA primarily issues dedicated pledge of revenue bonds on behalf of various entities who borrow through K DFA then pledge revenues generated by the financed facility to debt service the bonds (e.g., bonds issued to finance a university parking garage, dormitory or student union, bonds issued to finance a health care or affordable housing facility, etc.). Subject to several levels of authorization and request, K DFA issues obligations on behalf of state agencies to finance, e.g., Capitol renovation improvements, state agency infrastructure, and even pension obligation investment.

Public finance is an increasingly complex field requiring strict compliance with both State and Federal laws and regulations that are specific to the tax-exempt bond issuance market. It is essential for active issuers to have full time public finance staff possessing a depth of knowledge regarding public finance issues and structures as well as a strong working understanding regarding the extensive federal tax and securities law requirements and post issuance compliance standards now applicable. Tax exempt bonds are issued into an extensive regulatory environment that governs the bonds through their lifetime.

Attachment 7
GEFO 2-11-10

In recent years, both the IRS and SEC have significantly stepped up their tax-exempt bond audits and other compliance monitoring efforts, requiring that extensive post-issuance administration, processes and reporting protocols be in place. Tax-exempt debt issuance is, effectively, a subsidy by the federal government to allow state and local governments to finance infrastructure and other governmental purpose capital improvement projects, the federal government forgoes the taxation of interest earnings on these municipal bonds.

KDFA is pleased to report that the IRS has examined four of its bond issues over the last few years, and given the issues clean audits for issuance and post-issuance compliance administration.

Many states are now following Kansas' and certain other state's lead of consolidating conduit issuance into single multipurpose issuing authorities in order to reduce the confusion that exists when many different state level issuers come to the market with different credits, sometimes even competing with each other in the market on similar timelines. Single multi-purpose issuers present the financial markets with a single, recognized issuer, who can present a variety of credits managed by a full time public finance staff; established post-issuance administrative resources; and, successful long term bond administration.

Structuring and administering efficient bond issues in compliance with these State and Federal law requirements is KDFA's full time mission.

KDFA Responsibilities:

- KDFA meets and works with client State agencies, the Legislature, and other entities, frequently from the inception of a proposed capital improvement project, to assist in developing legislation as requested, identify revenue repayment sources, identify possible finance structures, and to run initial amortization schedules.

KDFA utilizes Requests for Qualifications and Proposal processes to develop lists of and to engage qualified finance professionals, including investment bankers, bond counsel and financial advisors to work with KDFA and its client borrowers to identify and comply with all applicable laws, and to develop and market the optimal finance structures for proposed transactions.

KDFA engages and works with leading public finance officials within and outside our region, including the public finance law firms of Gilmore & Bell, Kutak Rock and Bryan Cave, the public financial advisory firms of Public Financial Management, First Southwest and Columbia Capital, and many investment banking firms, including Citigroup, J.P. Morgan, Wachovia, Piper Jaffray, George K. Baum, et al. (the underwriting world has been considerably reduced over the last year).

KDFA has developed a strong working understanding of the unique strengths and capabilities of the many various public finance service providers.

- KDFFA works with the Governor, the Division of Budget, the Kansas Legislature and our public and private borrower clients to manage the State's debt issuance and post-debt issuance processes. KDFFA provides certain information regarding outstanding long term indebtedness it collects each year from other State agencies and entities to the Division of Budget for use in compiling the State's annual financial information.
- KDFFA generates and distributes an annual debt study as a resource and reference tool for policy makers.
- KDFFA meets with and has developed strong working relationships with representatives of the principal rating agencies (Moody's and Standard & Poor's "S&P") on a regular basis to apprise them of the details of specific finance transactions, as well to periodically discuss the State's general financial condition and economic trends. KDFFA hosts rating agency representatives in person at least annually for a day of in depth discussion on the State's financial condition and proposed new finance transactions.

KDFFA carries an "Issuer's Shadow Credit Rating of "AA+" assigned by S&P and "Aa1" from Moody's. Historically, these ratings are the highest attainable for states which do not issue full faith and credit general obligation debt at the state level.

KDFFA in conjunction with its client borrowers and other public finance professionals has developed many strong financing programs. The credits that KDFFA or any conduit Issuer sells into the market are rated on the underlying strength of the revenues pledged, as such the value that KDFFA provides is based on 1) the efficiency of using a single multi-purpose issuer for both the transaction and the post transaction administration of the obligation and 2) KDFFA's developed expertise in structuring the strongest credit possible for the current market, while working within the financial desires of our client.

KDFFA issues bonds for and oversees the financial administration of the only "AAA" rated statewide finance programs, the two KDHE state revolving loan fund programs.

State General Fund debt issued by KDFFA is rated "AA" to reflect the subject to appropriation nature of the credit.

KDFFA receives no State appropriation and is entirely fee funded. KDFFA's Issuer Fee is a declining percentage of the ultimate transaction size. This fee covers the expense of KDFFA's professional staff in managing and administering the post-issuance compliance administration process through the ultimate retirement of the bonds or other debt obligations. Fees also cover costs related to the numerous and expensive arbitrage rebate calculations necessary for each bond issue, professional fees associated with bond audits and examinations, and to carry out various legislative, executive and statutory directives.

If KDFFA is involved in assisting a State Agency with a financing that ultimately does not result in the closing of a transaction, KDFFA's work is free of charge. Services also typically include but are not limited to: helping to develop legislation when requested, authorizing the financing; providing legislative testimony regarding the authorizing legislation; the engagement and negotiation of fees for transaction professionals (bond counsel; disclosure counsel; underwriters; financial advisors; paying agents and/or trustees; investment brokers; rating agencies; insurance providers; investment providers; printers; auction agents; etc.); structuring options and estimated amortization schedules, and finally providing post-issuance compliance administration and support. KDFFA is able to typically negotiate professional services at comparably competitive rates due to the consolidation of transactions through our competitive proposal process and on behalf of the State, the use of composite issuances through one multi-purpose issuer.

In conclusion, KDFFA has worked over the last 23 years since its creation to become a strong, professionally staffed financial resource for the State of Kansas, as well as for other public and private entity borrowers. KDFFA is now recognized as a sophisticated issuer with strong post-issuance debt administration practices. Debt obligations issued and administered by KDFFA are now highly sought after in the financial markets.



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Certified Public Accountants

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008
AND
INDEPENDENT AUDITORS' REPORT

Attachment 8
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KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2009 AND 2008

AND

INDEPENDENT AUDITORS' REPORT

KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS

FINANCIAL STATEMENTS

Years Ended June 30, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kansas Development Finance Authority
Topeka, Kansas

We have audited the accompanying balance sheets of the Kansas Development Finance Authority, a Component Unit of the State of Kansas, as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kansas Development Finance Authority as of June 30, 2009 and 2008, and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2009, on our consideration of Kansas Development Finance Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management discussion and analysis and required supplementary information as listed on the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Berberich Trahan & Co., P.A.

September 18, 2009

Allen, Gibbs & Houlik, L.C.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2009 and 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of Kansas Development Finance Authority's (KDFA) operations and financial position should be read in conjunction with the financial statements and appropriate notes appearing elsewhere in this document.

FINANCIAL HIGHLIGHTS

- KDFA's total net assets increased by \$576,527 from the previous year.
- During the year, KDFA's revenues exceeded expenses by \$576,527. KDFA had expenses of \$1,302,161 in 2009 compared to \$1,277,457 for 2008, and revenues of \$1,878,688 and \$1,799,371 for those same years.
- Revenues received but not earned (unearned revenues) increased by \$96,473 to \$2,528,149 during fiscal 2009.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of 2 parts: (1) management's discussion and analysis (this section) and (2) the basic financial statements. The financial statements also include notes which provide more detailed data.

FINANCIAL ANALYSIS OF KDFA AS A WHOLE

The following analysis focuses on KDFA's operating assets and liabilities. The following table excludes the balances for Investment in Direct Financing Leases and Lease Revenue Bonds Payable. See the Notes to the Financial Statements for discussion related to these accounts. Balances for these accounts fluctuate each year based on the number of bond issuances and redemptions.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2009 and 2008

	In Thousands of Dollars			Increase (Decrease)	
				2009	2008
	2009	2008	2007	vs. 2008	vs. 2007
Current and other assets	\$ 9,452	\$ 8,763	\$ 8,260	\$ 689	\$ 503
Capital assets	18	25	23	(7)	2
Total assets	<u>9,470</u>	<u>8,788</u>	<u>8,283</u>	<u>682</u>	<u>505</u>
Long-term liabilities	2,211	2,117	2,124	94	(7)
Other liabilities	430	418	428	12	(10)
Total liabilities	<u>2,641</u>	<u>2,535</u>	<u>2,552</u>	<u>106</u>	<u>(17)</u>
Total net assets	<u>\$ 6,829</u>	<u>\$ 6,253</u>	<u>\$ 5,731</u>	<u>\$ 576</u>	<u>\$ 522</u>
Operating revenues	\$ 1,691	\$ 1,431	\$ 1,347	\$ 260	\$ 84
Non-operating revenues	188	368	344	(180)	24
Total revenues	<u>1,879</u>	<u>1,799</u>	<u>1,691</u>	<u>80</u>	<u>108</u>
Total expenses	<u>1,302</u>	<u>1,277</u>	<u>1,280</u>	<u>25</u>	<u>(3)</u>
Excess of revenues over expenses	<u>\$ 577</u>	<u>\$ 522</u>	<u>\$ 411</u>	<u>\$ 55</u>	<u>\$ 111</u>

Total assets, liabilities and net assets: Overall, the significant balance sheet accounts such as cash, investments, and unearned revenues fluctuate depending on the number and dollar amount of bond issuances completed each year. In fiscal 2009 and 2008, approximately \$386 million and \$262 million were issued in bonds each year, respectively. The increase in liabilities from fiscal year 2008 is largely a result of decrease in lease revenue bonds payable.

Change in net assets: The majority of K DFA's revenue comes from issuance fees and annual fees, which produce over 95% of K DFA's operating revenues. From 2009 to 2008 the amount of revenues from K DFA's issuance fee increased to \$757,610 from \$519,756. Additionally, from 2009 to 2008 the amount of revenues from K DFA's annual fee increased to \$925,528 from \$883,588. The increase in issuance fees results from the increase in number of bond issues completed in 2009. The increase in annual fees is from the overall increase in outstanding bond issues that continue to incur annual administrative costs.

Non-operating revenues include interest income from investments. The decrease in interest income is a result of lower interest rates.

Overall expenses increased attributable to a number of factors including an increase in professional services resulting from tax-exempt bond compliance examination expenses. The line item decrease in depreciation is due to an increasing number of items being fully depreciated.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2009 and 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets: Capital assets include furniture, office and computer equipment, and building improvements. Improvements are depreciated over the six-year life of the lease. Furniture and equipment are depreciated over a three to five year time frame.

Long-term Debt: See financial highlights above for discussion of unearned revenues.

ECONOMIC FACTORS

As we look to the future, a still relatively low interest rate environment and additional incentives contained in The American Recovery and Reinvestment Tax Act of 2009 (the "ARRA Act") continue to create favorable economic conditions for tax-exempt borrowings. K DFA has taken significant advantage of these rates, and utilized especially, the Build America Bonds ("BABs") provisions contained in the ARRA Act to finance numerous projects on favorable terms on behalf of the State of Kansas and other public and private entities. BABs which are issued as taxable obligations may be used to finance new capital improvement projects of qualifying governmental entities in 2009 and 2010. The Direct Pay BABs issued by K DFA price at a slightly higher taxable governmental rate, but the Department of Treasury rebates 35% of each interest payment made back to the Issuer/Borrower to subsidize the interest payments. BABs have been used successfully by K DFA to lower the total debt service cost on bonds issued on behalf of Pittsburg State University and a recent State General Fund appropriation revenue bond transaction. K DFA anticipates continuing to use BABs to lower overall debt costs on at least several additional Regents and state agency transactions through the BABs eligibility period.

The 2009 legislature's appropriations bills continue the trend of authorizing multiple projects eligible for K DFA financing on behalf of various State entities. K DFA again received continuing authority to issue bonds or other debt obligations to finance the completion of ongoing projects; e.g., the restoration and renovation of the State Capitol, the subject of another \$38,000,000 in authorized bonds.

Other significant new authorizations include \$6,950,000 in bonds to finance phase II renovations to Jayhawk Towers residence halls and another \$30,000,000 to finance University of Kansas Pharmacy School improvements. KU also received authorizations to seek bond financing for the following: \$13,075,000, renovate GSP Residence Hall; \$24,950,000, renovate an Edwards Campus (Johnson Co campus) building; \$9,100,000, renovate a parking facility for KUMC; \$25,000,000 for a KU clinical research center; and \$34,000,000 for improvements to the Hixon/Wahl Laboratory Complex. Kansas State University received authority to seek up to \$24 million in bonds to expand and renovate a student recreation center, and up to \$45 million to renovate Bramlage Coliseum and Bill Snyder Family Stadium.

K DFA now foresees issuing bonds every 12-24 months on behalf of the Kansas Department of Health and Environment's highly successful Clean Water and/or Drinking Water State Revolving Loan Fund Programs, and expects to issue approximately \$77,830,00 for the Drinking Water Program in early fall 2009.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2009 and 2008

In August 2005, KDFA closed the first issue of bonds to implement and finance the new Transportation Revolving Loan Fund Program. KDFA has partnered with the Kansas Department of Transportation for this new revolving loan fund program, established to make available below market interest rate loans to Kansas municipalities to assist them with their local road and bridge infrastructure projects. KDFA issued the second series of bonds for this program in December of 2006 in the amount of \$24,755,000 and issued \$30,950,000 in December 2008. KDFA anticipates another issue in 2010 to continue financing this popular program. KDFA is also working with the Kansas Department of Transportation and representatives of Burlington Northern Santa Fe Railroad to structure a transaction to finance an intermodal transportation project in Johnson County. Initial borrowing amounts have not yet been determined.

KDFA also continues to serve various private activity borrowers. KDFA is pleased to have facilitated two revenue bond issues for the Adventist Health System in 2009, a \$5,000,000 private placement which closed in April, and a \$330,390,000 refunding bond transaction which closed in July 2009. KDFA is currently working with Adventist to bring another approximately \$100,000,000 refunding transaction to the market place as Adventist continues its ongoing program of finance and refinance, and is converting much of its variable rate debt to fixed rate obligations.

Additionally, KDFA is working on an approximately \$50,000,000 private activity bond transaction to finance a new medical office building for the KU Hospital Authority, and is working on a \$5 million transaction for Siemens Energy Inc. as one funding component of many to build a wind turbine nacelles plant in Hutchinson, Kansas.

Fiscal Year 2010 is off to a busy start, and we expect to see issuance activity for a variety of projects and programs.

Ratings

KDFA met with officials with Standard & Poor's ratings group in July 2009. KDFA is pleased to note that in spite of the challenging economic environment, Standard & Poor's, who assigns an Issuer's Credit Rating of KDFA on behalf of the State of Kansas, has recently affirmed Kansas' strong "AA+" rating, continuing the stable outlook. Moody's has also continued its equivalent rating of "Aa1" with a stable outlook for the State.

CONTACTING KDFA'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of KDFA's finances and to demonstrate KDFA's accountability for funds received. If you have questions about this report or need additional information, contact KDFA at 555 S. Kansas Avenue, Suite 202, Topeka, KS 66603.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

BALANCE SHEETS

June 30, 2009 and 2008

ASSETS

	2009	2008
CURRENT ASSETS		
Cash and cash equivalents	\$ 77,661	\$ 553,544
Investments	8,755,368	5,777,346
Investments, restricted	333,060	323,431
Investment interest receivable	--	53,898
Accounts receivable	186,815	134,464
Prepaid expenses	72,632	71,056
Note receivable, current portion	1,342	1,342
Investment in direct financing leases, current portion	14,795,000	14,805,000
Total current assets	24,221,878	21,720,081
INVESTMENTS, RESTRICTED	--	1,820,643
NOTE RECEIVABLE	25,496	26,838
INVESTMENTS IN DIRECT FINANCING LEASES, NET OF CURRENT PORTION	187,475,000	202,270,000
CAPITAL ASSETS		
Furniture and equipment	184,167	190,733
Building improvements	108,153	108,153
Less accumulated depreciation and amortization	(274,385)	(274,095)
Net capital assets	17,935	24,791
	\$ 211,740,309	\$ 225,862,353

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Accrued salaries and related benefits	\$ 88,586	\$ 76,479
Accounts payable	8,411	18,094
Unearned revenue - current portion	333,060	323,431
Lease revenue bonds payable, current portion	<u>14,795,000</u>	<u>14,805,000</u>
Total current liabilities	<u>15,225,057</u>	<u>15,223,004</u>
UNEARNED REVENUE	<u>2,195,089</u>	<u>2,108,245</u>
LEASE REVENUE BONDS PAYABLE	<u>187,475,000</u>	<u>202,270,000</u>
NET OPEB OBLIGATION	<u>16,096</u>	<u>8,564</u>
Total liabilities	<u>204,911,242</u>	<u>219,609,813</u>
NET ASSETS		
Invested in capital assets	17,935	24,791
Unrestricted	<u>6,811,132</u>	<u>6,227,749</u>
	<u>6,829,067</u>	<u>6,252,540</u>
	<u>\$ 211,740,309</u>	<u>\$ 225,862,353</u>

The accompanying notes are an integral
part of these financial statements.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS**

Years Ended June 30, 2009 and 2008

	2009	2008
Operating revenues:		
Issuance fees	\$ 757,610	\$ 519,756
Annual fees	925,528	883,588
Application fees	3,600	11,000
Issuer counsel fees	3,000	9,500
Miscellaneous revenue	890	7,195
Total operating revenues	1,690,628	1,431,039
 Operating expenses:		
Salaries and related payroll expense	882,805	854,107
Annual OPEB cost	7,532	8,564
Telecommunications	22,403	16,279
Maintenance agreements and repairs	16,307	16,316
Publication fees and advertising	4,259	6,985
Rents	108,833	100,969
Insurance	77,139	84,053
Travel	931	807
Continuing education expenses	13,448	15,667
Professional services	54,752	38,623
Memberships and subscriptions	19,734	24,617
Professional and office supplies	6,889	13,137
Depreciation and amortization	14,913	21,944
Arbitrage calculation expenses	62,400	60,225
Miscellaneous	9,816	15,164
Total operating expenses	1,302,161	1,277,457
Operating income	388,467	153,582
 Non-operating revenues:		
Investment income	188,060	368,332
Total non-operating revenues	188,060	368,332
Excess of revenues over expenses	576,527	521,914
 Net assets, beginning of year	6,252,540	5,730,626
Net assets, end of year	\$ 6,829,067	\$ 6,252,540

The accompanying notes are an integral part of these financial statements.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from others	\$ 1,639,619	\$ 1,375,239
Cash paid to others	<u>(1,182,395)</u>	<u>(1,277,692)</u>
Net cash flow from operating activities	<u>457,224</u>	<u>97,547</u>
Cash flows from capital and related financing activities:		
Purchases of capital assets	<u>(8,057)</u>	<u>(24,153)</u>
Net cash flow from capital and related financing activities	<u>(8,057)</u>	<u>(24,153)</u>
Cash flows from investing activities:		
Purchase of investments	<u>(1,167,008)</u>	<u>(3,308,895)</u>
Interest on investments	<u>241,958</u>	<u>349,352</u>
Net cash flow from investing activities	<u>(925,050)</u>	<u>(2,959,543)</u>
Net change in cash and cash equivalents	(475,883)	(2,886,149)
Cash and cash equivalents, beginning of year	<u>553,544</u>	<u>3,439,693</u>
Cash and cash equivalents, end of year	<u>\$ 77,661</u>	<u>\$ 553,544</u>
Reconciliation of operating income to net cash flow from operating activities:		
Operating income	\$ 388,467	\$ 153,582
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	14,913	21,944
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(52,351)	(57,142)
Prepaid expenses	(1,576)	(4,184)
Note receivable	1,342	1,342
Increase (decrease) in:		
Accrued salaries and related benefits	12,107	9,448
Accounts payable	(9,683)	(8,171)
Unearned revenue	96,473	(27,836)
Net OPEB obligation	<u>7,532</u>	<u>8,564</u>
Net cash flow from operating activities	<u>\$ 457,224</u>	<u>\$ 97,547</u>

KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS

STATEMENTS OF CASH FLOWS
(Continued)

Years Ended June 30, 2009 and 2008

Non-Cash Transactions:

The following items are not included in the statements of revenues, expenses, and changes in net assets or the statements of cash flows because the amounts are paid by various other entities directly to the bond paying agents or trustees:

	<u>2009</u>	<u>2008</u>
Principal payments and redemptions made on lease revenue bonds	<u>\$ 14,805,000</u>	<u>\$ 16,115,000</u>
Interest revenue on lease revenue bonds	<u>\$ 9,992,225</u>	<u>\$ 10,673,058</u>
Interest expense on lease revenue bonds	<u>\$ 9,992,225</u>	<u>\$ 10,673,058</u>

The accompanying notes are an integral part of these financial statements.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

NOTES TO FINANCIAL STATEMENTS

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – Kansas Development Finance Authority (KDFA) was established by Chapter 57, 1987 Session Laws of Kansas. Its enabling statutes are found in K.S.A. 74-8901 et seq., as amended and supplemented. KDFA is a public body politic and corporate, constituting an independent instrumentality of the State of Kansas (State). 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.

Executive Reorganization Order No. 30 transferred the Housing division of the Kansas Department of Commerce and Housing, effective July 1, 2003, to be organized and administered in accordance with the KDFA Act. The new corporation is called Kansas Housing Resources Corporation (KHRC). KDFA and KHRC have board members in common, but KHRC does not meet the criteria as outlined in the following paragraph to be a component unit of KDFA. Therefore, KHRC issues its own financial statements, and is not included in this report.

Accounting principles generally accepted in the United States of America require that the reporting entity include: (1) the primary government, (2) organizations for which the government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that the exclusion would cause the reporting entity's financial statements to be misleading. KDFA has been determined to be a component unit of the State of Kansas. KDFA is financially accountable to the State, and the State exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, and has the ability to significantly influence operations and accountability for fiscal matters, scope of public service, and special financing relationships.

To accomplish its objectives, KDFA is empowered to acquire and dispose of real and personal property; to borrow money and issue notes, bonds, or other obligations; to make secured or unsecured loans for any of the purposes for which it may issue bonds (except making loans directly to individuals to finance housing projects); to offer technical assistance to the State or any of its political subdivisions; to enter into contracts to provide such services; and to assist minority businesses in obtaining loans or other means of financial assistance. There are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

Bonds and other debt instruments issued by KDFA are limited obligations of KDFA, payable solely from and secured by a lien on the proceeds, monies, revenues, rights, interests, titles, and/or mortgages pledged under the indentures and resolutions authorizing each particular financing transaction. Bonds and other debt instruments issued by KDFA do not constitute an indebtedness of the State, or any political subdivision thereof, or an indebtedness for which the full faith and credit or the taxing powers of the State, or any political subdivision thereof, are pledged. Under State laws, KDFA and its subsidiaries are considered a governmental entity for purposes of the Kansas Tort Claims Act, which limits the liability of KDFA and its employees.

Basis of Accounting – KDFA is organized as a proprietary activity; therefore, the accompanying financial statements are prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when incurred.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

NOTES TO FINANCIAL STATEMENTS

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Cash and Investments – K DFA considers all short-term investments with an original maturity of three months or less to be cash equivalents. K DFA monitors the insurance and/or amount of securities pledged by financial institutions as collateral to secure the deposits of K DFA in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Statutes authorize K DFA, “to invest moneys of K DFA not required for immediate use.”

Investments are reported at fair value. As of June 30, 2009 and 2008, investments consist of funds invested in the Kansas Municipal Investment Pool (KMIP) and a collateralized repurchase agreement with Morgan Stanley. The KMIP is an external investment pool not SEC (Securities and Exchange Commission) registered, which is regulated by the State. The fair value of the position in the external investment pool is materially the same as the value of the pool shares.

Accounts Receivable – K DFA uses the reserve method of accounting for bad debts. Under this method, all uncollectible accounts are charged to the allowance account, and bad debt expense is determined by adjusting the balance in the allowance account to a reserve considered reasonable by management. Management believes that substantially all accounts receivable are collectible and, therefore, has not established an allowance for doubtful accounts at June 30, 2009 and 2008.

Capital Assets – Capital assets are carried at historical cost less depreciation or amortization. Individual items with an initial cost of more than \$1,000 are capitalized. Major renewals and betterments are capitalized, and maintenance and repairs, which do not improve or extend the life of the respective assets, are charged against earnings in the current period. Depreciation and amortization are provided on the straight-line method over estimated useful lives ranging from three to six years.

Unearned Revenue – Unearned revenue consists of prepaid annual fees. Cash received and invested is considered restricted, as the funds are to be available for the provision of specified services for existing bond issues and related credits on refunding bond issues.

Income Taxes – K DFA is exempt from all federal, state, and local income, sales, and property taxes.

Compensated Absences – Under terms of the State’s Active State Employee Benefits Guidebook, K DFA employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days up to the maximum accumulation. Compensated absences are included in the accrued salaries and related benefits on the balance sheet.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities,

**KANSAS DEVELOPMENT FINANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

Accounting Pronouncements – K DFA is applying all applicable Governmental Accounting Standard Board (GASB) pronouncements as well as following the Financial Accounting Board Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Related Parties – K DFA from time to time purchases goods and supplies from other state agencies for administrative and office purposes. In addition, Kansas Housing Resources Corporation reimburses K DFA for shared staff-related expenses incurred during the year.

2. CASH AND INVESTMENTS

K DFA has adopted a formal investment policy. The primary objectives of investment activities are, in priority order, safety, yield and liquidity. The standard of care to be used by investment officials shall be the "prudent investor" standard, and shall be applied in the context of managing an overall portfolio.

As of June 30, 2009 and 2008, K DFA has \$9,088,428 and \$257,007 invested in the State of Kansas Municipal Investment Pool. As of June 30, 2009 and 2008, K DFA has \$0 and \$1,600,000 invested in a repurchase agreement with Morgan Stanley.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, K DFA will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The bank balances of K DFA's deposits at June 30, 2009 and 2008 totaled \$90,842 and \$6,627,311. UMB Bank will pledge collateral to a Federal Reserve account for bank balances in excess of the Federal Deposit Insurance Corporation (FDIC) limit, as well as by the standard coverage of the Federal Deposit Insurance Corporation (FDIC).

Credit Risk. K DFA's policy limits investments to those allowed by State Statute, and further to those with one of the top two ratings from Standard & Poor's or Moody's Investor Services, depending on the type of investment. As of June 30, 2009 and 2008, K DFA was invested in the Kansas Municipal Investment Pool. As of June 30, 2009, the pool was rated AA Af / S1+ by Standard & Poor's. The repurchase agreement's underlying securities were GNMA securities, which are explicitly guaranteed by the U.S. government and thus carry no credit risk.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from the fluctuations in interest rates, K DFA's investment policy limits investment maturities as follows: the portion of the portfolio equal to 150% of the current year annual operating expense budget shall be continuously invested in obligations which have maturities of twelve months or less.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

2. CASH AND INVESTMENTS (CONTINUED)

Monies in excess of the 150% may be invested in obligations greater than twelve months, but no more than sixty months.

As of June 30, 2009 and 2008, KDFA had the following investments, excluding certificates of deposit, with the noted investment maturities:

Investment Type	Fair Value	June 30, 2009	
		Less than 1 year	1 – 5 Years
KMIP	\$ 9,088,428	\$ 9,088,428	\$ --
Total	\$ 9,088,428	\$ 9,088,428	\$ --

Investment Type	Fair Value	June 30, 2008	
		Less than 1 year	1 – 5 Years
Repurchase agreement	\$ 1,600,000	\$ 1,600,000	\$ --
KMIP	257,007	257,007	--
Total	\$ 1,857,007	\$ 1,857,007	\$ --

KDFA's investments during the year did not vary substantially from those at year-end in amounts or level of risk.

3. NOTE RECEIVABLE

The note receivable represents the balance of KDFA's issuance fee due from a borrower with a face amount of \$40,258 and a \$1,342 annual principal payment due on December 2 through the year 2028, at 4.755% interest. The balance at June 30, 2009 and 2008 was \$26,838 and \$28,180, respectively.

4. INVESTMENT IN DIRECT FINANCING LEASES

KDFA issues lease revenue bonds to facilitate construction of certain capital projects for various State agencies. KDFA's interests in the projects have been assigned to various State governmental units through the use of financing lease transactions. Contained in the trust indenture or resolution and lease agreement for each series of bonds is a capital lease provision by which lease revenues paid by the various governmental units, as tenants, to KDFA as lessor, are pledged to pay bond debt service. Amounts are actually paid by the state agencies directly to the bond paying agents for the lease revenue bonds.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

4. INVESTMENT IN DIRECT FINANCING LEASES (CONTINUED)

Net investment in direct financing leases as of June 30 are as follows:

	2009	2008
Total minimum lease payments to be received	\$ 274,784,687	\$ 299,581,912
Less: unearned income	(72,514,687)	(82,506,912)
Net investment in direct financing leases	\$ 202,270,000	\$ 217,075,000

The future minimum lease payments to be received by KDFa under the direct financing leases mirrors the payments to be made by KDFa under the lease revenue bonds payable as explained in Note 6.

5. CAPITAL ASSETS

Capital assets activity for the years ended June 30 was as follows:

	July 1, 2008 Balance	Increases	Transfers and Decreases	June 30, 2009 Balance
Furniture and equipment	\$ 190,733	\$ 8,057	\$ (14,623)	\$ 184,167
Building improvements	108,153	--	--	108,153
Total capital assets being depreciated	298,886	8,057	(14,623)	292,320
Less accumulated depreciation:				
Furniture and equipment	(165,942)	(14,913)	14,623	(166,232)
Building improvements	(108,153)	--	--	(108,153)
Total accumulated depreciation	(274,095)	(14,913)	14,623	(274,385)
Total capital assets, net	\$ 24,791	\$ (6,856)	\$ --	\$ 17,935

	July 1, 2007 Balance	Increases	Transfers and Decreases	June 30, 2008 Balance
Furniture and equipment	\$ 172,813	\$ 24,153	\$ (6,233)	\$ 190,733
Building improvements	108,153	--	--	108,153
Total capital assets being depreciated	280,966	24,153	(6,233)	298,886
Less accumulated depreciation:				
Furniture and equipment	(153,687)	(18,488)	6,233	(165,942)
Building improvements	(104,697)	(3,456)	--	(108,153)
Total accumulated depreciation	(258,384)	(21,944)	6,233	(274,095)
Total capital assets, net	\$ 22,582	\$ 2,209	\$ --	\$ 24,791

**KANSAS DEVELOPMENT FINANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

6. LEASE REVENUE BONDS PAYABLE

Lease revenue bonds are limited obligations of KDFFA, payable solely from revenues, rents, and receipts or subject to annual State appropriations. They do not represent general obligations of the State, or any political subdivision thereof, or of KDFFA. KDFFA records lease revenue bonds payable and investment in direct financing leases for all revenue bonds issued and outstanding which are secured by a capital lease agreement. Activity for the years ended June 30, 2009 and 2008 included additions (issuances) of \$0 and \$0 and reductions (principal payments or redemptions) of \$14,805,000 and \$16,115,000.

Lease revenue bonds payable are as follows at June 30, 2009 and June 30, 2008:

	2009	2008
Series L, 1993 – State of Kansas Energy Conservation Improvements Program Projects, \$3,975,000 Lease Revenue Bonds dated October 1, 1993, with aggregate amounts due annually from \$245,000 to \$445,000, due March 1, 1996 through March 1, 2009, at interest rates ranging from 3.4% to 5.15%. (Mandatory sinking fund redemption due March 1, 2006 to 2008 for term bond maturing on March 1, 2009).	\$ -	\$ 445,000
Series 1996J – State of Kansas Energy Conservation Improvements Program Projects, \$5,600,000 Refunding Lease Revenue Bonds dated November 1, 1996, with aggregate amounts due annually from \$70,000 to \$455,000, due April 1, 1997 through April 1, 2010, at interest rates ranging from 3.85% to 5.40%. (Mandatory sinking fund redemption due April 1, 2008 to 2009 for term bonds maturing on April 1, 2010).	70,000	245,000
Series 1998L – State of Kansas Department of Administration, Memorial Hall Office Building Renovation Project, and \$5,590,000 Lease Revenue Bonds dated August 1, 1998, with aggregate amounts due annually from \$165,000 to \$435,000, due October 1, 1999 through October 1, 2018, at interest rates ranging from 3.8% to 5.0%. (Mandatory sinking fund redemption due October 1, 2015 to 2017 for term bonds maturing on October 1, 2018).	3,480,000	3,740,000
Series 1999A-1 – State of Kansas Department of Corrections, El Dorado and Larned Correctional Facilities Projects, \$17,510,000 Pooled Refunding Lease Revenue Bonds dated March 1, 1999, with aggregate amounts due semi-annually from \$55,000 to \$2,250,000, due August 1, 1999 through February 1, 2012, at interest rates ranging from 3.2% to 5.0%.	7,250,000	9,080,000
Series 1999A-2 – State of Kansas Department of Corrections, Ellsworth and Labette County Correctional Facilities Projects, \$10,700,000 Pooled Refunding Lease Revenue Bonds dated March 1, 1999, with aggregate amounts due annually from \$150,000 to \$1,720,000, due October 1, 1999 through October 1, 2009, at interest rates ranging from 3.2% to 5.0%. (Mandatory sinking fund redemption due February 1, 2005 to 2011 for term bonds maturing on August 1, 2005 to 2011).	150,000	300,000
Series 1999H – State of Kansas Department of Corrections, El Dorado Reception and Diagnostic Construction Project, \$17,830,000 Lease Revenue Bonds dated October 1, 1999, with aggregate amounts due annually from \$510,000 to \$2,745,000, due August 1, 2000 through August 1, 2019, at interest rates ranging from 3.75% to 5.625%. (Mandatory sinking fund redemption due August 1, 2014 and 2018 for term bonds maturing on August 1, 2015 and 2019) (\$10,030,000 refunded on November 22, 2005 with the issuance of Special Obligation Series 2005H).	2,375,000	3,090,000

**KANSAS DEVELOPMENT FINANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

6. LEASE REVENUE BONDS PAYABLE (CONTINUED)

	2009	2008
<p>Series 1999N – State of Kansas Department of Administration, 7th & Harrison State Office Building Acquisition Project, \$21,645,000 Lease Revenue Bonds dated December 15, 1999, with aggregate amounts due annually from \$250,000 to \$1,430,000 due December 1, 2000 through December 1, 2034, at interest rates ranging from 4.0% to 5.875%. (\$19,240,000 refunded on August 27, 2002 with the issuance of Series 2002J-2).</p>	\$ 350,000	\$ 685,000
<p>Series 2000V – State of Kansas Department of Administration, State Capitol Restoration, Phase 1-A, \$16,370,000 Lease Revenue Bonds dated December 1, 2000, with aggregate amounts due annually from \$400,000 to \$1,290,000, due October 1, 2001 through October 1, 2020, at interest rates ranging from 4.35% to 5.375%. (Mandatory sinking fund redemption due October 1, 2018 and 2019 for term bonds maturing on October 1, 2020).</p>	2,175,000	3,075,000
<p>Series 2001D – State of Kansas Juvenile Justice Authority, Larned and Topeka Juvenile Correctional Facilities Project, \$48,895,000 Lease Revenue Bonds dated April 1, 2001, with aggregate amounts due annually from \$1,305,000 to \$3,800,000, due May 1, 2002 through May 1, 2021, at interest rates ranging from 4.25% to 5.25%.</p>	34,975,000	37,050,000
<p>Series 2001L – State of Kansas Department of Administration, Kansas Public Broadcasting Council Digital Conversion Projects, \$5,775,000 lease Revenue Bonds dated July 1, 2001, with aggregate amounts due annually from \$195,000 to \$455,000, due March 1, 2003 through March 1, 2021, at interest rates ranging from 4.125% to 5.50%. (Mandatory sinking fund redemption due March 1, 2013 through 2016 for term bond maturing on March 1, 2016; mandatory sinking fund redemption due March 1, 2018 through 2021 for term bond maturing on March 1, 2021.) (This bond issue was included in the Pooled Bond issue, Series 2001S).</p>	4,215,000	4,470,000
<p>Series 2001O – State of Kansas Department of Administration, State Building Renovation Projects, \$9,320,000 Lease Revenue Bonds dated July 1, 2001, with aggregate amounts due annually from \$315,000 to \$735,000, due March 1, 2003 through March 1, 2021, at interest rates ranging from 4.125% to 5.50%. (Mandatory sinking fund redemption due March 1, 2013 through 2016 for term bond maturing on March 1, 2016; mandatory sinking fund redemption due March 1, 2018 through 2021 for term bond maturing on March 1, 2021.) (This bond issue was included in the Pooled Bond issue, Series 2001S).</p>	6,800,000	7,210,000
<p>Series 2001P – State of Kansas Department of Administration, State Building Energy Conservation Projects, \$845,000 Refunding Lease Revenue Bonds dated July 1, 2001, with aggregate amounts due annually from \$95,000 to \$130,000, due March 1, 2002 through March 1, 2009, at interest rates ranging from 4.125% to 5.00%. (This bond issue was included in the Pooled Bond issue, Series 2001S).</p>	--	130,000

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NOTES TO FINANCIAL STATEMENTS

6. LEASE REVENUE BONDS PAYABLE (CONTINUED)

	2009	2008
Series 2001W-1 – State of Kansas Department of Human Resources Project, \$1,720,000 Lease Revenue Bonds dated November 1, 2001, with aggregate amounts due annually from \$25,000 to \$130,000, due October 1, 2001 through October 1, 2021, at interest rates ranging from 3.00% to 5.00%. (This bond issue was included in the Pooled Bond issue, Series 2001W).	\$ 1,305,000	\$ 1,375,000
Series 2001W-2 – State of Kansas Department of Health and Environment, Center for Health and Environmental Statistics – VSIS Project, \$3,385,000 Lease Revenue Bonds dated November 1, 2001, with aggregate amounts due annually from \$330,000 to \$490,000, due October 1, 2002 through October 1, 2009, at interest rates ranging from 3.00% to 5.00%. (This bond issue was included in the Pooled Bond issue, Series 2001W).	490,000	960,000
Series 2001W-3 – Kansas State Fair at Hutchinson, Capital Improvement Project, and \$17,570,000 Lease Revenue Bonds dated November 1, 2001, with aggregate amounts due annually from \$630,000 to \$1,365,000, due October 1, 2003 through October 1, 2021, at interest rates ranging from 3.00% to 5.00%. (This bond issue was included in the Pooled Bond issue, Series 2001W).	13,485,000	14,230,000
Series 2001W-4 – State of Kansas Department of Administration, Judicial Center Improvements, \$1,075,000 Lease Revenue Bonds dated November 1, 2001, with aggregate amounts due annually from \$40,000 to \$95,000, due October 1, 2002 through October 1, 2016, at interest rates ranging from 3.00% to 5.00%. (This bond issue was included in the Pooled Bond issue, Series 2001W).	660,000	730,000
Series 2001W-5 – State of Kansas Department of Administration, Division of Facilities Management Capitol Restoration Project, and \$24,105,000 Lease Revenue Bonds dated November 1, 2001, with aggregate amounts due annually from \$260,000 to \$3,100,000, due October 1, 2002 through October 1, 2021, at interest rates ranging from 3.00% to 5.00%. (This bond issue was included in the Pooled Bond issue, Series 2001W).	20,965,000	21,720,000
Series 2001J – State of Kansas Juvenile Justice Authority, Juvenile Detention Facilities Project, \$5,300,000 Refunding Lease Revenue Bonds dated November 1, 2001, with aggregate amounts due annually from \$310,000 to \$540,000, due June 1, 2002 through June 1, 2013, at interest rates ranging from 2.40% to 4.30%.	1,760,000	2,265,000
Series 2002C – State of Kansas Department of Administration, State Capitol Restoration Parking Facility Project, \$15,830,000 Lease Revenue Bonds dated March 1, 2002, with aggregate amounts due annually from \$575,000 to \$1,220,000, due October 1, 2003 through October 1, 2021, at interest rates ranging from 3.00% to 5.00%.	12,090,000	12,765,000

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NOTES TO FINANCIAL STATEMENTS

6. LEASE REVENUE BONDS PAYABLE (CONTINUED)

	<u>2009</u>	<u>2008</u>
Series 2002H – State of Kansas Department of Human Resources, Acquisition & Renovation Project, and \$3,765,000 Lease Revenue Bonds dated August 15, 2002, with aggregate amounts due annually from \$140,000 to \$270,000, due May 1, 2003 through May 1, 2022, at interest rates ranging from 2.50% to 4.70%.	\$ 2,715,000	\$ 2,875,000
Series 2002J-1 – State of Kansas Department of Administration, 7 th & Harrison State Office Project, \$10,775,000 Lease Revenue Bonds dated September 12, 2002, with aggregate amounts due annually from \$545,000 to \$915,000, due December 1, 2004 through December 1, 2018, at interest rates varying daily as established by Piper Jaffray, Remarketing Agent. (2.40% at June 30, 2008).	7,815,000	8,450,000
Series 2002J-2 – State of Kansas Department of Administration, 7 th & Harrison State Office Project, \$22,580,000 Refunding Lease Revenue Bonds dated August 27, 2002, with aggregate amounts due annually from \$190,000 to \$1,455,000, due December 1, 2005 through December 1, 2034, at interest rates varying daily as established by Piper Jaffray, Remarketing Agent. (2.40% at June 30, 2008).	21,780,000	21,990,000
Series 2002N-1 – State of Kansas Department of Social and Rehabilitation Services, Larned State Hospital, \$48,120,000 Lease Revenue Bonds dated December 1, 2002, with aggregate amounts due annually from \$765,000 to \$3,810,000, due October 1, 2003 through October 1, 2022, at interest rates ranging from 3.00% to 5.25%.	38,815,000	40,665,000
Series 2002N-2 – State of Kansas Highway Patrol, Fleet Operations Project, and \$3,955,000 Lease Revenue Bonds dated December 1, 2002, with aggregate amounts due annually from \$200,000 to \$360,000, due October 1, 2003 through October 1, 2017, at interest rates ranging from 3.00% to 5.25%.	2,665,000	2,895,000
Series 2004 G-1 – State of Kansas Department of Administration, State Capitol Restoration Project – Phase II, \$19,795,000 Lease Revenue Bonds dated August 10, 2004, with aggregate amounts due annually from \$700,000 to \$1,430,000 due April 1, 2005 through April 1, 2024, at interest rates from 2.50% to 5.125%.	<u>15,885,000</u>	<u>16,635,000</u>
	<u>202,270,000</u>	<u>217,075,000</u>
Less current portion due within one year	<u>14,795,000</u>	<u>14,805,000</u>
	<u>\$ 187,475,000</u>	<u>\$ 202,270,000</u>

**KANSAS DEVELOPMENT FINANCE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS

6. LEASE REVENUE BONDS PAYABLE (CONTINUED)

Scheduled reduction of lease revenue bonds payable is as follows for the years ending June 30:

	Principal	Interest
2010	\$ 14,795,000	\$ 9,333,930
2011	14,685,000	8,681,516
2012	15,500,000	8,032,668
2013	12,615,000	7,342,037
2014	12,965,000	6,745,594
2015-2019	70,735,000	23,860,197
2020-2024	50,765,000	6,833,103
2025-2029	6,130,000	1,231,699
2030-2034	3,335,000	440,608
2035-2039	745,000	13,335
	\$ 202,270,000	\$ 72,514,687

Interest rate swap – *Objective of the interest rate swap.* As a means to have a fixed rate for determination of the bond yield on the refunding portion of the 2002 J bonds, the Authority entered into an interest rate swap in connection with its \$22,580,000 Series 2002 J-2 variable-rate lease revenue bonds. The intention of the swap was to effectively change the Authority's variable interest rate on the bonds to a synthetic fixed rate of 3.39%.

Terms. The call date for the refunded bonds and the related swap agreement mature on December 1, 2009, and the swap's notional amount of \$22,580,000 matches the \$22,580,000 2002 J-2 variable-rate bonds. The swap was entered at the same time the bonds were issued (August 2002). Starting in fiscal year 2006, the notional value of the swap and the principal amount of the associated debt decline. As of June 30, 2009, the amounts are \$21,780,000. Under the swap, the authority pays the counterparty a fixed payment of 3.39% and receives a variable payment computed on the BMA Municipal Swap Index™.

Due to the nature of contractual agreements between KDFA and the state agency for whom Series 2002 J-2 was issued, KDFA does not bear any of the risks associated with the swap, such as credit risk, basis risk, or termination risk. Those risks, and any impact on changes in net assets, would be reflected by the related state agency.

7. KDFA SPECIAL OBLIGATION BONDS

Unlike lease revenue bonds for which KDFA has recorded lease revenue bonds payable and an investment in direct financing leases, the bond obligations and notes and bonds with original maturities of one year or less, as indicated below, contain no capital lease provisions under which KDFA acts as lessor. These bond obligations have various revenue streams that are pledged for repayment of principal and interest. These bonds are special, limited obligations of KDFA, 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

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NOTES TO FINANCIAL STATEMENTS

7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)

guaranteed by K DFA or the State. Accordingly, special obligation bonds are not included in K DFA's balance sheet. The amounts of special obligation bonds outstanding at June 30, 2009 and 2008 are as follows:

	2009	2008
Kansas Board of Regents – Emporia State University Memorial Union Renovation Project, \$1,401,332 Series E, 1989 Capital Appreciation and Current Interest Bonds.	\$ 127,902	\$ 247,031
Kansas Board of Regents – Kansas State University Farrell Library Expansion Project, \$3,835,000 Series K, 1995 Revenue Bonds.	2,020,000	2,210,000
Kansas Board of Regents – University of Kansas Regents Center Refunding Project, \$3,255,000 Series 1997C Refunding Revenue Bonds.	550,000	840,000
Kansas Board of Regents Comprehensive Rehabilitation and Repair Project, \$625,888 Series 1997G-1 Capital Appreciation Bonds (Single maturity due October 1, 2011).	1,117,163	1,062,813
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund State Match Bonds, \$2,930,000 1997 Series 1 Revenue Bonds. (Partially defeased on September 29, 2004 with the issuance of Series 1 and 2, 2004 Revolving Loan Fund Revenue Bonds).	820,000	820,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund Leveraged Bonds, \$42,490,000 1997 Series 2 Revenue Bonds. (Partially defeased on September 29, 2004 with the issuance of Series 1 and 2, 2004 Revolving Loan Fund Revenue Bonds).	12,005,000	12,005,000
Kansas Board of Regents – Kansas State University Student Union Renovation and Expansion Project, \$9,320,000 Series 1998B Revenue Bonds.	5,690,000	6,100,000
Kansas Board of Regents – University of Kansas Housing System Lewis Hall Renovation Project, \$4,290,000 Series 1998D Revenue Bonds.	3,100,000	3,230,000
Kansas Board of Regents – Pittsburg State University Housing System Renovation Willard Hall Project, \$4,750,000 Series 1998E Revenue Bonds.	3,715,000	3,850,000

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NOTES TO FINANCIAL STATEMENTS

7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund Leveraged Bonds, \$80,500,000 1998 Series II Revenue Bonds. (Partially defeased on August 10, 2005 with the issuance of Series 2005CW Revolving Loan Fund Revenue Bonds).	\$ 17,275,000	\$ 32,640,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund State Match Bonds, \$2,075,000 1998 Series 1 Revenue Bonds. (Partially defeased on September 29, 2004 with the issuance of Series 1 and 2, 2004 Revolving Loan Fund Revenue Bonds).	1,050,000	1,050,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund Leveraged Bonds, \$37,615,000 1998 Series 2 Revenue Bonds. (Partially defeased on September 29, 2004 with the issuance of Series 1 and 2, 2004 Revolving Loan Fund Revenue Bonds).	3,155,000	12,055,000
Kansas Board of Regents – Pittsburg State University Horace Mann Administration Building Renovation Project, \$3,650,000 Series 1998P Revenue Bonds.	2,410,000	2,560,000
Kansas Board of Regents – University of Kansas Medical Center – Center for Health in Aging Project, \$2,920,000 Series 1999B Revenue Bonds.	1,920,000	2,050,000
Kansas Board of Regents – University of Kansas Child Care Facility Construction Project, \$3,085,000 Series 1999C Revenue Bonds.	2,045,000	2,180,000
Kansas Board of Regents – University of Kansas Parking Garage #2 Construction Project \$11,170,000 Series 1999D Revenue Bonds. (Partially defeased on February 22, 2006 with the issuance of Series 2006B Revenue Bonds).	4,310,000	5,060,000
Kansas Department of Commerce and Housing – IMPACT Program Project \$34,470,000 Series 1999E Limited Tax and Refunding Revenue Bonds.	--	4,065,000
Kansas Board of Regents – Wichita State University Parking System Project, \$5,705,000 Series 2000B Revenue Bonds.	3,095,000	3,445,000

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NOTES TO FINANCIAL STATEMENTS

7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Board of Regents – Kansas State University Ackert Hall Addition Project, \$1,735,000 Series 2000D Revenue Bonds.	\$ 935,000	\$ 1,040,000
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund State Match Bonds, \$5,440,000 2000 Series I Revenue Bonds. (Partially defeased on August 10, 2005 with the issuance of Series 2005CW Revolving Loan Fund Revenue Bonds).	1,220,000	1,595,000
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund Leveraged Bonds, \$77,475,000 2000 Series II Revenue Bonds (Partially refunded on September 1, 2001 with issuance of 2001 Series II Revenue Bonds).	7,020,000	10,165,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund State Match Bonds, \$6,640,000 2000 Series 1 Revenue Bonds. (Partially defeased on September 29, 2004 with the issuance of Series 1 and 2, 2004 Revolving Loan Fund Revenue Bonds).	585,000	855,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund Leveraged Bonds, \$46,860,000 2000 Series 2 Revenue Bonds. (Partially defeased on September 29, 2004 with the issuance of Series 1 and 2, 2004 Revolving Loan Fund Revenue Bonds).	16,685,000	18,460,000
Kansas Board of Regents – Emporia State University Student Recreation Facility Project, \$2,805,000 Series 2001B Revenue Bonds.	1,985,000	2,105,000
Kansas Board of Regents – Comprehensive Rehabilitation and Repair Project \$29,905,000 Series 2001F Refunding Revenue Bonds.	9,195,000	12,575,000
Kansas Board of Regents – Kansas State University – Saline, College of Technology Housing System Project, \$845,000 Series 2001G-1 Refunding Revenue Bonds (This bond issue was included in the Pooled Bond issued, Kansas Board of Regents Project Series 2001N Revenue Bonds).	420,000	480,000
Kansas Board of Regents – Kansas State University Recreation Complex Expansion Project, \$6,385,000 Series 2001G-2 Refunding Revenue Bonds (This bond issue was included in the Pooled Bond issue, Kansas Board of Regents Project Series 2001N Revenue Bonds).	2,925,000	3,430,000

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7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Department of Commerce and Housing – IMPACT Program Project, \$32,390,000 Series 2001M Limited Tax Revenue Bonds.	\$ 8,075,000	\$ 11,830,000
Kansas Board of Regents – University of Kansas Bioscience Research Center Project, \$5,860,000 Series 2001T-1 Refunding Revenue Bonds.	4,370,000	4,610,000
Kansas Board of Regents – University of Kansas Student Union Renovation Project, \$4,435,000 Series 2001T-2 Revenue Bonds.	1,775,000	2,155,000
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund State Match Bonds, \$16,505,000 2001 Series I Revenue Bonds.	7,470,000	8,925,000
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund Leveraged Bonds, \$124,540,000 2001 Series II Revenue Bonds. (Partially defeased on August 10, 2005 with the issuance of Series 2005CW Revolving Loan Fund Revenue Bonds).	108,345,000	112,065,000
Kansas Board of Regents – University of Kansas Housing System Renovation Project – Ellsworth Hall, \$11,230,000 Series 2002A-1 Revenue Bonds.	9,740,000	10,010,000
Kansas Board of Regents – University of Kansas Student Recreation and Fitness Center Project, \$15,330,000 Series 2002A-2 Revenue Bonds.	9,280,000	10,245,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund, \$4,100,000 Series 2002-1 State Match Bonds.	3,375,000	3,530,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund, \$47,705,000 Series 2002-2 Leveraged Bonds. (Partially defeased on September 29, 2004 with the issuance of Series 1 and 2, 2004 Revolving Loan Fund Revenue Bonds).	19,425,000	21,150,000
Kansas Board of Regents – University of Kansas Edwards Campus Project, \$5,120,000 Series 2002K Revenue Bonds (First principal payment due December 1, 2010).	5,120,000	5,120,000
Kansas Board of Regents – Wichita State University Housing System Renovation Project, \$12,150,000 Series 2002P Refunding Revenue Bonds.	9,235,000	9,755,000

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NOTES TO FINANCIAL STATEMENTS

7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Department of Health and Environment – Water Pollution Control Revenue Bonds, \$101,575,000 Series 2002 II Revenue Bonds. (Partially refunded on April 30, 2004, with the issuance of 2004 Series II Revolving Fund Revenue Bonds). (Partially defeased on August 10, 2005 with the issuance of Series 2005CW Revolving Loan Fund Revenue Bonds).	\$ 55,370,000	\$ 58,220,000
Kansas Board of Regents – Pittsburg State University Overman Student Center Renovation Project, \$2,610,000 Series 2003A.	2,055,000	2,155,000
Kansas Board of Regents – Scientific Research & Development Facilities Project-KSU Food Safety, \$22,485,000 Series 2003C Revenue Bonds (First principal payment due October 1, 2022). (This bond issue was included in the Pooled Bond issue, Kansas Board of Regents Project Series 2003C Revenue Bonds).	22,485,000	22,485,000
Kansas Board of Regents – Scientific Research & Development Facilities Project – KUMC Biomedical Research, \$36,100,000 Series 2003C Revenue Bonds (First principal payment due October 1, 2016). (This bond issue was included in the Pooled Bond issue, Kansas Board of Regents Project Series 2003C Revenue Bonds).	36,100,000	36,100,000
Kansas Board of Regents – Scientific Research & Development Facilities Project – KU Biosciences Research, \$4,965,000 Series 2003C Revenue Bonds. (This bond issue was included in the Pooled Bond issue, Kansas Board of Regents Project Series 2003C Revenue Bonds).	1,125,000	1,645,000
Kansas Board of Regents – Scientific Research & Development Facilities Project – Aviation Research Facility \$6,815,000 Series 2003C Revenue Bonds. (This bond issue was included in the Pooled Bond issue, Kansas Board of Regents Project Series 2003C Revenue Bonds).	1,280,000	2,500,000
Kansas Board of Regents Scientific Research & Development Facilities Project – WSU Engineering Complex, \$2,305,000 Series 2003C Revenue Bonds (First principal payment due October 1, 2021). (This bond issue was included in the Pooled Bond issue, Kansas Board of Regents Project Series 2003C Revenue Bonds).	2,305,000	2,305,000
Kansas Board of Regents Fort Hays State University Housing System Refunding & Renovation Project, \$5,320,000 Series 2003D-1 Revenue Bonds.	4,435,000	4,595,000

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NOTES TO FINANCIAL STATEMENTS

7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Board of Regents – Fort Hays State University Housing System Lewis Field Stadium Renovation Project, \$1,150,000 Series 2003D-2 Revenue Bonds.	\$ 790,000	\$ 855,000
Kansas Public Employees Retirement System – KPERS 13 th Check Group, \$25,760,000 Series 2003H State Pension Funding Bonds.	14,190,000	16,655,000
Kansas Public Employees Retirement System – TIAA Group – Board of Regents and KU Hospital Authority, \$14,490,000 Series 2003H State Pension Funding Bonds.	7,985,000	9,375,000
Kansas Board of Regents – Energy Conservation Projects - KUMC, \$13,080,000 Series 2003J-1 Revenue Bonds. (This bond issue was included in the Pooled Bond issue, State of Kansas Projects Series 2003J Revenue Bonds).	11,085,000	11,480,000
Kansas Board of Regents – Energy Conservation Projects - KSU, \$21,020,000 Series 2003J-1 Revenue Bonds. (This bond issue was included in the Pooled Bond issue, State of Kansas Projects Series 2003J Revenue Bonds).	17,310,000	18,075,000
Kansas Department of Social and Rehabilitation Services – Renovation & Repairs, \$33,445,000 Series 2004A-1 Revenue Bonds (This bond issue was included in the Pooled Bond issue, State of Kansas Projects Series 2004A Revenue Bonds).	27,500,000	28,765,000
Kansas State Fairgrounds – Renovation Project, \$10,990,000 Series 2004A-2 Revenue Bonds (This bond issue was included in the Pooled Bond issue, State of Kansas Projects Series 2004A Revenue Bonds).	9,040,000	9,450,000
Kansas Highway Patrol – Facility Acquisition Project, \$485,000 Series 2004A-3 Revenue Bonds (This bond issue was included in the Pooled Bond issue, State of Kansas Projects Series 2004A Revenue Bonds).	265,000	310,000
Kansas Public Employees Retirement System, \$500,000,000 Series 2004C Revenue Bonds (First principal payment due May 1, 2009).	489,930,000	500,000,000
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund State Match Bonds, \$5,000,000 2004 Series I Revolving Fund Revenue Bonds.	--	1,000,000

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7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund Leveraged Bonds, \$42,950,000 2004 Series II Revolving Fund Revenue Bonds (First principal payment due May 1, 2010).	\$ 42,950,000	\$ 42,950,000
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund Refunding, \$2,190,000 2004 Series II Revolving Fund Revenue Bonds-Refunding (First principal payment due May 1, 2010).	2,190,000	2,190,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund State Match Bonds, \$9,695,000 2004 Series 1 Revenue Bonds.	6,080,000	6,305,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund Leveraged Bonds, \$166,315,000 2004 Series 2 Revenue Bonds.	154,350,000	161,005,000
Kansas Board of Regents – Pittsburg State University Bonita Terrace Apartments Multifamily Housing Project, \$1,195,000 Series 2004D Revenue Bonds.	1,055,000	1,140,000
Kansas Board of Regents – Comprehensive Rehabilitation and Renovation Project, \$44,860,000 Series 2004F Revenue Bonds.	31,515,000	40,800,000
Department of Administration – Refunding Revenue Bond Project \$1,545,000 Series 2004G-2 Refunding Revenue Bonds.	300,000	580,000
Kansas Board of Regents – Kansas State University Housing System, Manhattan Campus Project \$44,535,000 Series 2005A Revenue Bonds.	41,935,000	42,830,000
Kansas Board of Regents – Scientific Research & Development Facilities Projects – Phase II, \$66,530,000 Series 2005D Revenue Bonds.	49,260,000	54,080,000
Kansas Board of Regents – University of Kansas Pooled Financing Projects \$19,360,000 Series 2005E Revenue Bonds.	17,920,000	18,445,000
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund Program, \$118,860,000 Series 2005CW Revenue Bonds.	103,455,000	108,995,000
Kansas Department of Transportation – Revolving Loan Fund Program, \$32,690,000 Series 2005TR Revenue Bonds.	28,455,000	30,490,000

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7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Board of Regents – Emporia State University Towers Residential Complex Improvement Project \$8,930,000 Series 2005F Revenue Bonds.	\$ 8,580,000	\$ 8,930,000
Kansas Board of Regents – Fort Hays State University Memorial Union Renovation Project, \$7,205,000 Series 2005G-1 Tax-Exempt and \$585,000 Series 2005G-2 Taxable Revenue Bonds.	7,205,000	7,505,000
Kansas Department of Administration – Capitol Restoration Phase III & Refunding, \$34,500,000 Series 2005H-1 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2005H Revenue Bonds).	34,430,000	34,445,000
Kansas Department of Labor – Unemployment Benefit System, \$20,955,000 Series 2005H-2 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2005H Revenue Bonds).	15,525,000	17,400,000
Kansas Adjutant General – Armories Renovations Phase V & Refunding, \$20,690,000 Series 2005H-3 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2005H Revenue Bonds).	17,090,000	18,230,000
Kansas Department of Administration – Public Broadcasting Council, \$1,715,000 Series 2005H-4 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2005H Revenue Bonds).	1,540,000	1,600,000
Kansas Department of Corrections – El Dorado Refunding, \$10,315,000 Series 2005H-5 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2005H Revenue Bonds).	10,155,000	10,195,000
Kansas Department of Commerce – Investments in Major Projects and Comprehensive Training (“IMPACT”) Program, \$28,165,000 Series 2005N Limited Tax Revenue Bonds.	17,750,000	20,340,000
Kansas Department of Administration – Comprehensive Transportation Program \$209,490,000 Series 2006A Revenue Bonds	195,745,000	202,755,000
Kansas Board of Regents – University of Kansas Parking Facilities Project \$9,790,000 Series 2006B Revenue Bonds.	9,650,000	9,790,000
State of Kansas, Department of Administration Capitol Restoration Phase IV \$7,065,000 Series 2006L-1 Revenue Bonds.	6,640,000	7,065,000
Kansas Board of Regents – Pittsburg State University Joint Armory Project, \$4,215,000 Series 2006L-2 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2006L Revenue Bonds).	3,905,000	4,065,000

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NOTES TO FINANCIAL STATEMENTS

7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Adjutant General – Joint Armory Project with Pittsburg State University, \$1,520,000, Series 2006L-3 Revenue Bonds. (This Bond issue was included in the State of Kansas Pooled Project Series 2006L Revenue Bonds).	\$ 1,410,000	\$ 1,465,000
Kansas Department of Transportation – Revolving Loan Fund Program, \$24,755,000 Series 2006TR Revenue Bonds.	21,595,000	23,305,000
Kansas Board of Regents – Kansas State Housing System, Manhattan Campus Project, \$27,750,000 Series 2007A Revenue Bonds.	26,855,000	27,365,000
Kansas Board of Regents – University of Kansas Student Recreation Center, \$6,276,000 Series 2007E Revenue Bonds.	5,855,000	6,075,000
Kansas Department of Commerce – Investments in Major Projects and Comprehensive Training (“IMPACT”) Program, \$34,505,000 Series 2007F Revenue Bonds.	28,945,000	31,915,000
Kansas Board of Regents – Kansas State University Parking System \$17,855,000 Series 2007H Revenue Bonds.	17,520,000	17,855,000
Kansas Department of Administration – Capitol Restoration Phase V \$27,505,000 Series 2007K-1 Revenue Bonds.	26,635,000	27,505,000
Kansas Adjutant General – Great Plains Joint Training Facility \$9,170,000 Series 2007K-2A Revenue Bonds.	8,880,000	9,170,000
Kansas Adjutant General – Armories Renovation Phase VI \$3,170,000 Series 2007K-2B Refunding BAN 2007-1 Revenue Bonds.	3,075,000	3,170,000
Kansas Department of Corrections – Correctional Infrastructure \$19,610,000 Series 2007K-3 Revenue Bonds.	18,985,000	19,610,000
Kansas Boards of Regents – University of Kansas Law Enforcement Training Center \$18,220,000 Series 2007M Revenue Bonds.	17,550,000	18,220,000
Kansas Board of Regents – Postsecondary Education Institution Loan Program \$20,000,000 Series 2008A Revenue Bonds.	17,500,000	20,000,000

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NOTES TO FINANCIAL STATEMENTS

7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Board of Regents – Kansas State University Student Life Center Salina Campus \$1,600,000 Series 2008D Revenue Bonds.	\$ 1,600,000	\$ 1,600,000
Kansas Department of Transportation – Communication System Lease Program, \$14,199,600 Series 2008G Revenue Bonds.	12,757,600	--
Kansas Department of Administration – Capitol Restoration Phase VI, \$38,995,000 Series 2008L-1 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2008L Revenue Bonds).	38,995,000	--
Kansas Adjutant General – Refund BAN 2008-2, Army National Guard Armories Renovation Project Phase VII, \$3,195,000 Series 2008L-2 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2008L Revenue Bonds).	3,195,000	--
Kansas Department of Corrections – Refund BAN 2008-1, Prison Expansion Project, \$1,075,000 Series 2008L-3 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2008L Revenue Bonds).	1,075,000	--
Kansas Board of Regents – University of Kansas School of Pharmacy, \$21,070,000 Series 2008L-4 Revenue Bonds. (This bond issue was included in the State of Kansas Pooled Financing Project Series 2008L Revenue Bonds).	21,070,000	--
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund State Match Bonds, \$5,000,000 Series 2008DW-1 Revolving Loan Fund Revenue Bonds.	4,745,000	--
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund Leveraged Bonds, \$31,700,000 Series 2008DW-2 Revolving Loan Fund Revenue Bonds.	31,700,000	--
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund State Match Bonds, \$5,580,000 Series 2008CW-I Revolving Fund Revenue Bonds.	5,580,000	--
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund Leveraged Bonds, \$60,965,000 Series 2008CW-II Revolving Fund Revenue Bonds.	60,965,000	--

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7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)

	2009	2008
Kansas Department of Transportation – Revolving Loan Fund Program, \$30,950,000 Series 2009TR Revolving Fund revenue Bonds.	\$ 30,950,000	\$ --
Kansas Department of Administration – Refunding Revenue Bonds, \$3,825,000 Series 2009A Revenue Bonds.	3,825,000	--
Kansas Department of Administration – Taxable Refunding Revenue Bonds, \$515,000 Series 2009B Revenue Bonds.	515,000	--
Kansas Board of Regents – Postsecondary Educational Institution Infrastructure Finance Program, \$20,000,000 Series 2009C Revenue Bonds.	20,000,000	--
Kansas Department of Commerce – Investments in Major Projects and Comprehensive Training (“IMPACT”) Program, \$49,425,000 Series 2009F Revenue Bonds.	49,425,000	--
Kansas Board of Regents – Refund BAN 2008-3, Pittsburg State University Student Health Center Project, \$825,000 Series 2009G Revenue Bonds.	825,000	--
Kansas Board of Regents – Refunds BAN 2009-1 Pittsburg State University Housing System Improvement Project, \$1,170,000 Series 2009H-1 Revenue Bonds.	1,170,000	--
Kansas Board of Regents – Refunds BAN 2009-1, Pittsburg State University Housing System Improvement Project, \$13,460,000 Series 2009H-2 Taxable Build America Revenue Bonds.	13,460,000	--
Kansas Board of Regents – Refunds BAN 2009-2, Pittsburg State University Parking System Project, \$665,000 Series 2009J-1 Revenue Bonds.	665,000	--
Kansas Board of Regents – Refunds BAN 2009-2, Pittsburg State University Parking System Project, \$3,880,000 Series 2009J-2 Taxable Build America Revenue Bonds.	3,880,000	--
	\$ 2,303,717,665	\$ 2,130,924,844

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7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)

KDFA Series 2009 A and B bonds were issued in the amount of \$4,340,000 at the request of the Kansas Secretary of Administration to currently refund \$3,942,500 of certain outstanding KDFA bonds to achieve near term budgetary relief for the State General Fund. The refunding will result in an increase of \$4,421,645 in future debt service payments and an estimated economic loss of \$886,308. Following is a schedule of the bonds currently refunded:

2001 L DOA Public Broadcasting Council	\$	255,000
2001 P Energy Conservation Bonds		130,000
2004 G-1 DOA Facilities Mgmt. Capital Restoration		750,000
2004 G-2 DOA Facilities Mgmt. KBI		280,000
2004 A-2 Kansas State Fair		410,000
2005 H-4 DOA Public Broadcasting Council		60,000
2005 H-1 DOA Facilities Mgmt. Capital Restoration		15,000
2005 H-3 Adjutant General Armories Renovation		1,140,000
2005 H-5 DOC El Dorado Correctional Facility		40,000
2006 L-1 DOA Facilities Mgmt. Capital Restoration		425,000
2006 L-2 BOR Pittsburg State University		160,000
2006 L-3 Adjutant General Armories Renovation		55,000
1993 L Adjutant General Armories Renovation		222,500

In addition to the bonds listed above, KDFA also issues notes and bonds that are identical in nature to those listed above, but have original maturities of one year or less. Notes having original maturities of one year or less at June 30, 2009 and 2008 are as follows:

	2009		2008
Kansas Department of Corrections – Correctional Facility Expansion Project, \$1,700,000 Series 2008-1 Bond Anticipation Note.	\$	--	\$ 1,700,000
Kansas Adjutant General – Army National Guard Armory Renovation Projects, \$3,000,000 Series 2008-2 and series 2007-1 Bond Anticipation Notes.		--	3,000,000
Kansas Board of Regents – University of Kansas Housing System Project, \$5,000,000 Series 2008-4 Bond Anticipation Note.		<u>5,000,000</u>	<u>--</u>
	<u>\$ 5,000,000</u>		<u>\$ 4,700,000</u>

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NOTES TO FINANCIAL STATEMENTS

8. PRIVATE ACTIVITY BONDS

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 balance sheet.

The amounts of private activity bonds outstanding as of June 30, 2009 and 2008 are as follows:

	2009	2008
FHA Insured Mortgage Loans – Section 8 Assistance Projects, \$3,265,000 Series 1992A Housing Development Revenue Refunding Bonds.	\$ 2,600,000	\$ 2,705,000
Community Provider Loan Program – Substance Abuse Center of Eastern Kansas, Inc. Project, \$1,600,000 Series 1992F Revenue Bonds.	640,000	740,000
Woodridge Apartments Project, \$7,285,000 Series 1995 Multifamily Housing Revenue Refunding Bonds.	6,700,000	6,400,000
Metcalf 56 Apartments Project, \$2,510,000 Series J, 1995 Multifamily Housing Revenue Refunding Bonds.	2,255,000	2,285,000
Seaboard Projects, \$9,600,000 Series P, 1995 Adjustable Rate Demand Exempt Facility Revenue Bonds (Term bond with a single maturity due December 1, 2025) (Partially refunded on February 2, 2003 with the issuance of Series 2003F Multifamily Housing Revenue Bonds).	9,200,000	9,200,000
Silver City Apartments Section 8 Assisted Project, \$5,544,200 Series 1996B Taxable Housing Development Revenue Bonds.	573,489	1,073,928
Green Park Apartments Section 8 Assisted Project, \$3,094,600 Series 1996C Taxable Housing Development Revenue Bonds.	449,251	743,511
Gateway Plaza Townhomes Section 8 Assisted Project, \$5,748,000 Series 1996D Taxable Housing Development Revenue Bonds.	1,068,063	1,626,766
Park Apartments Project, \$7,000,000 Series 1996L Housing Development Revenue Bonds.	--	5,130,000
Park Apartments Project, \$1,000,000 Series 1996M Housing Development Revenue Bonds (Term bond with a single maturity due January 1, 2021).	--	1,000,000

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8. PRIVATE ACTIVITY BONDS (CONTINUED)

	2009	2008
St. Luke's/Shawnee Mission Health System, Inc. Project, \$26,935,000 Series 1996P Health Facilities Revenue Bonds.	\$ 21,230,000	\$ 21,925,000
St. Luke's/Shawnee Mission Health System, Inc. Project, \$40,000,000 Series 1997A Health Facilities Revenue Bonds.	--	32,450,000
Oak Ridge Park Apartments Project, \$6,040,000 Series 1997F Multifamily Housing Revenue Bonds.	--	5,350,000
Rural Health Resources of Jackson Co., Inc. Project, \$4,435,000 Series 1997L Health Facilities Revenue Bonds.	3,610,000	3,720,000
Trails of Garden City and Cottonwood of Liberal Projects, \$8,740,000 Series 1997P Multifamily Housing Revenue Bonds.	7,708,000	7,867,000
Sisters of Charity of Leavenworth Health Services Corporation Project, \$105,000,000 Series 1998C Health Facilities Revenue Bond.	93,030,000	96,125,000
The Intercollegiate Athletic Council of Kansas State University, Inc. Project, \$8,055,000 Series 1998Q Taxable Athletic Facilities Revenue Bonds.	4,710,000	5,220,000
The Intercollegiate Athletic Council of Kansas State University, Inc. Project, \$7,595,000 Series 1998R Athletic Facilities Revenue Bonds.	4,205,000	4,690,000
Western Hills Apartments Project, \$3,040,000 Series 1998W Multifamily Housing Revenue Bonds.	2,864,659	2,890,740
Bluffs at Olathe Apartments Project, \$9,500,000 Series 1998X Multifamily Housing Revenue Bonds (First principal payment due July 25, 2017).	9,500,000	9,500,000
Susan B. Allen Memorial Hospital Project, \$16,000,000 Series 1998Z Hospital Revenue Bonds.	12,360,000	12,905,000
Village Shalom Obligated Group Project, \$23,315,000 Series 1998AA Revenue Bonds.	20,570,000	21,085,000

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8. PRIVATE ACTIVITY BONDS (CONTINUED)

	<u>2009</u>	<u>2008</u>
Village Shalom Obligated Group Project, \$23,695,000 Series 1998BB Variable Rate Demand Revenue Bonds.	\$ 20,685,000	\$ 21,255,000
Paola Apartments Project, \$1,050,000 Series 1999G Multifamily Housing Revenue Bonds.	--	994,430
Country Club Apartments Project, \$2,490,000 Series 1999J Multifamily Housing Revenue Bonds.	--	2,322,573
Country Club Apartments Project, \$350,000 Series 1999K Subordinate Multifamily Housing Revenue Bonds (Term bond with a single maturity on August 1, 2029).	--	350,000
Lom Vista Apartments Project, \$1,240,200 Series 1999O Multifamily Housing Revenue Bonds.	990,000	1,005,000
Deaconess Long Term Care, Inc., \$5,640,000 Series 2000C Variable Rate Demand Health Facilities Revenue Bonds.	4,720,000	4,845,000
Sisters of Charity of Leavenworth Health Services Corporation Project, \$22,390,000 Series 2000J Revenue Bonds (First principal payment due December 1, 2017).	22,390,000	22,390,000
Sisters of Charity of Leavenworth Health Services Corporation Project, \$13,465,000 Series 2000K Revenue Bonds.	8,200,000	8,985,000
Woodstone Apartments Project, \$6,300,000 Series 2000L-1 Multifamily Housing Refunding Revenue Bonds (First principal payment due April 20, 2008).	6,140,000	6,260,000
Chesapeake Estates Apartments Project, \$21,500,000 Series 2000M Multifamily Housing Refunding Revenue Bonds (First principal payment due June 1, 2013).	21,500,000	21,500,000
Chimney Hills Apartments Project, \$9,575,000 Series 2000U-1 Multifamily Housing Revenue Bonds (First principal payment due December 1, 2015).	9,575,000	9,575,000
Chimney Hills Apartments Project, \$2,120,000 Series 2000U-2 Taxable Multifamily Housing Revenue Bonds.	1,385,000	1,545,000
Chimney Hills Apartments Project, \$2,925,000 Series 2000U-3 Subordinate Multifamily Housing Revenue Bonds.	2,690,000	2,735,000
Stormont-Vail HealthCare, Inc. Project, \$49,800,000 Series 2001K Health Facilities Refunding Revenue Bonds.	40,980,000	42,565,000

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8. PRIVATE ACTIVITY BONDS (CONTINUED)

	<u>2009</u>	<u>2008</u>
Oak Ridge Park II Apartments Project, \$3,650,000 Series 2001X Multifamily Housing Revenue Bonds (Single maturity due December 1, 2036).	\$ 3,650,000	\$ 3,650,000
Summit Woods Apartments Project, \$1,600,000 Series 2002G-2 Multifamily Housing Revenue Bonds.	1,570,000	1,585,000
Wichita State University Roundhouse Renaissance Athletic Facilities \$15,445,000 Series 2002D Athletic Facilities Revenue Bonds.	11,845,000	12,215,000
Intercollegiate Athletic Council of Kansas State University, \$3,495,889 Series 2002E Revenue Bonds (Capital appreciation bond with first principal payment due July 1, 2015).	4,946,849	4,700,511
Hartford, Inc., \$4,290,000 Series 2002B-1 First Mortgage Health Facility Revenue Bonds.	3,510,000	3,685,000
DLR Deer Creek Project, \$4,300,000 Series 2002O Industrial Enterprise Taxable Revenue Bonds (First principal payment due September 1, 2032).	3,620,000	3,710,000
Susan B. Allen Memorial Hospital Project, \$12,000,000 Series 2002Q Hospital Revenue Bonds.	10,200,000	10,670,000
Woodland Village, \$8,160,000 Series 2003G Multifamily Housing Revenue Bonds.	7,914,808	7,981,657
Luther Place Apartments, \$7,193,000 Series 2003F Multifamily Housing Revenue Bonds.	6,619,937	6,765,761
Martin Creek Place Project, \$5,670,000 Series 2003B Multifamily Housing Revenue Bonds.	5,160,000	5,260,000
Hays Medical Center, Inc. Project, \$16,425,000 Series 2003L Health Facilities Revenue Bonds (First principal payment due November 15, 2026).	16,425,000	16,425,000
Springhill Apartments Project, \$9,285,000 Series 2004B Multifamily Housing Revenue Bonds - Variable (First principal payment due June 1, 2040).	9,285,000	9,285,000
Adventist Health System, \$50,000,000 Series 2004C-ADV Health Facilities Revenue Bonds.	50,000,000	50,000,000
University of Kansas Athletic Corporation Refunding Revenue Bond Project, \$17,830,000 Series 2004K Refunding Revenue Bonds.	14,315,000	15,065,000
Santa Fe Trail Apartments, \$2,820,000 Series 2004L Multifamily Housing Revenue Bonds.	2,075,431	2,106,475

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

NOTES TO FINANCIAL STATEMENTS

8. PRIVATE ACTIVITY BONDS (CONTINUED)

	2009	2008
Saddlewood I Apartments, \$7,600,000 Series 2004M Multifamily Housing Revenue Bonds.	\$ 7,600,000	\$ 7,600,000
University of Kansas Center for Research, Inc. Multidisciplinary Research Building Project, \$45,625,000 Series 2005B Revenue Bonds.	40,750,000	42,435,000
Delaware Highlands Assisted Living, \$6,950,000 Series 2005C Multifamily Housing Revenue Bonds.	6,630,000	6,790,000
Spirit AeroSystems, Inc. Project, \$80,000,000 Series 2005J Taxable Revenue Bonds.	80,000,000	80,000,000
Hays Medical Center, Inc., \$22,995,000 Series 2005L Fixed Rate Health Facilities Refunding Revenue Bonds.	20,150,000	21,135,000
Hays Medical Center, Inc., \$17,950,000 Series 2005M Variable Rate Health Facilities Refunding Revenue Bonds.	16,675,000	17,050,000
Sisters of Charity of Leavenworth Health System, \$25,000,000 Series 2006C Health Facilities Revenue Bonds.	20,900,000	22,410,000
Sisters of Charity of Leavenworth Health System, \$60,000,000 Series 2006D Health Facilities Revenue Bonds.	60,000,000	60,000,000
First Kansas State Partnership Project and Refunding, \$13,200,000 Series 2006H Multifamily Housing Refunding Revenue Bonds.	13,136,399	13,200,000
Four Seasons Apartments Project, \$1,110,000 Series 2006J Multifamily Refunding Revenue Bonds.	1,110,000	1,110,000
Tree House Apartments, \$10,000,000 Series 2006K Multifamily Housing Revenue Bonds.	10,000,000	10,000,000
University of Kansas Center for Research, \$17,085,000 Series 2006G Revenue Bonds.	16,115,000	16,615,000
Olathe Good Samaritan Towers, \$6,100,000 Series 2006N Multifamily Housing Revenue Bonds.	6,008,859	6,100,000
Olathe Good Samaritan Towers, \$1,300,000 Series 2006O Multifamily Housing Revenue Bonds	--	1,300,000
Cleveland Chiropractic College, \$16,000,000 Series 2007D Education Facility Revenue Bonds.	14,650,000	14,900,000
Woodland Park Apartments at Soldier Creek, \$15,715,000 Series 2007G Multifamily Housing Revenue Bonds.	15,715,000	15,715,000

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**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

NOTES TO FINANCIAL STATEMENTS

8. PRIVATE ACTIVITY BONDS (CONTINUED)

	2009	2008
Prairie Brook Village Apartments, \$5,862,000 Series 2007J Multifamily Housing Bonds.	\$ 5,842,000	\$ 5,862,000
Fairfax Bluffs Apartments, \$17,600,000 Series 2007C Multifamily Housing Revenue Bonds.	17,600,000	17,600,000
Stormont-Vail Healthcare, Inc., \$50,050,000 Series 2007L Healthcare Facilities Refunding Revenue Bonds.	50,050,000	50,050,000
Northeast Renaissance Center Apartments, \$3,800,000 Series 2007B Multifamily Housing Revenue Bonds.	3,794,247	3,800,000
Boulevard Apartments, \$25,000,000 Series 2008B Multifamily Housing Revenue Bonds.	25,000,000	25,000,000
Stormont-Vail Healthcare, Inc., \$48,485,000 Series 2008E&F Healthcare Facilities Refunding Revenue Bonds.	47,695,000	48,485,000
University of Kansas Athletic Corporation Project, \$32,820,000 Series 2008C Athletic Facilities Revenue Bonds.	32,250,000	--
Applewood Apartments, \$992,000 Series 2008J Multifamily Housing Revenue Refunding Bonds.	992,000	--
Cessna Aircraft Company Project, \$33,110,000 Series 2008N Revenue Bonds.	33,110,000	--
Adventist Health System, \$5,000,000 Series 2009B-ADV Health Facilities Revenue Bonds.	5,000,000	--
Oak Ridge Park Phase I Apartments Project, \$5,190,000 Series 2009D Multifamily Housing Revenue Refunding Bonds.	5,190,000	--
Wichita State University Intercollegiate Athletic Association, Inc., - Eck Stadium Improvements - Phase V-A, \$1,715,000 Series 2009E Athletic Facilities Revenue Bonds.	1,715,000	--
	\$ 1,051,343,992	\$ 1,041,220,352

From the inception of the program through June 30, 2009, the Beginning Farmer Loan Program had issued \$54,727,186 in bonds.

From the inception of the program through June 30, 2009, the Hazard Analysis and Critical Control Points Program had issued \$233,550 in bonds.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

NOTES TO FINANCIAL STATEMENTS

9. PRIOR YEAR DEFEASANCE OF DEBT

In prior years, KDFA defeased certain lease revenue bonds payable by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in KDFA's financial statements. As of June 30, 2009, \$38,875,000 of bonds outstanding are considered defeased.

10. EMPLOYEES RETIREMENT SYSTEM

Employees of KDFA are eligible under certain conditions to participate in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer public employee retirement system and a defined benefit pension plan. The salaries for KDFA employees covered by KPERs for the years ended June 30, 2009 and 2008 were \$710,983 and \$661,715 and the total salaries were \$723,020 and \$690,429.

Eligible employees of KDFA are required to participate in KPERs after one year of service; however, appointed or elected officials may choose not to participate in KPERs. Benefits fully vest on reaching 10 years of service. Vested employees may choose from several retirement options. KPERs also provides death and disability benefits. Benefits are established by State statute.

Currently, covered employees are required by State statute to contribute 4% of gross salary to KPERs. The employer is required by the same statute to contribute the remaining amounts necessary to pay benefits when due. The contribution requirements for employers for 2009, 2008, and 2007 were 6.97%, 6.37%, and 5.77%, respectively. Total contributions to KPERs for KDFA employees for the years ended June 30, 2009, 2008, and 2007 were \$77,995, \$68,620, \$62,276, respectively, which consisted of \$49,556, \$42,151, and \$36,779, from KDFA and \$28,439, \$26,469, and \$25,497, from employees, respectively, equal to the statutory required contributions for each year.

11. DEFERRED COMPENSATION PLAN

The State offers a Deferred Compensation Plan (Plan), a voluntary defined contribution retirement plan, as authorized by Internal Revenue Services (IRS) Code Section 457. Salary reduction agreements are made with eligible employees whereby prescribed amounts are withheld from the employee's pay and remitted to the Trustee, ING Financial Advisors, which invests the withholdings in eligible annuity products in accordance with the investment instructions of the employees. These monies are not available to employees until termination or retirement from employment, death, or unforeseeable emergency. Any classified or unclassified employees, except those employed on an emergency, temporary, or intermittent basis, are eligible on their first day of employment to participate in the Plan. During fiscal year 2009, five employees of KDFA participated in the Plan.

All assets under this Plan are held in trust for the exclusive benefit of participants and their beneficiaries. For this purpose, an annuity contract or custodial account described in IRS Code Section 497(g) is treated as a trust.

As provided by K.S.A. 1995 Supp. 74-4911f, the President of KDFA, an appointed official, may elect not to be a member of KPERs. Upon this election, KDFA contributes to the deferred compensation Plan on the official's behalf an amount equal to 8% of the official's salary. The current President has not made this election.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

NOTES TO FINANCIAL STATEMENTS

12. OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

Description. As a component unit of the State of Kansas, KDFA participates in the State's health insurance benefit plan. Kansas statute provides that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements. The health insurance benefit generally provides the same coverage for retirees and their dependants as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Policy Authority. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. Non-Medicare participants are subsidized by KDFA, thus resulting in a liability to KDFA. At the State level, the accounting for the health insurance for retirees is included in the State's Self-Insurance Health Fund, with the subsidy provided from the Self-Insurance Health Fund.

Funding Policy. KDFA provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 12-5040). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs.

KDFA appropriates funds annually for the costs associated with this retirement benefit and provides funding for the expenditure on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. KDFA's annual OPEB (Other Post Employment Benefits) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of not to exceed thirty years. The following table presents the components of KDFA's annual OPEB cost for the year, the contribution to the plan, and changes in the State's net OPEB obligation.

Normal cost (with interest)	\$	5,176
Amortization of UAAL		2,402
Interest on amortized liability		92
Annual required contribution (ARC)		7,670
Adjustments to the (ARC)		(138)
Contributions made		--
Increase in net OPEB obligation		7,532
Net OPEB obligation July 1, 2008		8,564
Net OPEB obligation June 30, 2009	\$	16,096

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

NOTES TO FINANCIAL STATEMENTS

12. OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

Schedule of Employer Contributions (for fiscal year ended)

Fiscal Year	Annual Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2008	\$8,564	\$0	0%	\$ 8,564
2009	\$7,532	\$0	0%	\$16,096

Funded Status and Funding Progress. As of June 30, 2009, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$50,792. The KDFA's policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$50,792. The covered payroll (annual payroll of active employees covered by the plan) was \$720,176, and the ratio of the UAAL to the covered payroll was 7 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation, the projected unit credit method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. The valuation assumed annual healthcare cost trend rates of 5.5 to 10 percent in the first eighteen years and an ultimate rate of 5.0 percent after eighteen years. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results. The UAAL is being amortized over a 30 year open period in level dollar amounts.

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**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

NOTES TO FINANCIAL STATEMENTS

13. LEASES

KDFA has an operating lease ending in fiscal year 2012 for its office space. Rent expense for the years ended June 30, 2009 and 2008 was \$104,108 and \$96,243 respectively.

In 2007, KDFA entered into an equipment lease ending in fiscal year 2010. Equipment expense for the years ended June 30, 2009 and 2008 was \$4,725 and \$4,726, respectively.

Future minimum lease payments due under the non-cancelable office space and equipment operating leases are approximately as follows:

2010	\$ 98,446
2011	96,877
2012	96,877
2013	<u>24,219</u>
	<u>\$ 316,419</u>

14. RISK MANAGEMENT

KDFA is exposed to various risks of loss related to torts: professional liability, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. KDFA has not made a claim against any of the insurance policies.

KDFA has commercial insurance coverage related to miscellaneous professional liability with a limit of liability of \$10,000,000 and retention of \$200,000 deductible. KDFA also has commercial insurance coverage on personal property with a limit of \$357,000 and \$1,000 deductible, which includes coverage on electronic data processing equipment, media, and data. This policy also provides general liability coverage with a \$1,000,000 per occurrence / \$2,000,000 aggregate limit. In addition, there is a Public Officials and Employees Liability Insurance Policy with an aggregate limit of \$2,000,000 and a deductible of \$5,000. Insurance settlements have not exceeded insurance coverage for the past three fiscal years. In addition, KDFA purchased public official surety bonds for an additional coverage of \$1,500,000. KDFA also participates in the State's employee health benefit plan.

15. ARBITRAGE REBATES HELD FOR STATE AGENCIES

The investments of the proceeds of bonds issued by KDFA are subject to certain restrictions under the Internal Revenue Code, which could result in a liability for arbitrage rebate. When it becomes apparent that bonds will likely incur a material liability for arbitrage rebate, the state agencies for whom the bonds were issued are required to transfer funds for the estimated rebate liability into a rebate account. Any balance remaining in these accounts after the final rebate amount has been paid to the IRS is returned to the state agency to be used to make future debt service payments on the related bonds. As of June 30, 2009 and 2008, the balance in these state agency restricted rebate accounts was \$1,793,119 and \$1,264,878. As issuer of the bonds, KDFA is legally responsible for payment of any arbitrage rebate. However, the likelihood is not probable that KDFA will need to fund the liability; therefore, this restricted cash and the corresponding liability is not reflected on the balance sheet.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS**

NOTES TO FINANCIAL STATEMENTS

16. SUBSEQUENT EVENTS

Series 2009 M&N Revenue Bonds (State of Kansas Projects) were issued August 26, 2009. A portion of the bond proceeds were used to refund the outstanding Series 2002J bonds to convert the 2002J bonds from variable rate to fixed rate obligations.

Series 2009K-1 Revenue Bonds and 2009K-2 Taxable Revenue Bonds in the amount of \$6,140,000 were issued July 29, 2009.

Series 2009L-1 sales tax Revenue Bonds and 2009L-2 Taxable Sales Tax Revenue Bonds in the amount of \$30,500,000 were issued September 10, 2009.

**KANSAS DEVELOPMENT FINANCE AUTHORITY
A COMPONENT UNIT OF THE STATE OF KANSAS
REQUIRED SUPPLEMENTARY INFORMATION**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
6/30/2008	\$0	\$55,314	\$55,314	0%	\$682,229	8%
6/30/2009	\$0	\$50,792	\$50,792	0%	\$720,176	7%

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Kansas Development Finance Authority
Topeka, Kansas

We have audited the financial statements of the Kansas Development Finance Authority (Authority), a Component Unit of the State of Kansas, as of and for the year ended June 30, 2009 and have issued our report thereon dated September 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the authority's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and others within the entity, and is not intended to be, and should not be, used by anyone other than those specified parties.

Berberich Trahan & Co., P.A.
CERTIFIED PUBLIC ACCOUNTANTS

Allen, Gibbs & Houlik, L.C.
CERTIFIED PUBLIC ACCOUNTANTS

September 18, 2009
Wichita, Kansas

2009 Kansas Debt Study



Prepared by:  Kansas Development Finance Authority

Attachment 9
GEFO 2-11-10

Background

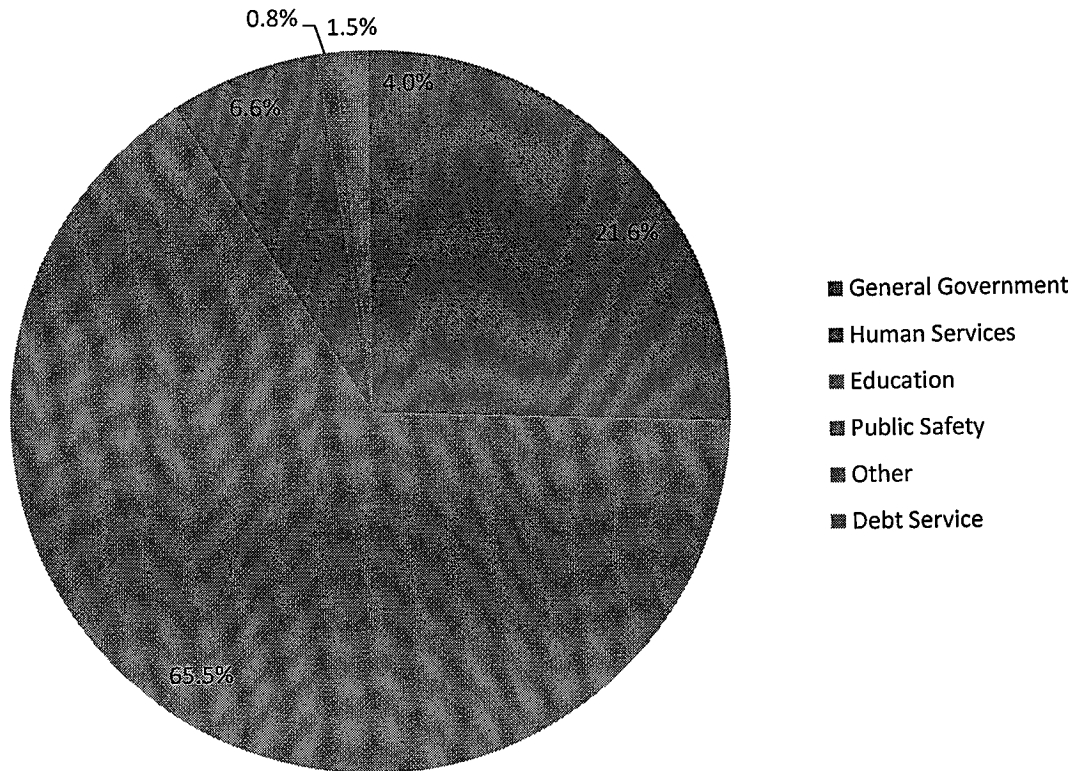
Kansas Development Finance Authority (“K DFA”) was created by the Kansas legislature as a public body politic and corporate, with corporate succession, to be an independent instrumentality of the State of Kansas. K DFA was created as an independent instrumentality, to clearly establish a separate entity from the State of Kansas for purposes of debt issuance in order that the debt may clearly be characterized as debt of the Authority, and not direct debt of the State of Kansas. The Authority’s independent public corporation status also serves to contain liability exposure related to its debt issuance and post-issuance administration practices to K DFA, and not the State of Kansas.

In early 2008, K DFA developed its first annual debt study to provide relevant data to assist policymakers in making financing decisions for the State. The purpose of this 2009 Debt Study is to give policymakers a picture of the State’s debt position on June 30, 2009. It is anticipated that this report will continue to be prepared annually such that the State’s debt trends can be monitored. Further, the report makes some projections to help policymakers understand and measure the financial impact of future debt issuance.

The information generated by this analysis is provided to: the K DFA Board of Directors; the Governor’s office; the State Budget Director; and, members of the State Finance Council. This analysis will also be posted on the K DFA website (www.kdfa.org). The information can be used by the legislature to establish priorities during the legislative appropriation process. Additionally, as the legislature considers new financing initiatives, the long-term financial impact of any proposal can be evaluated upon request. The information generated by this analysis is important for policymakers to consider because their decisions on additional borrowing affect the fiscal health of the State.

This study is not meant to be a replication of the Comprehensive Annual Financial Report’s (CAFR) Long-term Obligations section. The CAFR is prepared annually by the Division of Accounts and Reports.

State General Fund (SGF) Debt Service as a Percent of Expenditures (FY2010)



Terminology & Nomenclature

User-Fee Supported Debt is debt secured by revenues generated from the operation of the associated facilities that were financed by the debt issuance. Some examples are debt payable from parking garage fees, housing revenues, or other available revenues of the obligor. *These obligations are not secured by traditional State tax revenues or the State General Fund.* None of this debt is secured by a general obligation pledge or an annual appropriation by the Legislature of State revenues. Tabulated in Appendix page A-1.

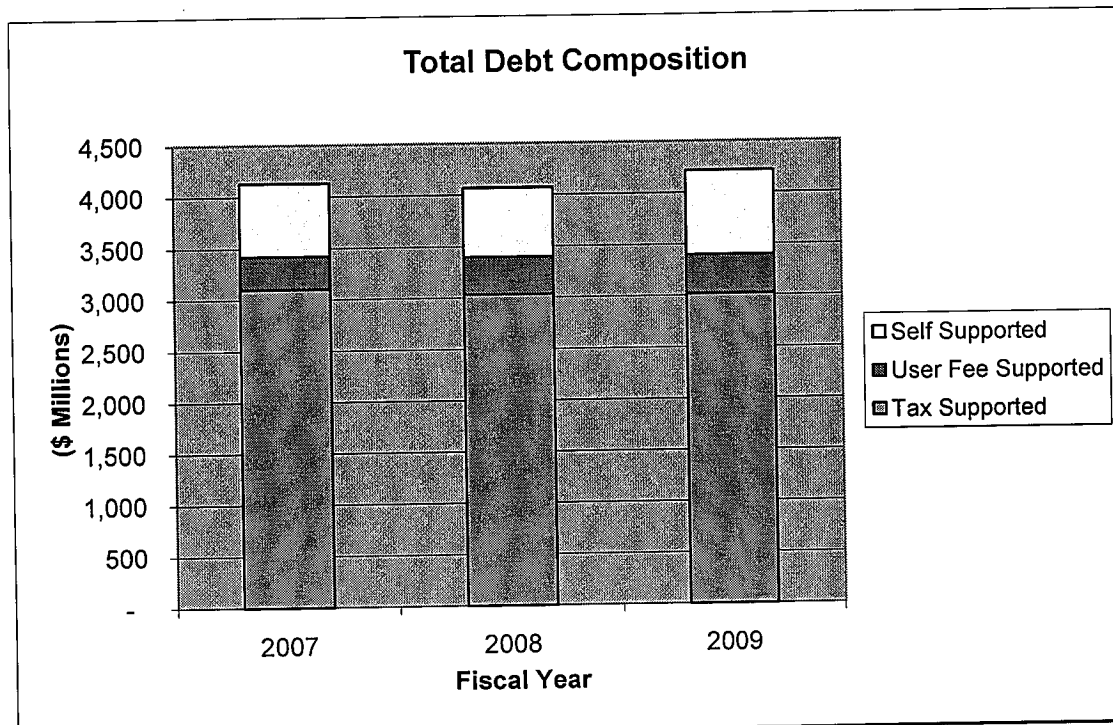
Self-Supporting Debt is the *primary obligation of a legal entity other than the State* (in most cases these entities are city and county government units in the State). None of this debt is secured by a general obligation pledge or an annual appropriation by the Legislature of State revenues. Tabulated in Appendix page A-2.

Tax-Supported Debt is debt secured by traditional State revenues typically generated through taxation. For each debt issuance a specific pledge of revenues has been made to secure the repayment of principle and interest for the bonds (e.g. Highway Fund revenues for KDOT debt). None of this debt is secured by a general obligation pledge of State revenues. A portion of this debt is secured by an annual appropriation pledge by the Legislature. Tabulated in Appendix pages A-3 through A-5.

Private Activity Bond Debt is debt which is issued on behalf of various non-governmental entities to facilitate the development of health care facilities, affordable housing facilities, manufacturing facilities, activities of 501(c)(3) facilities, and various other private activities. Private Activity Bond debt service is the **sole obligation** of the private activity borrower, and there is no recourse to the State of Kansas or any taxing subdivision thereof. The debt service is typically repaid through a pledge of the revenues generated by the financed facility or other general revenues of the private activity borrower. As such, private activity debt issued by KDFFA is not included in this report.

Debt Outstanding

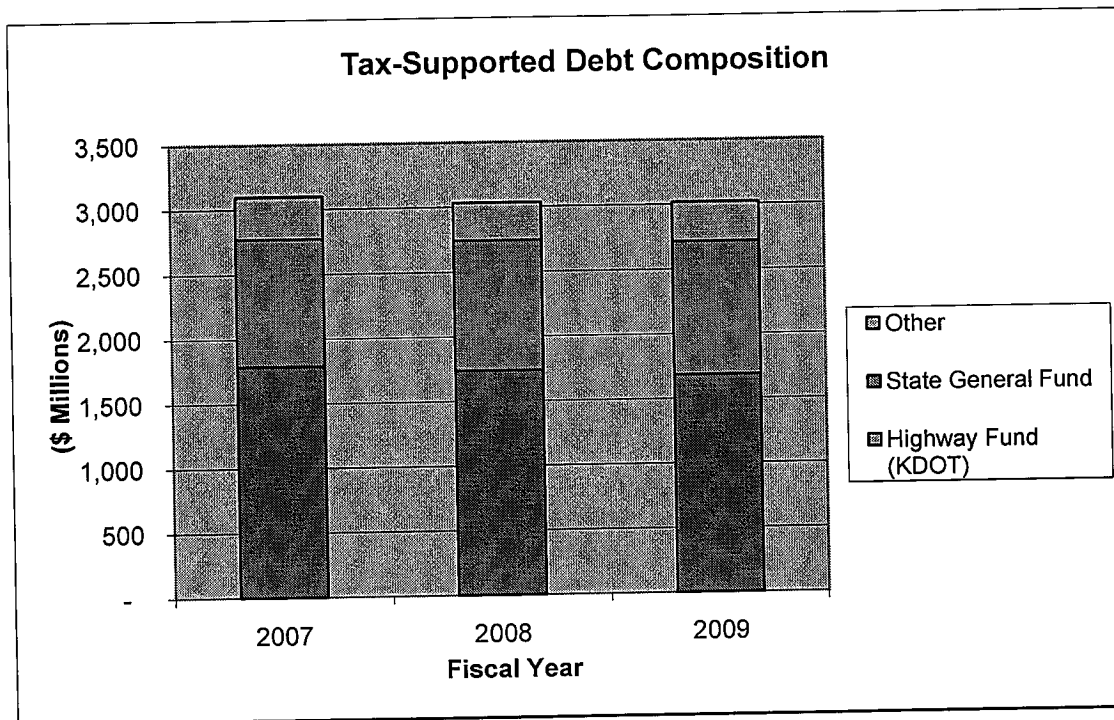
Total State debt outstanding at June 30, 2009 was \$4.217 billion approximately \$147 million MORE than at June 30, 2008. User-fee supported debt totaled \$380 million (Appendix page A-1). This represented a \$13 million INCREASE from the prior year. Additionally, self-supporting debt outstanding at June 30, 2009 was \$816 million which was \$146 million MORE than at June 30, 2008 (Appendix page A-2). Tax-supported debt totaled \$3.020 billion for financings supported by State tax revenues or tax-like revenues which was an annual DECREASE of approximately \$13 million (Appendix pages A-3 to A-5). Approximately one quarter of all debt is supported by the State General Fund (SGF).



TOTAL DEBT (\$ Millions)	Fiscal Year End					
	2007		2008		2009	
Tax Supported	3,100	75.0%	3,033	74.5%	3,020	71.6%
User Fee Supported	326	7.9%	367	9.0%	380	9.0%
Self Supported	706	17.1%	670	16.5%	816	19.4%
Total	4,132		4,070		4,217	

Tax-Supported Debt

Tax-supported debt comprises the majority of the State's debt. Further, the majority of tax-supported debt comes from the State's investment in transportation infrastructure as detailed below. Highway Fund (KDOT) debt was issued in conjunction with the State's Comprehensive Transportation Programs and is financed by motor fuel taxes, vehicle registration fees, sales taxes and federal aid reimbursements (Appendix A-5). State General Fund debt is backed by an annual appropriation pledge from the Legislature (Appendix A-4). Other Tax-Supported debt includes bonds secured by the Educational Building Fund and other Special Revenue Funds (Appendix A-3).



TAX-SUPPORTED DEBT (\$ Millions)	Fiscal Year End					
	2007		2008		2009	
State Highway Fund	1,789	57.7%	1,739	57.3%	1,686	55.8%
State General Fund	982	31.7%	1,003	33.1%	1,028	34.0%
Other	328	10.6%	292	9.6%	305	10.1%
Total	3,100		3,033		3,020	

State General Fund Debt Ratio

While there has been measurable growth in the percentage of SGF Revenues going towards debt service over the past several years, the overall percentage of SGF Revenues going towards debt service is small. The largest contributors for the growth in SGF Debt Service in recent years are from the following issuances of debt:

- 2004C Kansas Public Employees Retirement System (\$500.0M)
- Various Series of State Capitol Restoration Project (\$215.1M)
- 2006A Kansas Department of Administration – Comprehensive Transportation Program (\$209.5M)

SGF DEBT RATIO	<i>Fiscal Year</i>					
	(\$ Millions)	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010*</i>
SGF Revenue	5,394.4	5,809.0	5,694.9	5,589.0	5,301.0	5,179.0
SGF Debt Service	48.2	63.3	86.0	83.6	87.3	92.9
Debt Service as % of Revenue	0.89%	1.09%	1.51%	1.50%	1.65%	1.79%

** November 2009 Revenue Estimate*

Proposed Debt Issuance

As of June 30, 2009, approximately \$520 million of debt is expected to be issued over the next several years based on current authorizations from the State Legislature. This is approximately \$30 million less than a year ago. The most notable additions are the State's obligation to provide financing to the University of Kansas to construct and remodel the School of Pharmacy (\$30 million); continued renovation of the State Capitol (\$38 million); and, improvements to University facilities that will be financed through user fees (Housing, Research Revenue, etc.). The user fee financed facilities are not an obligation of the State General Fund.

Authorized Proposed Debt Issuance

DESCRIPTION	AUTHORIZED BY (OR REAUTHORIZED)	BALANCE AT 06/30/08	ISSUED FY 2009	AUTHORIZED IN FY 2009 (OR REAUTHORIZED)	BALANCE AT 06/30/09	ISSUED YTD FY 2010	Repayment Security
KSU Greenhouse Lab	HB2354	1,700,000		1,700,000	1,700,000		Tax - EBF
KSU Horticulture Research Center	HB2354	1,500,000		1,500,000	1,500,000		Tax - EBF
		3,200,000		3,200,000	3,200,000		TOTAL Tax - Other

DESCRIPTION	AUTHORIZED BY (OR REAUTHORIZED)	BALANCE AT 06/30/08	ISSUED FY 2009	AUTHORIZED IN FY 2009 (OR REAUTHORIZED)	BALANCE AT 06/30/09	ISSUED YTD FY 2010	Repayment Security
BOR Community College loans (PEI Loan Program)		80,000,000	20,000,000		60,000,000		SGF - Interest; Self-Supporting - Principal
Adjutant General - renovate armories	HB2482, Sec 47, pg 22	3,000,000			Lapsed		Tax - SGF
DOA - Capitol Renovations	HB 2368 Sec 171 Page 185	37,020,011	37,020,011		0		Tax - SGF
DOA - Capitol Renovations	SB 534 Sec 137(i)	38,800,000			38,800,000	38,800,000	Tax - SGF
Dept of Corrections - expand prison capacity	HB 2946 Sec 11(d)	17,825,000			Lapsed		Tax - SGF
KU Construct & Remodel School of Pharmacy	HB 2946 Sec 36(a)	20,000,000	20,000,000				Tax - SGF
KU Construct & Remodel School of Pharmacy	HB2354			30,000,000	30,000,000	30,000,000	Tax - SGF
NBAF	KSA 74-8963	105,000,000		105,000,000	105,000,000		Tax - SGF
DWP - New office space	HB2354			1,665,000	1,665,000	1,665,000	Tax - SGF
DOA - Capitol Renovations	HB2372			38,000,000	38,000,000		Tax - SGF
		308,045,011	77,020,011	181,065,000	279,865,000	70,465,000	TOTAL Tax - SGF

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DESCRIPTION	AUTHORIZED BY (OR REAUTHORIZED)	BALANCE AT 06/30/08	ISSUED FY 2009	AUTHORIZED IN FY 2009 (OR REAUTHORIZED)	BALANCE AT 06/30/09	ISSUED YTD FY 2010	Repayment Security
KSU Child Care Facility	HB2354	6,000,000		6,000,000	6,000,000	5,000,000	User-Fee
KSU Renovation of Bramlage Coliseum & Bill Snyder Family Stadium	HB2354	45,000,000		45,000,000	45,000,000		User-Fee
KSU Renovation of Bramlage Coliseum & Bill Snyder Family Stadium	HB2354	24,000,000		24,000,000	24,000,000		User-Fee
KSU Housing (JARDINE)	HB2354	38,000,000		38,000,000	38,000,000		User-Fee
PSU - Parking Improvements	HB2354	4,000,000	4,000,000	4,000,000	0		User-Fee
PSU - Student Housing	HB2354	22,000,000	12,000,000	22,000,000	10,000,000		User-Fee
PSU - Student Health Center	HB2354	3,750,000	1,500,000	3,750,000	0		User-Fee
KUMC parking facilities 4	HB2354	8,550,000		9,200,000	9,200,000		User-Fee
KUMC ambulatory care facility	SB 534 Sec 153(f)	66,000,000			Lapsed		User-Fee
KUMC Remodel Clinical Research Center	HB2354			25,000,000	25,000,000		User-Fee
KUMC Renovate Hixon/Wahl Lab	HB2354			34,000,000	34,000,000		User-Fee
KU Renovation of Jayhawk Towers - Phase 1	HB2354	8,100,000	5,000,000	6,000,000	1,000,000		User-Fee
KU Renovation of Jayhawk Towers - Phase 2	HB2354			6,950,000	6,950,000		User-Fee
KU Renovation of Pearson Hall	HB2354	13,075,000		13,075,000	13,075,000		User-Fee
KU Construct Bldg #4 - Edwards Campus	HB2354			24,950,000	24,950,000		User-Fee
		238,475,000	22,500,000	261,925,000	237,175,000	5,000,000	TOTAL User-Fee
		549,720,011	99,520,011	446,190,000	520,240,000	75,465,000	GRAND TOTAL

This table does not take into account future plans for any other planned capital expenditure that has not already been authorized by the Legislature to be financed through debt issuance.

The projects identified in the table above are authorized to be financed through debt issuance. Certain projects may have already been financed, and the authorization represents unissued debt which may be issued, if necessary, to complete the project, or may contain remainder authorization that ultimately will not be needed or issued. In some instances, the agencies elect to pursue a different course, and debt may never be issued for an authorized project.

As indicated by the sum total of the second to last column, \$75.465 million of the outstanding authorizations at the end of Fiscal Year 2009 had been issued in the first half of Fiscal Year 2010.

The estimated additional burden on the SGF in Fiscal Year 2011 from debt service if all of the SGF backed authorized debt was issued in Fiscal Year 2010 would be \$17.8 million which is about 0.3% of estimated Fiscal Year 2011 SGF revenue. This value was estimated using 20 year level debt service and an interest rate of 5% for the SGF authorizations indicated above except for the PEI Loan Program. For the PEI Loan Program, only \$20 million of the remaining \$60 million can be issued in Fiscal Year 2010; the program amortizes its debt over eight years; and, the SGF is only responsible for the repayment of interest.

Surrounding State Comparison

In July 2009, Moody's Investor Services published a report titled "State Debt Medians". With this report Moody's calculates a handful of debt ratios for all fifty states and tabulates the results listing all the states in order for the various ratios. In the 2009 report the following data can be found for Kansas and surrounding states for comparison:

State	Net Tax-Supported Debt ⁽¹⁾ Per Capita	Rank	Net Tax-Supported Debt as a % of 2007 Personal Income	Rank	Moody's Rating
Kansas	\$1,164	17 (up 1)	3.2%	19 (down 1)	Aa1 ⁽²⁾
Oklahoma	\$511	39	1.5%	37	Aa3
Colorado	\$340	45	0.8%	45	NGO ⁽³⁾
Nebraska	\$17	50	0.0%	50	NGO ⁽³⁾
Iowa	\$79	49	0.2%	48	Aa1 ⁽²⁾
Missouri	\$670	35	2.0%	33	Aaa
Surrounding Average	\$464		1.3%		
US Average	\$1,195		3.1%		

Notes: (1) Moody's defines Net Tax-Supported Debt to include some User-Fee Supported Debt. In the case for Kansas, this figure includes SGF backed debt, all other Tax-Supported debt including KDOT debt, and the majority of User-Fee Supported Debt. A similar S&P's study yields consistent results
 (2) Issuer Credit Rating
 (3) No General Obligation Rating

While Kansas's ratios are measurably higher than the surrounding state group's, *it is important to note that Moody's rating, which is an "all in" measure of a state's ability and willingness to pay its obligations on time, is consistent with the surrounding state group.* Further, different states make different financing choices which leads to variations in the level of services provided by the state and the condition of the state's infrastructure.

Kansas's ability and cost to using debt as a financing tool is determined by our credit rating not by the ranking in this study. In fact, while Oklahoma's per capita rankings are much lower than Kansas', their credit rating is two notches lower. Further, Iowa's per capita rankings are near the bottom of the rankings but has the same credit rating as Kansas.

Review of Credit Ratings

Credit ratings are the rating agencies' assessments of a governmental entity's ability and willingness to repay debt on a timely basis. Credit ratings are an important indicator in the credit markets and influence interest rates a borrower must pay. Each of the rating agencies believe that debt management generally, and this debt report in particular, are positive factors in assigning credit ratings.

Kansas is a strong credit as reflected in our AA+ and Aa1 ratings from S&P and Moody's respectively. There are several factors which rating agencies analyze in assigning credit ratings: financial factors, economic factors, debt factors, and administrative / management factors. Weakness in one area may well be offset by strength in another. However, significant variations in any single factor can influence a bond rating.

The outlook for the State's credit rating is stable. The rating agencies note that the State's debt burden has increased in recent years. However, the debt burden is still considered low to moderate at the current level. Positive factors listed in the rating reports include: strong management; low liability for other post-employment benefits; relatively diverse economic base; and, historically conservative fiscal management. However, challenges to the State's rating are presented by: spending pressures and revenue slowdown; use of non-recurring fiscal measures; and, suspension of the statutory reserve requirement.

Both Moody's and S&P most recent rating reports are as of August 2009. Since then the State's revenue and budget forecasts have continued to decline. All the major rating agencies have taken some rating actions against states or municipalities that have been more profoundly affected by our current economic cycle. Since Kansas is also experiencing these economic cycles it is certainly possible that S&P or Moody's could take rating actions against the State of Kansas.

User-Fee Supported Debt

Source of Repayment: revenues generated from the operation of the associated facilities that were financed by the debt issuance. These obligations are not secured by traditional State tax revenues. None of this debt is secured by a general obligation pledge or an annual appropriation by the Legislature of State revenues.

Series	Title	Balance 6/30/09
E, 1989	Kansas Board of Regents - Emporia State University Memorial Union Renovation Project	131,000
K, 1995	Kansas Board of Regents - Kansas State University Farrell Library Expansion Project	2,020,000
1997C	Kansas Board of Regents - University of Kansas Regents Center Refunding Project	550,000
1998B	Kansas Board of Regents - Kansas State University Student Union Renovation and Expansion Project	5,690,000
1998D	Kansas Board of Regents - University of Kansas Housing System Renovation Project - Lewis Hall Project	3,100,000
1998E	Kansas Board of Regents - Pittsburg State University Housing System Renovation Project - Willard Hall Project	3,715,000
1998H	Kansas Board of Regents - University of Kansas Continuing Education Building Purchase Project	930,000
1998P	Kansas Board of Regents - Pittsburg State University Horace Mann Administration Building Renovation Project	2,410,000
1999B	Kansas Board of Regents - University of Kansas Medical Center - Center for Health in Aging Project	1,920,000
1999C	Kansas Board of Regents - University of Kansas Child Care Facility Construction Project	2,045,000
1999D	Kansas Board of Regents - University of Kansas Parking Garage #2 Construction Project	4,310,000
2000B	Kansas Board of Regents - Wichita State University Parking System Project	3,095,000
2000D	Kansas Board of Regents - Kansas State University Ackert Hall Addition Project	935,000
2001B	Kansas Board of Regents - Emporia State University Student Recreation Facility Project	1,985,000
2001G-1	Kansas Board of Regents - Kansas State University - Salina, College of Technology Housing System Project	420,000
2001G-2	Kansas Board of Regents - Kansas State University Recreation Complex Expansion Project	2,925,000
2001G-3	Kansas Board of Regents - Emporia State University - Residence Hall Project	-
2001G-4	Kansas Board of Regents - University of Kansas Lawrence Campus Parking Facilities Project	-
2001T-1	Kansas Board of Regents - University of Kansas Bioscience Research Center Project	4,370,000
2001T-2	Kansas Board of Regents - University of Kansas Student Union Renovation Project	1,775,000
2002A-1	Kansas Board of Regents - University of Kansas Housing System Renovation Project- Ellsworth Hall	9,740,000
2002A-2	Kansas Board of Regents - University of Kansas Student Recreation and Fitness Center Project	9,280,000
2002K	Kansas Board of Regents - University of Kansas Edwards Campus Project	5,120,000
2002P	Kansas Board of Regents - Wichita State University Housing System Renovation Project	9,235,000
2003A	Kansas Board of Regents - Pittsburg State University Overman Student Center Renovation Project	2,055,000
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - \$72,670,000	-
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - KSU Food Safety	20,172,795
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - KUMC Biomedical Research	30,809,861
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - KU Biosciences Research	1,125,000
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU Engineering Complex	1,677,871
2003D-1	Kansas Board of Regents - Fort Hays State University Housing System Refunding & Renovation Project (refunds 1994E)	4,435,000
2003D-2	Kansas Board of Regents - Fort Hays State University Housing System Lewis Field Stadium Renovation Project (refunds 1993C)	790,000
2003J	State of Kansas Projects - \$40,235,000	-
2003J-1	Kansas Board of Regents - Energy Conservation Projects - KUMC	11,085,000
2003J-1	Kansas Board of Regents - Energy Conservation Projects - KSU	17,310,000
2004D	Kansas Board of Regents Pittsburg State University Housing System Renovation Project - Bonita Terrace Apartments	1,055,000
2005A	Kansas State University Housing System, Manhattan Campus - Jardine	41,935,000
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Phase II - \$66,530,000	-
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - KSU	14,224,579
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - KUMC	15,195,833
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Aviation Research Facility	-
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU	7,661,430
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - PSU	2,481,648
2005E-1	Kansas Board of Regents - University of Kansas Housing System Refunding	14,965,000
2005E-2	Kansas Board of Regents - University of Kansas Medical Center - Parking Garage #3	2,955,000
2005F	Kansas Board of Regents - Emporia State University Towers Residential Complex Imprvmt. Proj.	8,580,000
2005G-1	Kansas Board of Regents - Fort Hays State University Memorial Union Renov.-(Tax-Exempt)	7,205,000
2005G-2	Kansas Board of Regents - Fort Hays State University Memorial Union Renov.-(Taxable)	-
2006B	Kansas Board of Regents - KU Parking Facilities Proj.	9,650,000
2007A	Kansas Board of Regents - Kansas State University Housing System, Manhattan Campus Project, Jardine Apartments	26,855,000
2007E	Kansas Board of Regents - University of Kansas Student Recreation Center	5,855,000
2007H	Kansas Board of Regents - Kansas State University Parking System	17,520,000
2007M	Kansas Law Enforcement Training Center	17,550,000
2008D	Kansas Board of Regents - Kansas State University Salina Campus Project	1,600,000
2009G	Kansas Board of Regents - Pittsburg State University Student Health System	825,000
2009H	Kansas Board of Regents - Pittsburg State University Housing System	14,630,000
2009J	Kansas Board of Regents - Pittsburg State University Parking System	4,545,000
	total	380,450,017

Note: Series 2003C and 2005D are hybrid credits in that debt service for the bonds is secured partially by appropriations from the SGF and partially by university research revenue. The pro rata portion of the debt that is the responsibility of the universities' research revenues is presented on this table. The pro rata portion of the debt that is the responsibility of the SGF is presented on the Tax-Supported Debt - State General Fund Table.

Self-Supporting Debt

Source of Repayment: Loan agreements with city and county governments in the State. None of this debt is secured by a general obligation pledge or an annual appropriation by the Legislature of State revenues.

Series	Title	Balance 6/30/09
1997 Series 1	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund State Match Bonds	820,000
1997 Series 2	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund Leveraged Bonds	12,005,000
1998 Series 1	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund State Match Bonds	1,050,000
1998 Series 2	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund Leveraged Bonds	12,055,000
1998 Series II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund Leveraged Bonds	26,710,000
2000 Series I	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund State Match Bonds	1,220,000
2000 Series II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund Leveraged Bonds	7,020,000
2000 Series 1	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund State Match Bonds	585,000
2000 Series 2	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund Leveraged Bonds	16,685,000
2001 Series I	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund State Match Bonds	7,555,000
2001 Series II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund Leveraged Bonds	108,345,000
2002 Series 1	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund State Match Bonds	3,375,000
2002 Series 2	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund Leveraged Bonds	19,425,000
2002 Series II	Kansas Department of Health and Environment - Water Pollution Control Revenue Bonds	55,370,000
2004 Series I	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund State Match Bonds	1,000,000
2004 Series II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund Leveraged Bonds	42,950,000
2004 Series II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund Refunding	2,190,000
2004 Series 2	KDHE Drinking Water - Leveraged	86,810,000
2004 Series 2	KDHE Drinking Water - Leveraged Refunding	67,540,000
2004 Series 1	KDHE Drinking Water - State Match Refunding	6,080,000
2005 CW-I	KDHE Clean Water - State Match I (New & Refunding)	3,850,000
2005 CW-II	KDHE Clean Water - Leveraged II (New & Refunding)	99,605,000
2005 TR	Kansas Dept. of Transportation Revolving Loan Fund	28,455,000
2006 TR	Kansas Dept. of Transportation Revolving Loan Fund	21,595,000
2008A	KBOR - Post Secondary Educational Institutional Loan Program	17,500,000
2008G	KDOT Communication System Lease Program	12,757,600
2008DW	KDHE - Public Water Supply Revolving Loan Fund	36,445,000
2008CW	KDHE - Water Pollution Control Revolving Loan Fund	66,545,000
2009C	KBOR - Post Secondary Educational Institutional Loan Program	20,000,000
2009 TR	Kansas Dept. of Transportation Revolving Loan Fund	30,950,000
	total	816,492,600

Tax-Supported Debt		
Other		
Source of Repayment: Specific revenue fund OTHER THAN the State General Fund (SGF).		
Series	Title	Balance 6/30/09
1998L	Memorial Hall	3,480,000
1999N	DOA 7th & Harrison (partially refunded by 2002J)	350,000
1997G-1	Kansas Board of Regents - Comprehensive Rehabilitation and Repair Project	1,062,161
2001D	JJA Larned and Topeka Juvenile Correctional Facilities	34,975,000
2001F	Kansas Board of Regents - Comprehensive Rehabilitation and Repair Project	9,195,000
2001J	JJA Juvenile Correctional Facilities (Refunds 1992H)	1,760,000
2001M	Kansas Department of Commerce and Housing - IMPACT Program Project	8,075,000
2001W	Series 2001W State of Kansas Projects: (49,865,000.00)	
2001W-1	HR Acquisition & Renovation	905,000
2001W-2	KDHE Vital Statistics	800,000
2002H	DHR Acquisition & Renovation Project - 1430 Building (legally changed to DOL)	2,715,000
2002J	DOA 7th & Harrison State Office Project (Partially refunds 1999N)	29,595,000
2002N-1	SRS Larned State Hospital	38,815,000
2002N-2	KHP Fleet Operations Project	2,665,000
2004A	State of Kansas Projects - \$50,730,000	
2004A-1	Dept of Social and Rehabilitation Services - Renovation & Repairs	27,500,000
2004A-3	Kansas Highway Patrol - Facility Acquisition Project	265,000
2004F	Kansas Board of Regents-Comprehensive Rehab & Renov - \$44,860,000	
2004F	Comp Rehab & Renov - Crumbling Classrooms	500,000
2004F	Comp Rehab & Renov - 1997G-1 Refunding	10,325,000
2004F	Comp Rehab & Renov - 1997G-2 Refunding	20,690,000
2005H	State of Kansas Projects - \$88,175,000	
2005H-2	Dept. of Human Resources (DOL) - Unemployment Benefit System	15,525,000
2005N	Kansas Dept. of Commerce-IMPACT Program Proj.	17,750,000
2007F	Kansas Department of Commerce - IMPACT Program Project	28,945,000
2009F	Kansas Department of Commerce - IMPACT Program Project	49,425,000
	total	305,317,161

Tax-Supported Debt		
State General Fund		
Source of Repayment: State General Fund (SGF)		
Series	Title	Balance 6/30/09
1996J	Energy	70,000
1999A-1	DOC El Dorado and Larned	7,250,000
1999A-2	DOC Ellsworth and Labette	150,000
1999H	DOC El Dorado Reception	2,375,000
2000V	DOA State Capitol Restoration Project, Phase I-A	2,175,000
2001L	DOA (PBC Digital Conversion) Redeems 2001C	4,215,000
2001O	DOA State Building Renovation Projects	6,800,000
2001W	Series 2001W State of Kansas Projects: (49,865,000.00)	
2001W-3	Kansas Fairgrounds Renovation	13,485,000
2001W-4	DOA Judicial Center Improvements	660,000
2001W-5	DOA State Capitol Restoration	20,965,000
2002C	DOA State Capitol Parking	12,090,000
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - \$72,670,000	
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - KSU Food Safety	2,312,205
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - KUMC Biomedical Research	5,290,139
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - KU Biosciences Research	
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - Aviation Research Facility	1,280,000
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU Engineering Complex	627,129
2003H	Kansas Public Employees Retirement System - KPERs 13th Check Group	14,190,000
2003H	Kansas Public Employees Retirement System - TIAA Group - Board of Regents and KU Hospital Authority	7,985,000
2004A	State of Kansas Projects - \$50,730,000	
2004A-2	Kansas State Fairgrounds - Renovation Project	9,040,000
2004C	Kansas Public Employees Retirement System	489,930,000
2004G-1	DOA Capitol Restoration Project - Phase II	15,885,000
2004G-2	Dept of Admin Refunding Revenue Bond Project (KBI)	300,000
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Phase II - \$66,530,000	
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - KSU	1,630,421
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - KUMC	2,609,167
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Aviation Research Facility	6,075,000
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU	2,863,570
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - PSU	518,352
2005H	State of Kansas Projects - \$88,175,000	
2005H-1	Dept. of Admin. - Capitol Restoration Phase III	27,250,000
2005H-1	Dept. of Admin. - Refunding Capitol Restoration (2000V)	7,180,000
2005H-3	Adjutant General - Refunding Armories Reonv.-BAN	5,440,000
2005H-3	Adjutant General - Refunding Armories Reonv. Phase II (2000T)	1,135,000
2005H-3	Adjutant General - Refunding Armories Reonv. Phase II (2001W-6)	1,215,000
2005H-3	Adjutant General - Refunding Armories Reonv. Phase III (2003J-2)	4,610,000
2005H-3	Adjutant General - Refunding Armories Reonv. Phase IV (2004A-4)	4,690,000
2005H-4	Dept. of Admin. - Public Broadcasting Council	1,540,000
2005H-5	Dept. of Corrections - Refunding El-Dorado Facility (1999H)	10,155,000
2006A	Kansas Dept. of Administration - Comprehensive Transportation Program (Reimbursement)	195,745,000
2006L	State of Kansas Projects - \$13,210,000	
2006L-1	Dept. of Admin - Capitol Restoration Phase IV	6,640,000
2006L-2	Kansas Board of Regents - Pittsburg State University Joint Armory Proj	3,905,000
2006L-3	Adjutant General - Pittsburg State Armory Project	1,410,000
2007K	State of Kansas Projects	
2007K-1	Dept. of Admin. - Capitol Restoration Phase V	26,635,000
2007K-2A	Adjutant General - Training Center	8,880,000
2007K-2B	Adjutant General - Refunding Armories Reonv.-BAN	3,075,000
2007K-3	Dept. of Corrections - Renovations	18,985,000
2008L	State of Kansas Projects	
2008L-1	Dept. of Admin. - Capitol Restoration Phase VI	38,995,000
2008L-2	Adjutant General - Refunding Armories Reonv.-BAN	3,195,000
2008L-3	Dept. of Corrections - Refunding BAN	1,075,000
2008L-4	KU School of Pharmacy	21,070,000
2009A&B	State General Fund - Debt Restructure	4,340,000
	total	1,027,935,983

Note: Series 2003C and 2005D are hybrid credits in that debt service for the bonds is secured partially by appropriations from the SGF and partially by university research revenue. The pro rata portion of the debt that is the responsibility of the SGF is presented on this table. The pro rata portion of the debt that is the responsibility of the universities' research revenue is presented on the User-Fee Supported Table.

Tax-Supported Debt		
Highway Fund (KDOT)		
Source of Repayment: motor fuel taxes, vehicle registration fees, sales taxes and federal aid reimbursements.		
Series	Title	Balance 6/30/09
1998	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	46,670,000
2000 B & C	State of Kansas - Department of Transportation - Adjustable Tender Highway Revenue Bonds	200,000,000
2002 A	State of Kansas - Department of Transportation - Adjustable Tender Highway Revenue Bonds	55,915,000
2002 B & C	State of Kansas - Department of Transportation - Highway Revenue Bonds	320,005,000
2002 D	State of Kansas - Department of Transportation - Adjustable Tender Highway Revenue Bonds	67,840,000
2003 A & B	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	248,190,000
2004 A	State of Kansas - Department of Transportation - Highway Revenue Bonds	250,000,000
2004 B	State of Kansas - Department of Transportation - Adjustable Tender Highway Revenue Bonds	200,000,000
2004 C	State of Kansas - Department of Transportation - Adjustable Tender Highway Revenue Bonds	147,000,000
2008 A	State of Kansas - Department of Transportation - Highway Revenue Bonds	150,870,000
	total	1,686,490,000