

MINUTES OF THE HOUSE FEDERAL AND STATE AFFAIRS COMMITTEE

The meeting was called to order by Chairman Melvin Neufeld at 1:30 p.m. on February 25, 2009, in Room 143-N of the Capitol.

All members were present except:

Representative Mike Peterson- excused

Committee staff present:

Jason Long, Office of the Revisor of Statutes

Conferees appearing before the committee:

Steve Weatherford, President , Kansas Development Finance Authority

Gary Allsup, Kansas Housing Resources Corporation

Others attending:

See attached list.

Attachments:

Steve Weatherford, President , Kansas Development Finance Authority (Attachment 1)

Gary Allsup, Executive Director, Kansas Housing Resources Corporation (Attachment 2)

Representative Olson moved for the approval of the minutes of February 16 and 17, 2009. Motion was seconded by Representative Loganbill. Motion carried.

Steve Weatherford, President of Kansas Development Finance Authority, explained the history, purpose, and responsibilities of the KDFA (Attachment 1). He described it as being a separate entity 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.

KDFA is the State's only multi-purpose, State-level 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. KDFA receives no State appropriation for operations and is entirely fee funded. KDFA's Issuer Fee is a declining percentage of the ultimate transaction size. Also included in his testimony were financial statements for years ended June 30, 2008 and 2007 and an independent auditor's report.

Gary Allsup, Executive Director of Kansas Housing Resources Corporation, gave the history, a review of the fiscal operations, their existing programs (Attachment 2). He also explained the positive impact of Federal stimulus dollars on the home weatherization, rental housing development gap financing, and emergency shelter programs. Also included in the testimony were financial statements for the years ended June 30, 2007 and 2008, and an independent auditor's report.

The Committee questioned KDFA's authority and reasoning for refinancing part of the \$500 million KPERS bond. Mr. Weatherford stated that during the budgetary process the Budget Director had requested cash relief in FY 2009 due to the shortfall in the State General Fund. They were asked to list all the bonds which were being debt serviced by SGF in 2009 and 2010. The KPERS bonds are a large part of this debt service. KDFA was informed by Legislative Research that prior to issuance or refunding of bonds, the State Finance Council must give prior approval for either transaction. This was an oversight due to miscommunication between KDFA and the bond counsel. After the State finance council approved a reduction which would only be a budgetary relief of \$4 million for SGF rather than the \$14M requested. No fees will be charged by KDFA nor will there be refunding fees when the bonds were pulled and changed from short-term to long-term. There will be extra interest costs due to this major change. There would have been a budgetary relief of \$53M for FY 2009 and 2010 for the State General Fund by issuing the bonds. However, this would have ended up costing the state approximately \$65M of additional interest due to the extension of the bonds by at least ten years.

The Governor does not sweep excess funds from KDFA due to legal ramifications as it is considered a separate entity. By doing so, the State's liability would be increased and the bonds that are outstanding could be declared taxable. There are currently 11 employees with KDFA and 46 with KHRC with an expected

CONTINUATION SHEET

Minutes of the House Federal And State Affairs Committee at 1:30 p.m. on February 26, 2009, in Room 143-N of the Capitol.

increase due to the stimulus package.

Mr. Allsup reported that their biggest problem in housing shortages was for workforce type housing. The federal programs focus on elderly and low-income housing. The \$11.5M available in the trust fund and other funds allows the corporation to donate any excess to programs not covered by federal monies.

The next meeting is scheduled for February 26, 2009.

The meeting was adjourned at 2:50 p.m.





**TESTIMONY BEFORE THE HOUSE FEDERAL AND STATE AFFAIRS COMMITTEE**  
**Steve Weatherford, President**  
**Kansas Development Finance Authority**  
**February 25, 2009**

**Kansas Development Finance Authority: A Statewide Multipurpose Conduit Issuer**

Kansas Development Finance Authority ("KDFA") 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. KDFA was created as an independent instrumentality and public corporation, 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 practices to KDFA, and not the State of Kansas.

The KDFA 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 KDFA, to, in accordance with the KDFA Act, organize the then Division of Housing formerly a part of the Department of Commerce and Housing. KDFA created Kansas Housing Resources Corporation which now serves as the State's primary housing administrative and services entity.

KDFA is the State's only multi-purpose, State-level 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. KDFA 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. KDFA 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.

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 more extensive federal tax and securities law requirements and post issuance compliance standards now applicable. In recent years, both the IRS and SEC have significantly stepped up their tax-exempt bond audits and other compliance monitoring efforts. Tax-exempt debt issuance is, effectively, a subsidy by the federal government whereby in order to allow state and local governments to finance infrastructure and other governmental purpose capital improvement projects, the government forgoes the taxation of interest earnings on municipal bonds.

KDFA is pleased to report that the IRS has examined three of its bond issues over the last few years, and given the issues clean audits.

House Fed & State Affairs

Date: 2/25/09

Attachment 1

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; establish post-issuance administrative processes and resources; and, undertake successful long term bond administration.

Structuring and administering efficient bond issues in compliance with State and Federal law is K DFA's full time mission.

#### K DFA Responsibilities:

- K DFA 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 the most efficient finance structures, and to run initial amortization schedules.
- K DFA 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 K DFA and its client borrowers to identify and comply with all applicable laws, and to develop and market the most optimal finance structures for proposed transactions.
- K DFA engages and works with leading public finance officials within and outside our region, including the 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.,
- K DFA has developed a strong working understanding of the unique strengths and capabilities of the many various public finance service providers.
- K DFA works with and provides information to the Governor, the Division of Budget and the Kansas Legislature to manage the State's debt issuance and post-debt issuance processes. K DFA 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 comprehensive annual financial information.
- K DFA 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. K DFA 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.
- K DFA 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.

*KU Hospital - can issue its own bonds*  
*KDOT*

- 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 revolving loan fund programs. (These program bonds are not an obligation of the State).
- 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 for operations 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 assisting State Agencies and overseeing the post-issuance compliance process through the ultimate retirement of the bonds or other debt obligations. 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. These services 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 bankers; 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 more favorable rates due to the consolidation of transactions 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.



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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

AND

INDEPENDENT AUDITORS' REPORT

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

AND

INDEPENDENT AUDITORS' REPORT



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

**FINANCIAL STATEMENTS**

Years Ended June 30, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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 October 14, 2008, 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.*

CERTIFIED PUBLIC ACCOUNTANTS

*Allen, Gibbs & Houlik, L.C.*

CERTIFIED PUBLIC ACCOUNTANTS

October 14, 2008  
Wichita, Kansas

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Years Ended June 30, 2008 and 2007

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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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 \$521,914 from the previous year.
- During the year, KDFA's revenues exceeded expenses by \$521,914. KDFA had expenses of \$1,277,457 in 2008, compared to \$1,279,968 for 2007, and revenues of \$1,799,371 and \$1,690,470 for those same years.
- Revenues received but not earned (unearned revenues) decreased by \$27,836 to \$2,431,676 during fiscal 2008.

**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.

(Continued)

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Years Ended June 30, 2008 and 2007

	In Thousands of Dollars			Increase (Decrease)	
	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
	2008	2007	2006	2007	2006
Current and other assets	\$ 8,763	\$ 8,260	\$ 7,826	\$ 503	\$ 434
Capital assets	25	23	53	2	(30)
<b>Total assets</b>	<u>8,788</u>	<u>8,283</u>	<u>7,879</u>	<u>505</u>	<u>404</u>
Long-term liabilities	2,117	2,124	2,146	(7)	(22)
Other liabilities	418	428	413	(10)	15
<b>Total liabilities</b>	<u>2,535</u>	<u>2,552</u>	<u>2,559</u>	<u>(17)</u>	<u>(7)</u>
<b>Total net assets</b>	<u>\$ 6,253</u>	<u>\$ 5,731</u>	<u>\$ 5,320</u>	<u>\$ 522</u>	<u>\$ 411</u>
Operating revenues	\$ 1,431	\$ 1,347	\$ 1,854	\$ 84	\$ (507)
Non-operating revenues	368	344	249	24	95
<b>Total revenues</b>	<u>1,799</u>	<u>1,691</u>	<u>2,103</u>	<u>108</u>	<u>(412)</u>
<b>Total expenses</b>	<u>1,277</u>	<u>1,280</u>	<u>1,324</u>	<u>(3)</u>	<u>(44)</u>
<b>Excess of revenues over expenses</b>	<u>\$ 522</u>	<u>\$ 411</u>	<u>\$ 779</u>	<u>\$ 111</u>	<u>\$ (368)</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 2008 and 2007, approximately \$262 million and \$193 million were issued in bonds each year, respectively. The decrease in liabilities from fiscal year 2007 is largely a result of a decrease in lease revenue bonds payable.

**Change in net assets:** The majority of KDFFA's revenue comes from issuance fees and annual fees, which produce over 90% of KDFFA's operating revenues. From 2008 to 2007 the amount of revenues from KDFFA's issuance fee increased to \$519,756 from \$451,292. Additionally, from 2008 to 2007 the amount of revenues from KDFFA's annual fee increased to \$883,588 from \$856,497. The increase in issuance fees results from the increase in number of bond issues completed in 2008. 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 increase in interest income is a result of more funds being placed in investments.

Overall expenses decreased attributable to a number of factors, including a reduction in professional services and insurance premiums. Depreciation also decreased due to lease improvements being fully depreciated in September 2007. Line item increases include office rent expense. The rent was adjusted at the end of the six year lease per the agreement. Beginning in fiscal year 2008, the annual OPEB cost was included as an operating expense.

(Continued)

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Years Ended June 30, 2008 and 2007

**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 continues to create favorable economic conditions for tax-exempt borrowings. K DFA has taken significant advantage of these rates to finance or refinance numerous projects on favorable terms on behalf of the State of Kansas and other public and private entities.

The 2008 legislature's omnibus appropriation bill continues the trend of authorizing multiple projects eligible for K DFA financing on behalf of various State entities. K DFA also 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 \$38,800,000 in authorized bonds.

Other significant new authorizations include \$8,100,000 in bonds to finance renovations to Jayhawk Towers residence halls and another \$20,000,000 to finance University of Kansas Pharmacy School improvements. Kansas State University has continuing authority to construct student housing, as well as authority to seek the issuance of up to \$6,000,000 in bonds to finance a new child care facility. Pittsburg State University was authorized to seek K DFA Bond financing up to \$29,750,000 for various campus facilities. The 2008 legislature also authorized \$19,525,000 to construct certain new Department of Corrections facilities as may be requested by the Secretary of Corrections and Secretary of Administration.

K DFA anticipates issuing bonds every 30-36 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 \$36,000,000 in the fall of 2008 for the Drinking Water Program.

In August 2005, K DFA closed the first issue of bonds to implement and finance the new Transportation Revolving Loan Fund Program. K DFA 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. K DFA issued the second series of bonds for this program in December of 2006 in the amount of \$24,755,000 and anticipates another issue in the approximate amount of \$30 million before the end of fiscal year 2009 to continue this popular new program.

K DFA also continues to serve various private activity borrowers, especially in the multifamily housing and health care arenas. K DFA is pleased to have just facilitated another revenue and refunding revenue bond financing for Stormont Vail by issuing \$48,485,000 in bonds in April 2008.

(Continued)



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

Years Ended June 30, 2008 and 2007

KDFA anticipates issuing approximately \$75,000,000 on behalf of Adventist Health System in December 2008.

The 2008 Kansas Legislature also revived the Economic Revitalization and Reinvestment Act, as amended and supplemented to include authorization of the issuance of bonds or other debt obligations on behalf of certain eligible aviation businesses. KDFA anticipates issuing bonds under the authorization in the amount of \$33,000,000 on behalf of Cessna Aircraft Company in November, 2008.

KDFA met with officials with Standard & Poor's ratings group in July 2008. Representatives of KDFA and the State Budget Director were pleased to discuss a mostly stable revenue situation for the State, and noted that the State was able to close out fiscal year 2008 with ending balance reserves in excess of the 7.5% statutory ending balance requirement. KDFA is pleased to note that 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.

**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, 2008 and 2007

**ASSETS**

	2008	2007
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 553,544	\$ 3,439,693
Investments	5,777,346	2,677,423
Investments, restricted	323,431	335,102
Investment interest receivable	53,898	34,918
Accounts receivable	134,464	77,322
Prepaid expenses	71,056	66,872
Note receivable, current portion	1,342	1,342
Investment in direct financing leases, current portion	14,805,000	16,115,000
Total current assets	21,720,081	22,747,672
<b>INVESTMENTS, RESTRICTED</b>	1,820,643	1,600,000
<b>NOTE RECEIVABLE</b>	26,838	28,180
<b>INVESTMENT IN DIRECT FINANCING LEASES, NET OF CURRENT PORTION</b>	202,270,000	217,075,000
<b>CAPITAL ASSETS</b>		
Furniture and equipment	190,733	172,813
Building improvements	108,153	108,153
Less accumulated depreciation and amortization	(274,095)	(258,384)
Net capital assets	24,791	22,582
	\$ 225,862,353	\$ 241,473,434

**LIABILITIES AND NET ASSETS**

	<u>2008</u>	<u>2007</u>
<b>CURRENT LIABILITIES</b>		
Accrued salaries and related benefits	\$ 76,479	\$ 67,031
Accounts payable	18,094	26,265
Unearned revenue – current portion	323,431	335,102
Lease revenue bonds payable, current portion	<u>14,805,000</u>	<u>16,115,000</u>
Total current liabilities	<u>15,223,004</u>	<u>16,543,398</u>
 <b>UNEARNED REVENUE</b>	 <u>2,108,245</u>	 <u>2,124,410</u>
 <b>LEASE REVENUE BONDS PAYABLE</b>	 <u>202,270,000</u>	 <u>217,075,000</u>
 <b>NET OPEB OBLIGATION</b>	 <u>8,564</u>	 <u>--</u>
Total liabilities	<u>219,609,813</u>	<u>235,742,808</u>
 <b>NET ASSETS</b>		
Invested in capital assets	24,791	22,582
Unrestricted	<u>6,227,749</u>	<u>5,708,044</u>
	<u>6,252,540</u>	<u>5,730,626</u>
	<u>\$ 225,862,353</u>	<u>\$ 241,473,434</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, 2008 and 2007

	2008	2007
Operating revenues:		
Issuance fees	\$ 519,756	\$ 451,292
Annual fees	883,588	856,497
Application fees	11,000	9,100
Issuer counsel fees	9,500	16,000
Miscellaneous revenue	7,195	13,670
<b>Total operating revenues</b>	<b>1,431,039</b>	<b>1,346,559</b>
Operating expenses:		
Salaries and related payroll expense	854,107	829,939
Annual OPEB cost	8,564	--
Telecommunications	16,279	13,791
Maintenance agreements and repairs	16,316	16,103
Publication fees and advertising	6,985	14,666
Rents	100,969	78,360
Insurance	84,053	104,614
Travel	807	1,672
Continuing education expenses	15,667	12,339
Professional services	38,623	63,050
Memberships and subscriptions	24,617	25,521
Professional and office supplies	13,137	10,916
Depreciation and amortization	21,944	40,107
Arbitrage calculation expense	60,225	60,125
Miscellaneous	15,164	8,765
<b>Total operating expenses</b>	<b>1,277,457</b>	<b>1,279,968</b>
<b>Operating income</b>	<b>153,582</b>	<b>66,591</b>
Non-operating revenues:		
Investment income	368,332	343,911
<b>Total non-operating revenues</b>	<b>368,332</b>	<b>343,911</b>
<b>Excess of revenues over expenses</b>	<b>521,914</b>	<b>410,502</b>
Net assets, beginning of year	5,730,626	5,320,124
<b>Net assets, end of year</b>	<b>\$ 6,252,540</b>	<b>\$ 5,730,626</b>

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, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from others	\$ 1,375,239	\$ 1,328,341
Cash paid to others	(1,277,692)	(1,224,027)
<b>Net cash flow from operating activities</b>	<b>97,547</b>	<b>104,314</b>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(24,153)	(9,463)
<b>Net cash flow from capital and related financing activities</b>	<b>(24,153)</b>	<b>(9,463)</b>
Cash flows from investing activities:		
Purchase of investments	(3,308,895)	--
Maturities of investments	--	2,399,021
Interest on investments	349,352	347,535
<b>Net cash flow from investing activities</b>	<b>(2,959,543)</b>	<b>2,746,556</b>
<b>Net change in cash and cash equivalents</b>	<b>(2,886,149)</b>	<b>2,841,407</b>
Cash and cash equivalents, beginning of year	3,439,693	598,286
<b>Cash and cash equivalents, end of year</b>	<b>\$ 553,544</b>	<b>\$ 3,439,693</b>
Reconciliation of operating income to net cash flow from operating activities:		
Operating income	\$ 153,582	\$ 66,591
Adjustments to reconcile operating income to net cash flow from operating activities:		
Depreciation and amortization	21,944	40,107
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(57,142)	(19,560)
Prepaid expenses	(4,184)	22,287
Note receivable	1,342	1,342
Increase (decrease) in:		
Accrued salaries and related benefits	9,448	1,194
Accounts payable	(8,171)	6,585
Unearned revenue	(27,836)	(14,232)
Net OPEB obligation	8,564	--
<b>Net cash flow from operating activities</b>	<b>\$ 97,547</b>	<b>\$ 104,314</b>

(Continued)

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

STATEMENTS OF CASH FLOWS  
(Continued)

Years Ended June 30, 2008 and 2007

**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>2008</u>	<u>2007</u>
Principal payments and redemptions made on lease revenue bonds	<u>\$ 16,115,000</u>	<u>\$ 15,625,000</u>
Interest revenue on lease revenue bonds	<u>\$ 10,673,058</u>	<u>\$ 11,363,624</u>
Interest expense on lease revenue bonds	<u>\$ 10,673,058</u>	<u>\$ 11,363,624</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.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

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

Basis of Accounting – K DFA 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.

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, 2008 and 2007, 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, 2008 and 2007.

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,

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**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, 2008 and 2007, K DFA has \$257,007 and \$248,026 invested in the State of Kansas Municipal Investment Pool. As of June 30, 2008 and 2007, K DFA has \$1,600,000 and \$3,120,000 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, 2008 and 2007 totaled \$6,627,311 and \$4,684,192. Bank balances are fully insured with an excess insurance bond provided by the counterparty, 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, 2008 and 2007, K DFA was invested in certificates of deposit, the Kansas Municipal Investment Pool, and a repurchase agreement with Morgan Stanley. As of June 30, 2008, 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 eighteen months or less.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**2. CASH AND INVESTMENTS (CONTINUED)**

Monies in excess of the 150% may be invested in obligations greater than eighteen months, but no more than forty-eight months.

As of June 30, 2008 and 2007, KDFA had the following investments, excluding certificates of deposit, with the noted investment maturities:

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

Investment Type	June 30, 2007		
	Fair Value	Less than 1 year	1 – 5 Years
Repurchase agreement	\$ 3,120,000	\$ 1,520,000	\$ 1,600,000
KMIP	248,026	248,026	--
Total	<u>\$ 3,368,026</u>	<u>\$ 1,768,026</u>	<u>\$ 1,600,000</u>

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, 2008 and 2007 was \$28,180 and 29,522, 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.

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**4. INVESTMENT IN DIRECT FINANCING LEASES (CONTINUED)**

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

	2008	2007
Total minimum lease payments to be received	\$ 299,581,912	\$ 326,369,971
Less: unearned income	(82,506,912)	(93,179,971)
Net investment in direct financing leases	\$ 217,075,000	\$ 233,190,000

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, 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

	July 1, 2006 Balance	Increases	Transfers and Decreases	June 30, 2007 Balance
Furniture and equipment	\$ 170,463	\$ 9,463	\$ (7,113)	\$ 172,813
Building improvements	108,153	--	--	108,153
Total capital assets being depreciated	278,616	9,463	(7,113)	280,966
Less accumulated depreciation:				
Furniture and equipment	(140,868)	(19,932)	7,113	(153,687)
Building improvements	(84,522)	(20,175)	--	(104,697)
Total accumulated depreciation	(225,390)	(40,107)	7,113	(258,384)
Total capital assets, net	\$ 53,226	\$ (30,644)	\$ --	\$ 22,582

(Continued)



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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**6. LEASE REVENUE BONDS PAYABLE**

Lease revenue bonds are limited obligations of KDFA, 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 KDFA. KDFA 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, 2008 and 2007 included additions (issuances) of \$0 and \$0 and reductions (principal payments or redemptions) of \$16,115,000 and \$15,625,000.

Lease revenue bonds payable are as follows at June 30, 2008 and June 30, 2007:

	2008	2007
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	\$ 495,000
Series 1996A – State of Kansas Energy Conservation Improvements Program Projects, \$5,105,000 Lease Revenue Bonds dated April 1, 1996, with aggregate amounts due annually from \$155,000 to \$680,000, due April 1, 1998 through April 1, 2008, at interest rates ranging from 4.0% to 5.2%.	--	155,000
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).	245,000	500,000
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).	3,740,000	3,990,000
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%.	9,080,000	10,840,000

(Continued)



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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**6. LEASE REVENUE BONDS PAYABLE (CONTINUED)**

	2008	2007
<p>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).</p>	\$ 300,000	\$ 2,020,000
<p>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).</p>	3,090,000	3,780,000
<p>Series 1999N – State of Kansas Department of Administration, 7<sup>th</sup> &amp; 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>	685,000	1,005,000
<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>	3,075,000	4,100,000
<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>	37,050,000	39,025,000

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**6. LEASE REVENUE BONDS PAYABLE (CONTINUED)**

	2008	2007
<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>	\$ 4,470,000	\$ 4,710,000
<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>	7,210,000	7,600,000
<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	245,000
<p>Series 2001R – State of Kansas Highway Patrol, Central Training Facility Project, and \$3,015,000 Refunding Lease Revenue Bonds dated July 1, 2001, with aggregate amounts due annually from \$385,000 to \$470,000, due March 1, 2002 through March 1, 2008, at interest rates ranging from 4.25% to 5.00%. (This bond issue was included in the Pooled Bond issue, Series 2001S).</p>	--	470,000
<p>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).</p>	1,375,000	1,445,000

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**6. LEASE REVENUE BONDS PAYABLE (CONTINUED)**

	2008	2007
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).	\$ 960,000	\$ 1,410,000
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).	14,230,000	14,945,000
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).	730,000	795,000
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).	21,720,000	22,275,000
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%.	2,265,000	2,750,000
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%.	12,765,000	13,415,000

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**6. LEASE REVENUE BONDS PAYABLE (CONTINUED)**

	2008	2007
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%.	\$ 2,875,000	\$ 3,030,000
Series 2002J-1 – State of Kansas Department of Administration, 7 <sup>th</sup> & 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).	8,450,000	9,065,000
Series 2002J-2 – State of Kansas Department of Administration, 7 <sup>th</sup> & 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).	21,990,000	22,195,000
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%.	40,665,000	42,430,000
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%.	2,895,000	3,115,000
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%.	16,635,000	17,385,000
	217,075,000	233,190,000
Less current portion due within one year	14,805,000	16,115,000
	\$ 202,270,000	\$ 217,075,000

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**6. LEASE REVENUE BONDS PAYABLE (CONTINUED)**

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

	Principal	Interest
2009	\$ 14,805,000	\$ 9,992,225
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
2014-2018	68,820,000	27,223,903
2019-2023	62,955,000	9,760,781
2024-2028	8,220,000	1,529,104
2029-2033	3,220,000	557,943
2034-2038	1,460,000	52,805
	\$ 217,075,000	\$ 82,506,912

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, 2008, the amounts are \$21,990,000. 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

(Continued)

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**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, 2008 and 2007 are as follows:

	2008	2007
Kansas Board of Regents – Emporia State University Memorial Union Renovation Project, \$1,401,332 Series E, 1989 Capital Appreciation and Current Interest Bonds.	\$ 247,031	\$ 358,049
Kansas Board of Regents – Kansas State University Farrell Library Expansion Project, \$3,835,000 Series K, 1995 Revenue Bonds.	2,210,000	2,390,000
Kansas Board of Regents – University of Kansas Regents Center Refunding Project, \$3,255,000 Series 1997C Refunding Revenue Bonds.	840,000	1,115,000
Kansas Board of Regents Comprehensive Rehabilitation and Repair Project, \$625,888 Series 1997G-1 Capital Appreciation Bonds (Single maturity due October 1, 2011).	1,062,813	1,011,100
Kansas Board of Regents Comprehensive Rehabilitation and Repair Project, \$68,500,000 Series 1997G-2 Revenue Bonds. (\$27,500,000 refunded on July 27, 2004 with the issuance of 2004F Revenue Bonds).	--	7,000,000
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.	6,100,000	6,490,000
Kansas Board of Regents – University of Kansas Housing System Lewis Hall Renovation Project, \$4,290,000 Series 1998D Revenue Bonds.	3,230,000	3,350,000
Kansas Board of Regents – Pittsburg State University Housing System Renovation Willard Hall Project, \$4,750,000 Series 1998E Revenue Bonds.	3,850,000	3,980,000

(Continued)



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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)**

	2008	2007
Kansas Board of Regents – University of Kansas Continuing Education Building Purchase Project, \$2,320,000 Series 1998H Revenue Bonds.	\$ --	\$ 1,235,000
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).	32,640,000	35,515,000
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	1,135,000
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).	12,055,000	13,590,000
Kansas Board of Regents – Pittsburg State University Horace Mann Administration Building Renovation Project, \$3,650,000 Series 1998P Revenue Bonds.	2,560,000	2,705,000
Kansas Department of Commerce and Housing – IMPACT Program Project \$11,195,000 Series 1998V Limited Tax Revenue Bonds.	--	1,505,000
Kansas Board of Regents – University of Kansas Medical Center – Center for Health in Aging Project, \$2,920,000 Series 1999B Revenue Bonds.	2,050,000	2,175,000
Kansas Board of Regents – University of Kansas Child Care Facility Construction Project, \$3,085,000 Series 1999C Revenue Bonds.	2,180,000	2,310,000
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).	5,060,000	5,210,000
Kansas Department of Commerce and Housing – IMPACT Program Project \$34,470,000 Series 1999E Limited Tax and Refunding Revenue Bonds.	4,065,000	7,965,000
Kansas Board of Regents – Wichita State University Parking System Project, \$5,705,000 Series 2000B Revenue Bonds.	3,445,000	3,780,000

(Continued)

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)**

	2008	2007
Kansas Board of Regents – Kansas State University Ackert Hall Addition Project, \$1,735,000 Series 2000D Revenue Bonds.	\$ 1,040,000	\$ 1,140,000
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).	1,595,000	1,945,000
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).	10,165,000	13,265,000
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).	855,000	1,115,000
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).	18,460,000	20,145,000
Kansas Board of Regents – Emporia State University Student Recreation Facility Project, \$2,805,000 Series 2001B Revenue Bonds.	2,105,000	2,220,000
Kansas Board of Regents – Comprehensive Rehabilitation and Repair Project \$29,905,000 Series 2001F Refunding Revenue Bonds.	12,575,000	15,790,000
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).	480,000	540,000
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).	3,430,000	3,910,000
Kansas Board of Regents – Emporia State University Residence Hall Project, \$1,585,000 Series 2001G-3 Refunding Revenue Bonds (This bond issue was included in the Pooled Bond issue, Kansas Board of Regents Project Series 2001N Revenue Bonds).	--	335,000

(Continued)



**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7. K DFA SPECIAL OBLIGATION BONDS (CONTINUED)**

	2008	2007
Kansas Board of Regents – University of Kansas Lawrence Campus Parking Facilities Project, \$2,825,000 Series 2001G-4 Refunding Revenue Bonds (This bond issue was included in the Pooled Bond issue, Kansas Board of Regents Project Series 2001N Revenue Bonds).	\$ --	\$ 700,000
Kansas Department of Commerce and Housing – IMPACT Program Project, \$32,390,000 Series 2001M Limited Tax Revenue Bonds.	11,830,000	15,405,000
Kansas Board of Regents – University of Kansas Bioscience Research Center Project, \$5,860,000 Series 2001T-1 Refunding Revenue Bonds.	4,610,000	4,840,000
Kansas Board of Regents – University of Kansas Student Union Renovation Project, \$4,435,000 Series 2001T-2 Revenue Bonds.	2,155,000	2,520,000
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund State Match Bonds, \$16,505,000 2001 Series I Revenue Bonds.	8,925,000	10,455,000
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).	112,065,000	115,370,000
Kansas Board of Regents – University of Kansas Housing System Renovation Project – Ellsworth Hall, \$11,230,000 Series 2002A-1 Revenue Bonds.	10,010,000	10,270,000
Kansas Board of Regents – University of Kansas Student Recreation and Fitness Center Project, \$15,330,000 Series 2002A-2 Revenue Bonds.	10,245,000	11,175,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund, \$4,100,000 Series 2002-1 State Match Bonds.	3,530,000	3,680,000
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).	21,150,000	22,800,000
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.	9,755,000	10,265,000

(Continued)

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)**

	2008	2007
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).	\$ 58,220,000	\$ 63,095,000
Kansas Board of Regents – Pittsburg State University Overman Student Center Renovation Project, \$2,610,000 Series 2003A.	2,155,000	2,255,000
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).	1,645,000	2,145,000
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).	2,500,000	3,660,000
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.	4,595,000	4,750,000

(Continued)

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)**

	2008	2007
Kansas Board of Regents – Fort Hays State University Housing System Lewis Field Stadium Renovation Project, \$1,150,000 Series 2003D-2 Revenue Bonds.	\$ 855,000	\$ 915,000
Kansas Public Employees Retirement System – KPERS 13 <sup>th</sup> Check Group, \$25,760,000 Series 2003H State Pension Funding Bonds.	16,655,000	19,030,000
Kansas Public Employees Retirement System – TIAA Group – Board of Regents and KU Hospital Authority, \$14,490,000 Series 2003H State Pension Funding Bonds.	9,375,000	10,710,000
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).	11,480,000	11,850,000
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).	18,075,000	18,800,000
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).	28,765,000	29,995,000
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).	9,450,000	9,855,000
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).	310,000	355,000
Kansas Public Employees Retirement System, \$500,000,000 Series 2004C Revenue Bonds (First principal payment due May 1, 2009).	500,000,000	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	2,000,000

(Continued)

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)**

	2008	2007
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.	6,305,000	6,440,000
Kansas Department of Health and Environment – Public Water Supply Revolving Loan Fund Leveraged Bonds, \$166,315,000 2004 Series 2 Revenue Bonds.	161,005,000	166,020,000
Kansas Board of Regents – Pittsburg State University Bonita Terrace Apartments Multifamily Housing Project, \$1,195,000 Series 2004D Revenue Bonds.	1,140,000	1,195,000
Kansas Board of Regents – Comprehensive Rehabilitation and Renovation Project, \$44,860,000 Series 2004F Revenue Bonds.	40,800,000	42,630,000
Department of Administration – Refunding Revenue Bond Project \$1,545,000 Series 2004G-2 Refunding Revenue Bonds.	580,000	850,000
Kansas Board of Regents – Kansas State University Housing System, Manhattan Campus Project \$44,535,000 Series 2005A Revenue Bonds.	42,830,000	43,695,000
Kansas Board of Regents – Scientific Research & Development Facilities Projects – Phase II, \$66,530,000 Series 2005D Revenue Bonds.	54,080,000	58,710,000
Kansas Board of Regents – University of Kansas Pooled Financing Projects \$19,360,000 Series 2005E Revenue Bonds.	18,445,000	18,960,000
Kansas Department of Health and Environment – Water Pollution Control Revolving Loan Fund Program, \$118,860,000 Series 2005CW Revenue Bonds.	108,995,000	113,815,000
Kansas Department of Transportation – Revolving Loan Fund Program, \$32,690,000 Series 2005TR Revenue Bonds.	30,490,000	32,490,000

(Continued)

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)**

	2008	2007
Kansas Board of Regents – Emporia State University Towers Residential Complex Improvement Project \$8,930,000 Series 2005F Revenue Bonds.	\$ 8,930,000	\$ 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.	7,505,000	7,790,000
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).	34,445,000	34,460,000
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).	17,400,000	19,210,000
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).	18,230,000	19,320,000
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).	1,600,000	1,655,000
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).	10,195,000	10,235,000
Kansas Department of Commerce – Investments in Major Projects and Comprehensive Training (“IMPACT”) Program, \$28,165,000 Series 2005N Limited Tax Revenue Bonds.	20,340,000	22,840,000
Kansas Department of Administration – Comprehensive Transportation Program \$209,490,000 Series 2006A Revenue Bonds	202,755,000	209,490,000
Kansas Board of Regents – University of Kansas Parking Facilities Project \$9,790,000 Series 2006B Revenue Bonds.	9,790,000	9,790,000
State of Kansas, Department of Administration Capitol Restoration Phase IV \$7,065,000 Series 2006L-1 Revenue Bonds.	7,065,000	7,475,000
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).	4,065,000	4,215,000

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)**

	2008	2007
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).	\$ 1,465,000	\$ 1,520,000
Kansas Department of Transportation – Revolving Loan Fund Program, \$24,755,000 Series 2006TR Revenue Bonds.	23,305,000	24,755,000
Kansas Board of Regents – Kansas State Housing System, Manhattan Campus Project, \$27,750,000 Series 2007A Revenue Bonds.	27,365,000	27,750,000
Kansas Board of Regents – University of Kansas Student Recreation Center, \$6,276,000 Series 2007E Revenue Bonds.	6,075,000	6,275,000
Kansas Department of Commerce – Investments in Major Projects and Comprehensive Training (“IMPACT”) Program, \$34,505,000 Series 2007F Revenue Bonds.	31,915,000	34,505,000
Kansas Board of Regents – Kansas State University Parking System \$17,855,000 Series 2007H Revenue Bonds.	17,855,000	--
Kansas Department of Administration – Capitol Restoration Phase V \$27,505,000 Series 2007K-1 Revenue Bonds.	27,505,000	--
Kansas Adjutant General – Great Plains Joint Training Facility \$9,170,000 Series 2007K-2A Revenue Bonds.	9,170,000	--
Kansas Adjutant General – Armories Renovation Phase VI \$3,170,000 Series 2007K-2B Refunding BAN 2007-1 Revenue Bonds.	3,170,000	--
Kansas Department of Corrections – Correctional Infrastructure \$19,610,000 Series 2007K-3 Revenue Bonds.	19,610,000	--
Kansas Boards of Regents – University of Kansas Law Enforcement Training Center \$18,220,000 Series 2007M Revenue Bonds.	18,220,000	--
Kansas Board of Regents – Postsecondary Education Institution Loan Program \$20,000,000 Series 2008A Revenue Bonds.	20,000,000	--
Kansas Board of Regents – Kansas State University Student Life Center Salina Campus \$1,600,000 Series 2008D Revenue Bonds.	1,600,000	--
	<u>\$ 2,130,924,844</u>	<u>\$ 2,109,114,149</u>

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**7. KDFA SPECIAL OBLIGATION BONDS (CONTINUED)**

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, 2008 and 2007 are as follows:

	2008	2007
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	3,000,000
	\$ 4,700,000	\$ 3,000,000

**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, 2008 and 2007 are as follows:

	2008	2007
FHA Insured Mortgage Loans – Section 8 Assistance Projects, \$3,265,000 Series 1992A Housing Development Revenue Refunding Bonds.	\$ 2,705,000	\$ 2,795,000
Community Provider Loan Program – Substance Abuse Center of Eastern Kansas, Inc. Project, \$1,600,000 Series 1992F Revenue Bonds.	740,000	830,000
Woodridge Apartments Project, \$7,285,000 Series 1995 Multifamily Housing Revenue Refunding Bonds.	6,400,000	6,500,000
Metcalf 56 Apartments Project, \$2,510,000 Series J, 1995 Multifamily Housing Revenue Refunding Bonds.	2,285,000	2,315,000
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.	1,073,928	1,540,628

(Continued)



**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8. PRIVATE ACTIVITY BONDS (CONTINUED)**

	2008	2007
Green Park Apartments Section 8 Assisted Project, \$3,094,600 Series 1996C Taxable Housing Development Revenue Bonds.	\$ 743,511	\$ 1,017,934
Gateway Plaza Townhomes Section 8 Assisted Project, \$5,748,000 Series 1996D Taxable Housing Development Revenue Bonds.	1,626,766	2,147,803
Stormont-Vail HealthCare, Inc. Project, \$22,480,000 Series 1996F Health Facilities Revenue Bonds.	--	16,945,000
Stormont-Vail HealthCare, Inc. Project, \$2,190,000 Series 1996H Health Facilities Revenue Bonds.	--	505,000
Park Apartments Project, \$7,000,000 Series 1996L Housing Development Revenue Bonds.	5,130,000	5,350,000
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	1,000,000
St. Luke's/Shawnee Mission Health System, Inc. Project, \$26,935,000 Series 1996P Health Facilities Revenue Bonds.	21,925,000	22,585,000
St. Luke's/Shawnee Mission Health System, Inc. Project, \$40,000,000 Series 1997A Health Facilities Revenue Bonds.	32,450,000	33,550,000
Oak Ridge Park Apartments Project, \$6,040,000 Series 1997F Multifamily Housing Revenue Bonds.	5,350,000	5,450,000
Rural Health Resources of Jackson Co., Inc. Project, \$4,435,000 Series 1997L Health Facilities Revenue Bonds.	3,720,000	3,825,000
Indian Ridge Apartments Project, \$1,350,000 Series 1997N Multifamily Housing Revenue Bonds.	--	1,185,000
Trails of Garden City and Cottonwood of Liberal Projects, \$8,740,000 Series 1997P Multifamily Housing Revenue Bonds.	7,867,000	8,016,000
Sisters of Charity of Leavenworth Health Services Corporation Project, \$105,000,000 Series 1998C Health Facilities Revenue Bond.	96,125,000	98,115,000
Catholic Health Initiatives Project, \$21,000,000 Series 1998J Health Facilities Revenue Bonds.	--	17,540,000
Stormont-Vail HealthCare, Inc. Project, \$25,000,000 Series 1998M Insured Variable Rate Demand Health Facilities Revenue Bonds.	--	21,500,000
The Children's Mercy Hospital Project, \$9,405,000 Series 1998N Health Facilities Revenue Bonds.	--	8,320,000

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NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8. PRIVATE ACTIVITY BONDS (CONTINUED)**

	2008	2007
The Intercollegiate Athletic Council of Kansas State University, Inc. Project, \$8,055,000 Series 1998Q Taxable Athletic Facilities Revenue Bonds.	\$ 5,220,000	\$ 5,700,000
The Intercollegiate Athletic Council of Kansas State University, Inc. Project, \$7,595,000 Series 1998R Athletic Facilities Revenue Bonds.	4,690,000	5,155,000
Western Hills Apartments Project, \$3,040,000 Series 1998W Multifamily Housing Revenue Bonds.	2,890,740	2,915,063
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.	12,905,000	13,425,000
Village Shalom Obligated Group Project, \$23,315,000 Series 1998AA Revenue Bonds.	21,085,000	21,575,000
Village Shalom Obligated Group Project, \$23,695,000 Series 1998BB Variable Rate Demand Revenue Bonds.	21,255,000	21,800,000
Paola Apartments Project, \$1,050,000 Series 1999G Multifamily Housing Revenue Bonds.	994,430	1,003,023
Country Club Apartments Project, \$2,490,000 Series 1999J Multifamily Housing Revenue Bonds.	2,322,573	2,357,079
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	350,000
Lom Vista Apartments Project, \$1,240,200 Series 1999O Multifamily Housing Revenue Bonds.	1,005,000	1,015,000
Deaconess Long Term Care, Inc., \$5,640,000 Series 2000C Variable Rate Demand Health Facilities Revenue Bonds.	4,845,000	4,965,000
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.	8,985,000	9,730,000

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8. PRIVATE ACTIVITY BONDS (CONTINUED)**

	2008	2007
Woodstone Apartments Project, \$6,300,000 Series 2000L-1 Multifamily Housing Refunding Revenue Bonds (First principal payment due April 20, 2008).	\$ 6,260,000	\$ 6,295,000
Woodstone Apartments Project, \$565,000 Series 2000L-2 Multifamily Housing Refunding Revenue Bonds.	--	80,000
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.	1,545,000	1,690,000
Chimney Hills Apartments Project, \$2,925,000 Series 2000U-3 Subordinate Multifamily Housing Revenue Bonds.	2,735,000	2,785,000
Stormont-Vail HealthCare, Inc. Project, \$49,800,000 Series 2001K Health Facilities Refunding Revenue Bonds.	42,565,000	46,985,000
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.	1,585,000	1,595,000
Wichita State University Roundhouse Renaissance Athletic Facilities \$15,445,000 Series 2002D Athletic Facilities Revenue Bonds.	12,215,000	12,570,000
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).	4,700,511	4,466,448
Hartford, Inc., \$4,290,000 Series 2002B-1 First Mortgage Health Facility Revenue Bonds.	3,685,000	3,850,000
DLR Deer Creek Project, \$4,300,000 Series 2002O Industrial Enterprise Taxable Revenue Bonds (First principal payment due September 1, 2032).	3,710,000	3,790,000

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8. PRIVATE ACTIVITY BONDS (CONTINUED)**

	2008	2007
Susan B. Allen Memorial Hospital Project, \$12,000,000 Series 2002Q Hospital Revenue Bonds.	\$ 10,670,000	\$ 11,120,000
Woodland Village, \$8,160,000 Series 2003G Multifamily Housing Revenue Bonds.	7,981,657	8,043,875
Luther Place Apartments, \$7,193,000 Series 2003F Multifamily Housing Revenue Bonds.	6,765,761	6,947,949
Martin Creek Place Project, \$5,670,000 Series 2003B Multifamily Housing Revenue Bonds.	5,260,000	5,350,000
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.	15,065,000	15,790,000
Santa Fe Trail Apartments, \$2,820,000 Series 2004L Multifamily Housing Revenue Bonds.	2,106,475	2,135,747
Saddlewood I Apartments, \$7,600,000 Series 2004M Multifamily Housing Revenue Bonds.	7,600,000	6,400,000
University of Kansas Center for Research, Inc. Multidisciplinary Research Building Project, \$45,625,000 Series 2005B Revenue Bonds.	42,435,000	44,060,000
Delaware Highlands Assisted Living, \$6,950,000 Series 2005C Multifamily Housing Revenue Bonds.	6,790,000	6,950,000
Spirit AeroSystems, Inc. Project, \$80,000,000 Series 2005J Taxable Revenue Bonds.	80,000,000	80,000,000
Stormont-Vail Healthcare, Inc. Cancer Center \$27,325,000 Series 2005K Health Facilities Revenue Bonds.	--	27,225,000
Hays Medical Center, Inc., \$22,995,000 Series 2005L Fixed Rate Health Facilities Refunding Revenue Bonds.	21,135,000	22,085,000

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8. PRIVATE ACTIVITY BONDS (CONTINUED)**

	2008	2007
Hays Medical Center, Inc., \$17,950,000 Series 2005M Variable Rate Health Facilities Refunding Revenue Bonds.	\$ 17,050,000	\$ 17,400,000
Sisters of Charity of Leavenworth Health System, \$25,000,000 Series 2006C Health Facilities Revenue Bonds.	22,410,000	23,870,000
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.	13,200,000	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.	16,615,000	17,085,000
Olathe Good Samaritan Towers, \$6,100,000 Series 2006N Multifamily Housing Revenue Bonds.	6,100,000	6,100,000
Olathe Good Samaritan Towers, \$1,300,000 Series 2006O Multifamily Housing Revenue Bonds	1,300,000	1,300,000
Cleveland Chiropractic College, \$16,000,000 Series 2007D Education Facility Revenue Bonds.	14,900,000	16,000,000
Woodland Park Apartments at Soldier Creek, \$15,715,000 Series 2007G Multifamily Housing Revenue Bonds.	15,715,000	15,715,000
Prairie Brook Village Apartments, \$5,862,000 Series 2007J Multifamily Housing Bonds.	5,862,000	5,862,000
Fairfax Bluffs Apartments, \$17,600,000 Series 2007C Multifamily Housing Revenue Bonds.	17,600,000	--
Stormont-Vail Healthcare, Inc., \$50,050,000 Series 2007L Healthcare Facilities Refunding Revenue Bonds.	50,050,000	--
Northeast Renaissance Center Apartments, \$3,800,000 Series 2007B Multifamily Housing Revenue Bonds.	3,800,000	--

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**8. PRIVATE ACTIVITY BONDS (CONTINUED)**

	2008	2007
Boulevard Apartments, \$25,000,000 Series 2008B Multifamily Housing Revenue Bonds.	\$ 25,000,000	\$ --
Stormont-Vail Healthcare, Inc., \$48,485,000 Series 2008E&F Healthcare Facilities Refunding Revenue Bonds.	48,485,000	--
	\$ 1,041,220,352	\$ 1,010,403,549

From the inception of the program through June 30, 2008, the Beginning Farmer Loan Program had issued \$50,913,209 in bonds.

From the inception of the program through June 30, 2008, the Hazard Analysis and Critical Control Points Program had issued \$233,550 in bonds.

**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, 2008, \$39,140,000 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, 2008 and 2007 were and \$661,715 and \$637,416 and the total salaries were \$690,429 and \$670,521.

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 2008, 2007, and 2006 were 6.37%, 5.77%, and 5.27%, respectively. Total contributions to KPERS for KDFA employees for the years ended June 30, 2008, 2007, and 2006 were \$68,620, \$62,276, \$49,410, respectively, which consisted of \$42,151, \$36,779, and \$28,090, from KDFA and \$26,469, \$25,497, and \$21,320, from employees, respectively, equal to the statutory required contributions for each year.

(Continued)



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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**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 2008, ten 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.

**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

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**12. OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)**

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 KDFFA'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)	\$	5,860
Amortization of UAAL		2,604
Interest on amortized liability		100
Annual required contribution (ARC)		8,564
Contributions made		--
Increase in net OPEB obligation		8,564
Net OPEB obligation July 1, 2007		--
Net OPEB obligation June 30, 2008	\$	8,564

**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

*Funded Status and Funding Progress.* As of June 30, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$55,314. The KDFFA's policy is to fund the benefits on a pay as you go basis, resulting in an unfunded actuarial accrued liability (UAAL) of \$55,314. The covered payroll (annual payroll of active employees covered by the plan) was \$682,229, and the ratio of the UAAL to the covered payroll was 8 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

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**12. OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)**

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, 2008 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 ten years and an ultimate rate of 5.0 percent after ten 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.

**13. LEASES**

KDFA has an operating lease ending in fiscal year 2012 for its office space. Rent expense for the years ended June 30, 2008 and 2007 was \$96,243 and \$73,701 respectively.

In 2007, KDFA entered into an equipment lease ending in fiscal year 2010. Equipment expense for the years ended June 30, 2008 and 2007 was \$4,726 and \$4,659, respectively.

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

2009	\$ 101,090
2010	98,766
2011	96,877
2012	96,877
2013	24,219
	<hr/>
	\$ 417,829

(Continued)

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

NOTES TO FINANCIAL STATEMENTS  
(Continued)

**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 \$5,000,000 and retention of \$200,000 deductible. KDFA also has an excess professional liability with a \$5,000,000 limit over the underlying \$5,000,000 policy. KDFA also has commercial insurance coverage on personal property with a limit of \$500,000 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 \$10,000. 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, 2008 and 2007, the balance in these state agency restricted rebate accounts was \$1,264,878 and \$524,448. 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.

**16. SUBSEQUENT EVENTS**

Series 2008C Athletic Facilities Revenue Bonds were issued July 23, 2008. The bonds mature through June 1, 2033 at interest rates ranging from 2.10% and 5.07%.

Series 2008J revenue refunding bonds were issued August 7, 2008 to refund the private activity bond Series 1999G, multi family housing revenue bonds. The bonds mature July 1, 2018 at interest rate 5.43%.

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2008

**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%



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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

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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, 2008 and have issued our report thereon dated October 14, 2008. 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

October 14, 2008  
Wichita, Kansas



## Background

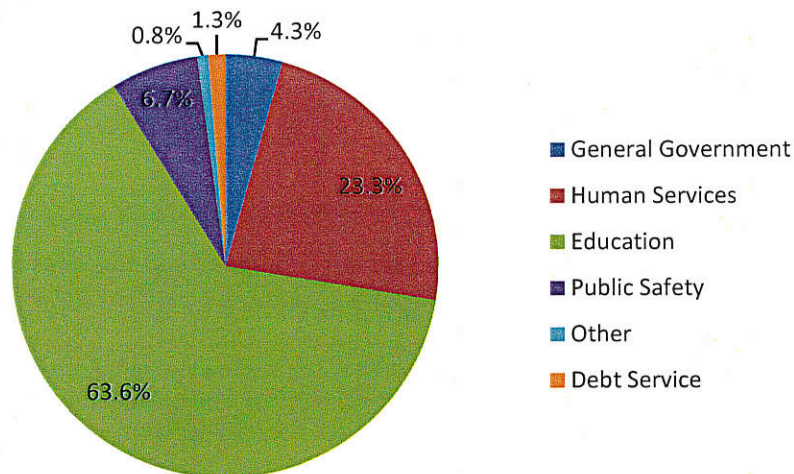
Kansas Development Finance Authority was created by the Kansas Legislature pursuant to K.S.A. 74-8901 et seq., as an independent instrumentality and public corporation to serve as a state-wide multipurpose issuer to assist state entities and other public and private enterprises throughout the state access the long term capital markets at the lowest possible cost.

In early 2008, KDFFA developed its first annual debt study to provide relevant data to assist policymakers in making financing decisions for the State. The purpose of this 2008 Debt Study is to give policymakers a picture of the State's debt position on June 30, 2008. 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 KDFFA Board of Directors; the Governor's office; the State Budget Director; and, members of the Legislature. The analysis can be updated as revenue estimating forecasts are revised. 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 (FY2009)**





## 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. *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. Tabulated in Appendix page A-1.

**Self-Supporting Debt is State issued debt that 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. The primary example of this type of debt is subsidized loan programs run by KDHE and KDOT. Tabulated in Appendix page A-2.

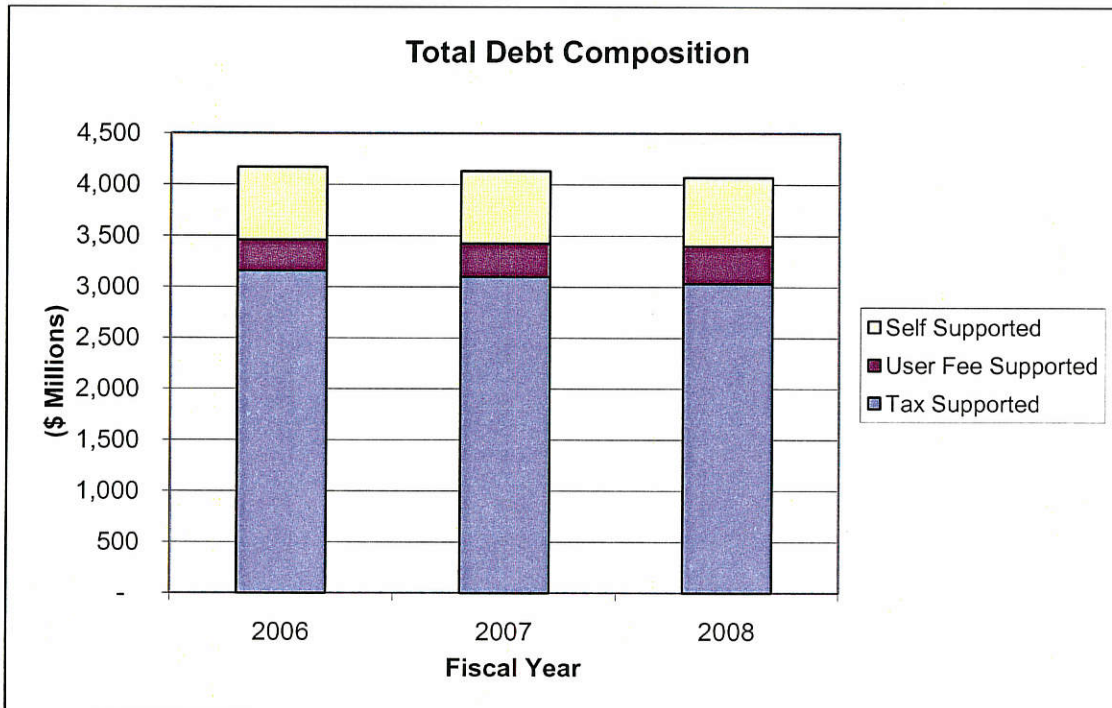
**Tax-Supported Debt** is debt secured by traditional State revenues typically generated through taxation. For each debt issuance a specific pledge of revenues has been made to secure the repayment of principle and interest for the bonds (e.g. Highway Fund revenues for KDOT debt). None of this debt is 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 KDFA is not included in this report.

**Local Government Debt, Kansas Turnpike Debt, and Kansas Hospital Authority Debt** are not included in this study as they are not issued and not obligations of the State.

## Debt Outstanding

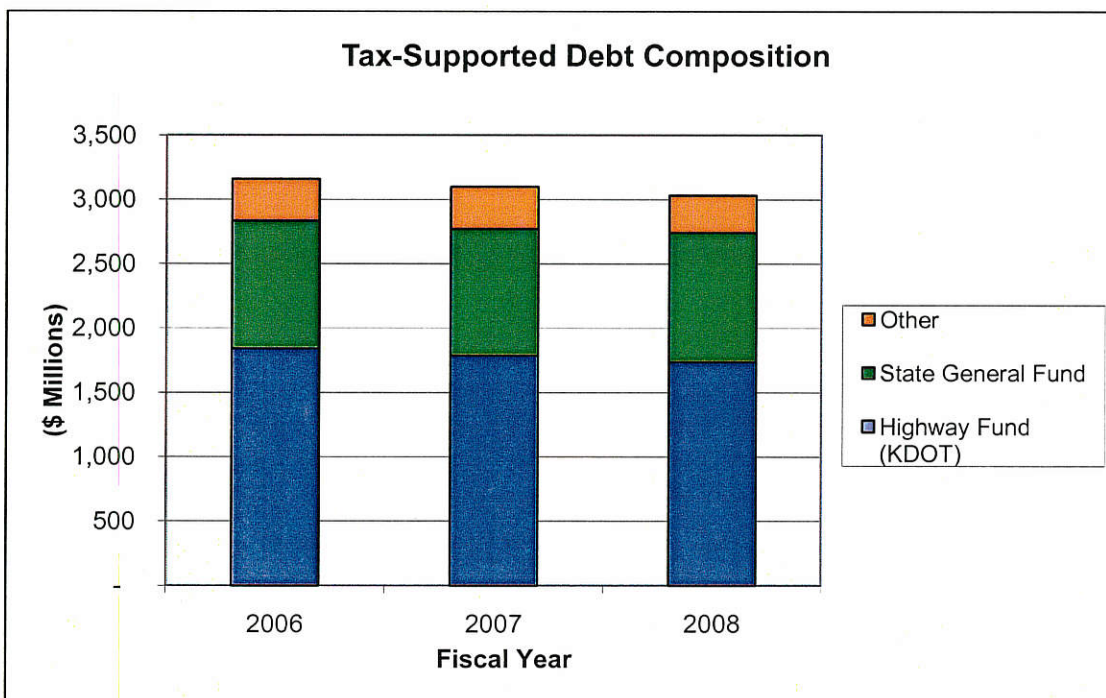
Total State debt outstanding at June 30, 2008 was \$4.070 billion approximately \$61.5 million LESS than at June 30, 2007. User-fee supported debt totaled \$366.7 million (Appendix page A-1) which represents a \$40.5 million INCREASE from the prior year. Additionally, self-supporting debt outstanding at June 30, 2008 was \$670 million which was \$35.7 million LESS than at June 30, 2007 (Appendix page A-2). Tax-supported debt totaled \$3.033 billion for financings supported by State tax revenues or tax-like revenues which was an annual DECREASE of approximately \$66.3 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					
	2006		2007		2008	
Self Supported	711	17.0%	706	17.1%	670	16.5%
User Fee Supported	301	7.2%	326	7.9%	367	9.0%
Tax Supported	3,160	75.8%	3,100	75.0%	3,033	74.5%
<b>Total</b>	<b>4,171</b>		<b>4,132</b>		<b>4,070</b>	

## Tax-Supported Debt

Tax-supported debt composes 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).



<b>TAX-SUPPORTED DEBT</b> (\$ Millions)	<i>Fiscal Year End</i>					
	<b>2006</b>		<b>2007</b>		<b>2008</b>	
Other	326	10.3%	328	10.6%	292	9.6%
State General Fund	992	31.4%	982	31.7%	1,003	33.1%
State Highway Fund	1,842	58.3%	1,789	57.7%	1,739	57.3%
<b>Total</b>	<b>3,160</b>		<b>3,100</b>		<b>3,033</b>	

## 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)
- 2005H State of Kansas Projects (\$88.2M)
  - Refunding prior SGF bonds - \$43.0M
  - Capitol Restoration - \$27.2M
  - Unemployment Benefit System - \$18.0M
- 2006A Kansas Department of Administration – Comprehensive Transportation Program (\$209.5M)

<b>SGF DEBT RATIO</b>	<i>Fiscal Year</i>					
(\$ Millions)	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009*</i>	<i>2010*</i>
SGF Revenue	4,841.3	5,394.4	5,809.0	5,694.9	5,781.2	5,782.4
SGF Debt Service	39.7	48.2	63.3	86.0	83.6	87.3
Debt Service as % of Revenue	0.82%	0.89%	1.09%	1.51%	1.45%	1.51%

*\* November 2008 Revenue Estimate*

## Proposed Debt Issuance

As of June 30, 2008, approximately \$543 million of debt is expected to be issued over the next several years based on current authorizations from the State Legislature. This is approximately \$48 million more than a year ago. The most notable additions are the State's obligation to provide financing to the Department of Homeland Security's NBAF Project (\$105M) and several newly planned renovations and improvements to University facilities that will be financed through user fees (Housing, Athletics, Student Centers). The user financed facilities are not an obligation of the State General Fund.

### Authorized Proposed Debt Issuance

Type	DESCRIPTION	AUTHORIZED BY (OR REAUTHORIZED)	BALANCE AT 06/30/07	ISSUED FY 2008	AUTHORIZED IN FY 2008 (OR REAUTHORIZED)	BALANCE AT 06/30/08	ISSUED YTD FY 2009
Tax - Other	KSU Greenhouse Lab	SB 534 Sec 149(d)	1,700,000		1,700,000	1,700,000	
	KSU Horticulture Research Center	SB 534 Sec 149(e)	1,500,000		1,500,000	1,500,000	
<b>TOTAL</b>			<b>3,200,000</b>		<b>3,200,000</b>	<b>3,200,000</b>	
Tax - SGF	BOR Community College loans (PEI Loan Program)	HB2237 Sec. 12 Page 4	100,000,000	20,000,000		80,000,000	
	Adjutant General - renovate armories	HB2482, Sec 47, pg 22	6,000,000	3,000,000		3,000,000	
	Adjutant General - training center	SB 357 Sec 54g	9,000,000	9,000,000			
	DOA - Capital Renovations	SB 480, Ch 174 & Ch 206	9,020,011	9,020,011			
	DOA - Capitol Renovations	HB 2368 Sec 171 Page 185	55,000,000	17,979,989		37,020,011	37,020,011
	DOA - Capitol Renovations	SB 534 Sec 137(i)			38,800,000	38,800,000	
	Dept of Corrections - cap improvement	HB 2368 Sec 185 Page 202	19,250,000	19,250,000			
	Dept of Corrections - expand prison capacity	HB 2368 Sec 185 Page 201	39,525,000	1,700,000		Lapsed	
	Dept of Corrections - expand prison capacity	HB 2946 Sec 11(d)			17,825,000	17,825,000	
	KU Construct & Remodel School of Pharmacy	HB 2946 Sec 36(a)			20,000,000	20,000,000	20,000,000
	NBAF	HB 2001			105,000,000	105,000,000	
<b>TOTAL</b>			<b>237,795,011</b>	<b>79,950,000</b>	<b>181,625,000</b>	<b>301,645,011</b>	<b>57,020,011</b>

*CONTINUED NEXT PAGE*



Type	DESCRIPTION	AUTHORIZED BY (OR REAUTHORIZED)	BALANCE AT 06/30/07	ISSUED FY 2008	AUTHORIZED IN FY 2008 (OR REAUTHORIZED)	BALANCE AT 06/30/08	ISSUED YTD FY 2009
User-Fee	KSU Salina Campus Student Life Center	SB 534 Sec 148(g)	2,000,000	1,600,000			
	University Research & Dev. KSU, Wichita State & Pittsburgh State	SB 534 Sec 155 [c]	5,000,000				
	KSU Child Care Facility	HB 2368 Sec. 173 Page 188	6,000,000			6,000,000	
	KSU Renovation of Bramlage Coliseum & Bill Snyder Family Stadium	SB 534 Sec 148(h)			45,000,000	45,000,000	
	KSU Renovation of Peters Student Recreation Center	SB 534 Sec 1548(i)			24,000,000	24,000,000	
	KSU parking garage	HB 2368 Sec. 173 Page 187	17,500,000	15,850,000			
	KSU Housing ( JARDINE)	SB 534 Sec 148(f)	38,000,000			38,000,000	
	PSU - Parking Improvements	SB 534 Sec151(g)			4,000,000	4,000,000	
	PSU - Student Housing	SB 534 Sec151(h)			22,000,000	22,000,000	
	PSU - Student Health Center	SB 534 Sec151(i)			3,750,000	3,750,000	
	KU Law Enforcement Training Facility	HB 2368 Sec. 178 Page 193	16,421,600	16,421,600			
	KUMC parking facilities 4	SB 534 Sec 153(d)	8,150,000		8,550,000	8,550,000	
	KUMC ambulatory care facility	SB 534 Sec 153(f)	55,645,000		66,000,000	66,000,000	
	KU Renovation of Jayhawk Towers - Phase I	SB 534 Sec 152(g)			8,100,000	8,100,000	5,000,000
KU Renovation of Pearson Hall	SB 534 Sec 152(m)			13,075,000	13,075,000		
<b>TOTAL</b>			<b>148,716,600</b>	<b>33,871,600</b>	<b>194,475,000</b>	<b>238,475,000</b>	<b>5,000,000</b>

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 Tax-SGF total on the bottom right of the previous page, \$57.0 million of the outstanding authorizations at the end of Fiscal Year 2008 had been issued in the first half of Fiscal Year 2009.



*The estimated additional burden on the SGF in Fiscal Year 2010 from debt service if all of the SGF backed authorized debt was issued in Fiscal Year 2009 would be \$17.9 million which is about 0.3% of estimated Fiscal Year 2010 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 Post-Secondary Educational Institution (PEI) Loan Program. For the PEI Loan Program, only \$20 million of the remaining \$80 million can be issued in Fiscal Year 2009; the program amortizes its debt over eight years; and, the SGF is only responsible for the repayment of interest.

## Surrounding State Comparison

In April of each year, Moody's Investor Services has 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 2008 report the following data can be found for Kansas and surrounding states for comparison:

State	Net Tax-Supported Debt <sup>(1)</sup> Per Capita	Rank	Net Tax-Supported Debt as a % of 2006 Personal Income	Rank	Moody's Rating
Kansas	\$1,202	18 (down 2)	3.5%	18	Aa1 <sup>(2)</sup>
Oklahoma	\$450	38	1.5%	38	Aa3
Colorado	\$315	45	0.8%	46	NGO <sup>(3)</sup>
Nebraska	\$22	50	0.1%	50	NGO <sup>(3)</sup>
Iowa	\$98	48	0.3%	48	Aa1 <sup>(2)</sup>
Missouri	\$675	33	1.9%	34	Aaa
Surrounding Average	\$460		1.4%		
US Average	\$1,158		3.2%		

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: substantial rebuilding of available balances in the last three fiscal years; positive economic trends; likely positive budgetary impact from recent gaming legislation; and, a relatively diverse economic base. However, challenges to the State's rating are presented by: budgetary pressure from education funding increases ordered by the Kansas Supreme Court; and, budgetary pressure from statutorily required pension fund increases and debt service on pension obligation bonds.

Both Moody's and S&P most recent rating reports are as of September 2008. Since then the State's revenue and budget forecasts have changed significantly. 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 not immune to 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 6/30/08
E, 1989	Kansas Board of Regents - Emporia State University Memorial Union Renovation Project	230,000
K, 1995	Kansas Board of Regents - Kansas State University Farrell Library Expansion Project	2,210,000
1997C	Kansas Board of Regents - University of Kansas Regents Center Refunding Project	840,000
1998B	Kansas Board of Regents - Kansas State University Student Union Renovation and Expansion Project	6,100,000
1998D	Kansas Board of Regents - University of Kansas Housing System Renovation Project - Lewis Hall Project	3,230,000
1998E	Kansas Board of Regents - Pittsburg State University Housing System Renovation Project - Willard Hall Project	3,850,000
1998H	Kansas Board of Regents - University of Kansas Continuing Education Building Purchase Project	1,085,000
1998P	Kansas Board of Regents - Pittsburg State University Horace Mann Administration Building Renovation Project	2,560,000
1999B	Kansas Board of Regents - University of Kansas Medical Center - Center for Health in Aging Project	2,050,000
1999C	Kansas Board of Regents - University of Kansas Child Care Facility Construction Project	2,180,000
1999D	Kansas Board of Regents - University of Kansas Parking Garage #2 Construction Project	5,060,000
2000B	Kansas Board of Regents - Wichita State University Parking System Project	3,445,000
2000D	Kansas Board of Regents - Kansas State University Ackert Hall Addition Project	1,040,000
2001B	Kansas Board of Regents - Emporia State University Student Recreation Facility Project	2,105,000
2001G-1	Kansas Board of Regents - Kansas State University - Salina, College of Technology Housing System Project	480,000
2001G-2	Kansas Board of Regents - Kansas State University Recreation Complex Expansion Project	3,430,000
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	4,610,000
2001T-2	Kansas Board of Regents - University of Kansas Student Union Renovation Project	2,155,000
2002A-1	Kansas Board of Regents - University of Kansas Housing System Renovation Project- Ellsworth Hall	10,010,000
2002A-2	Kansas Board of Regents - University of Kansas Student Recreation and Fitness Center Project	10,245,000
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	9,755,000
2003A	Kansas Board of Regents - Pittsburg State University Overman Student Center Renovation Project	2,155,000
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	19,183,102
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - KUMC Biomedical Research	28,801,181
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - KU Biosciences Research	1,645,000
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU Engineering Complex	1,578,199
2003D-1	Kansas Board of Regents - Fort Hays State University Housing System Refunding & Renovation Project (refunds 1994E)	4,595,000
2003D-2	Kansas Board of Regents - Fort Hays State University Housing System Lewis Field Stadium Renovation Project (refunds 1993C)	855,000
2003J	State of Kansas Projects - \$40,235,000	
2003J-1	Kansas Board of Regents - Energy Conservation Projects - KUMC	11,480,000
2003J-1	Kansas Board of Regents - Energy Conservation Projects - KSU	18,075,000
2004D	Kansas Board of Regents Pittsburg State University Housing System Renovation Project - Bonita Terrace Apartments	1,140,000
2005A	Kansas State University Housing System, Manhattan Campus - Jardine	42,830,000
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	14,755,248
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - KUMC	16,399,121
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Aviation Research Facility	-
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU	4,861,265
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - PSU	2,402,443
2005E-1	Kansas Board of Regents - University of Kansas Housing System Refunding	15,360,000
2005E-2	Kansas Board of Regents - University of Kansas Medical Center - Parking Garage #3	3,085,000
2005F	Kansas Board of Regents - Emporia State University Towers Residential Complex Imprvmt. Proj.	8,930,000
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)	300,000
2006B	Kansas Board of Regents - KU Parking Facilities Proj.	9,790,000
2007A	Kansas Board of Regents - Kansas State University Housing System, Manhattan Campus Project, Jardine Apartments	27,365,000
2007E	Kansas Board of Regents - University of Kansas Student Recreation Center	6,075,000
2007H	Kansas Board of Regents - Kansas State University Parking System	17,855,000
2007M	Kansas Law Enforcement Training Center	18,220,000
	<b>total</b>	<b>366,730,559</b>

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.

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<b>Self-Supporting Debt</b>		
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.		
<b>Series</b>	<b>Title</b>	<b>Balance 6/30/08</b>
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	32,640,000
2000 Series I	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund State Match Bonds	1,595,000
2000 Series II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund Leveraged Bonds	10,165,000
2000 Series 1	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund State Match Bonds	855,000
2000 Series 2	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund Leveraged Bonds	18,460,000
2001 Series I	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund State Match Bonds	9,005,000
2001 Series II	Kansas Department of Health and Environment - Water Pollution Control Revolving Loan Fund Leveraged Bonds	112,065,000
2002 Series 1	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund State Match Bonds	3,530,000
2002 Series 2	Kansas Department of Health and Environment - Public Water Supply Revolving Loan Fund Leveraged Bonds	21,150,000
2002 Series II	Kansas Department of Health and Environment - Water Pollution Control Revenue Bonds	58,220,000
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	90,065,000
2004 Series 2	KDHE Drinking Water - Leveraged Refunding	70,940,000
2004 Series 1	KDHE Drinking Water - State Match Refunding	6,305,000
2005 CW-I	KDHE Clean Water - State Match I (New & Refunding)	4,290,000
2005 CW-II	KDHE Clean Water - Leveraged II (New & Refunding)	104,705,000
2005 TR	Kansas Dept. of Transportation Revolving Loan Fund	30,490,000
2006 TR	Kansas Dept. of Transportation Revolving Loan Fund	23,305,000
	<b>total</b>	<b>669,855,000</b>

<b>Tax-Supported Debt</b>		
<b>Other</b>		
Source of Repayment: Specific revenue fund OTHER THAN the State General Fund (SGF).		
<b>Series</b>	<b>Title</b>	<b>Balance 6/30/08</b>
1998L	Memorial Hall	3,740,000
1999N	DOA 7th & Harrison (partially refunded by 2002J)	685,000
1997G-1	Kansas Board of Regents - Comprehensive Rehabilitation and Repair Project	1,011,100
1997G-2	Kansas Board of Regents - Comprehensive Rehabilitation and Repair Project	-
1998V	Kansas Department of Commerce and Housing - IMPACT Program Project	-
1999E	Kansas Department of Commerce and Housing - IMPACT Program Project	4,065,000
2001D	JJA Larned and Topeka Juvenile Correctional Facilities	37,050,000
2001F	Kansas Board of Regents - Comprehensive Rehabilitation and Repair Project	12,575,000
2001J	JJA Juvenile Correctional Facilities (Refunds 1992H)	2,265,000
2001M	Kansas Department of Commerce and Housing - IMPACT Program Project	11,830,000
2001S	Series 2001S - State of Kansas Projects:	
2001R	Highway Patrol Training Facility (Refunding of 1992T)	-
2001W	Series 2001W State of Kansas Projects: ( 49,865,000.00)	
2001W-1	HR Acquisition & Renovation	1,375,000
2001W-2	KDHE Vital Statistics	960,000
2002H	DHR Acquisition & Renovation Project - 1430 Building (legally changed to DOL)	2,875,000
2002J	DOA 7th & Harrison State Office Project (Partially refunds 1999N)	30,440,000
2002N-1	SRS Larned State Hospital	40,665,000
2002N-2	KHP Fleet Operations Project	2,895,000
2004A	State of Kansas Projects - \$50,730,000	
2004A-1	Dept of Social and Rehabilitation Services - Renovation & Repairs	28,765,000
2004A-3	Kansas Highway Patrol - Facility Acquisition Project	310,000
2004F	Kansas Board of Regents-Comprehensive Rehab & Renov - \$44,860,000	
2004F	Comp Rehab & Renov - Crumbling Classrooms	645,000
2004F	Comp Rehab & Renov - 1997G-1 Refunding	13,030,000
2004F	Comp Rehab & Renov - 1997G-2 Refunding	27,125,000
2005H	State of Kansas Projects - \$88,175,000	
2005H-2	Dept. of Human Resources (DOL) - Unemployment Benefit System	17,400,000
2005N	Kansas Dept. of Commerce-IMPACT Program Proj.	20,340,000
2007F	Kansas Department of Commerce - IMPACT Program Project	31,915,000
	<b>total</b>	<b>291,961,100</b>

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<b>Tax-Supported Debt</b>		
<b>State General Fund</b>		
Source of Repayment: State General Fund (SGF)		
<u>Series</u>	<u>Title</u>	<u>Balance 6/30/08</u>
1993L	Energy	445,000
1996A	Energy	-
1996J	Energy	245,000
1999A-1	DOC El Dorado and Larned	9,080,000
1999A-2	DOC Ellsworth and Labette	300,000
1999H	DOC El Dorado Reception	3,090,000
2000V	DOA State Capitol Restoration Project, Phase I-A	3,075,000
2001L	DOA (PBC Digital Conversion) Redeems 2001C	4,470,000
2001O	DOA State Building Renovation Projects	7,210,000
2001P	Refund Energy - Series G, 1992	130,000
2001W	Series 2001W State of Kansas Projects: ( 49,865,000.00)	
2001W-3	Kansas Fairgrounds Renovation	14,230,000
2001W-4	DOA Judicial Center Improvements	730,000
2001W-5	DOA State Capitol Restoration	21,720,000
2002C	DOA State Capitol Parking	12,765,000
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	3,301,898
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - KUMC Biomedical Research	7,298,819
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	6,130,000
2003C	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU Engineering Complex	726,801
2003H	Kansas Public Employees Retirement System - KPERs 13th Check Group	16,655,000
2003H	Kansas Public Employees Retirement System - TIAA Group - Board of Regents and KU Hospital Authority	9,375,000
2004A	State of Kansas Projects - \$50,730,000	
2004A-2	Kansas State Fairgrounds - Renovation Project	9,450,000
2004C	Kansas Public Employees Retirement System	500,000,000
2004G-1	DOA Capitol Restoration Project - Phase II	16,635,000
2004G-2	Dept of Admin Refunding Revenue Bond Project (KBI)	580,000
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	2,539,752
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - KUMC	4,155,879
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - Aviation Research Facility	6,130,000
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - WSU	2,238,735
2005D	Kansas Board of Regents - Scientific Research & Development Facilities Project - PSU	597,557
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)	7,195,000
2005H-3	Adjutant General - Refunding Armories Reonv.-BAN	5,650,000
2005H-3	Adjutant General - Refunding Armories Reonv. Phase II (2000T)	1,270,000
2005H-3	Adjutant General - Refunding Armories Reonv. Phase II (2001W-6)	1,345,000
2005H-3	Adjutant General - Refunding Armories Reonv. Phase III (2003J-2)	4,975,000
2005H-3	Adjutant General - Refunding Armories Reonv. Phase IV (2004A-4)	4,990,000
2005H-4	Dept. of Admin. - Public Broadcasting Council	1,600,000
2005H-5	Dept. of Corrections - Refunding El-Dorado Facility (1999H)	10,195,000
2006A	Kansas Dept. of Administration - Comprehensive Transportation Program (Reimbursement)	202,755,000
2006L	State of Kansas Projects - \$13,210,000	
2006L-1	Dept. of Admin - Capitol Restoration Phase IV	7,065,000
2006L-2	Kansas Board of Regents - Pittsburg State University Joint Armory Proj	4,065,000
2006L-3	Adjutant General - Pittsburg State Armory Project	1,465,000
2007K	State of Kansas Projects	
2007K-1	Dept. of Admin. - Capitol Restoration Phase V	27,505,000
2007K-2A	Adjutant General - Training Center	9,170,000
2007K-2B	Adjutant General - Refunding Armories Reonv.-BAN	3,170,000
2007K-3	Dept. of Corrections - Renovations	19,610,000
	<b>total</b>	<b>1,002,579,441</b>

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<b>Tax-Supported Debt</b>		
<b>Highway Fund (KDOT)</b>		
Source of Repayment: motor fuel taxes, vehicle registration fees, sales taxes and federal aid reimbursements.		
<u>Series</u>	<u>Title</u>	<u>Balance 6/30/08</u>
1993 A	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	-
1998	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	58,265,000
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	77,040,000
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	88,110,000
2003 A & B	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds	248,190,000
2003 C	State of Kansas - Department of Transportation - Highway Revenue Refunding Bonds (Auction Rate Securities)	150,275,000
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
	<b>total</b>	<b>1,738,885,000</b>

[ABOUT KDFA](#)   [PROGRAMS](#)   [RESOURCES](#)   [CONTACT US](#)

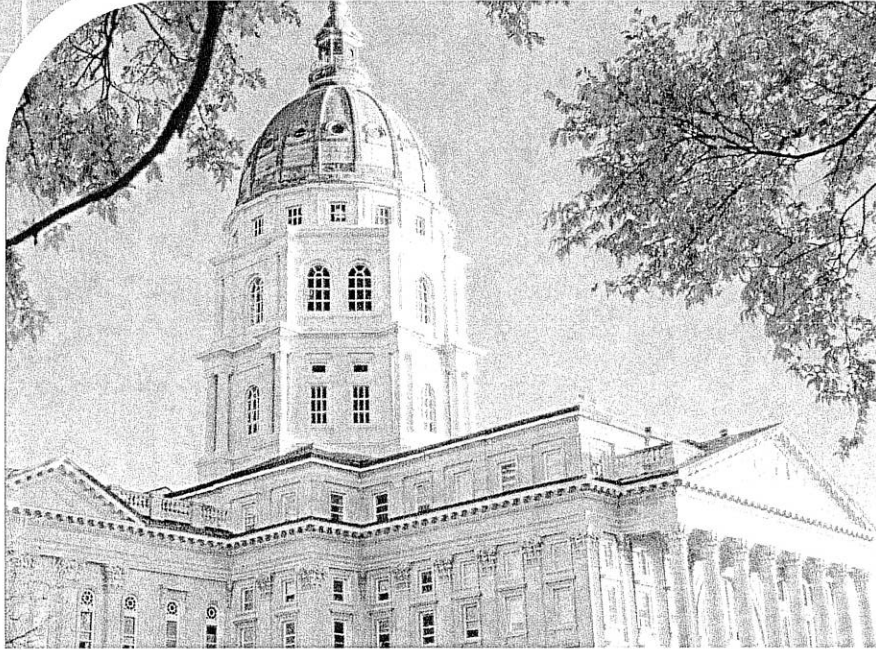
**KDFA**  
Kansas Development  
Finance Authority

KANSAS DEVELOPMENT FINANCE AUTHORITY   **YOUR FINANCIAL RESOURCE**

*Site Design by FryeAllen, Inc.*



## STATE PROJECT FINANCING



**K**ansas Development Finance Authority is authorized to provide for the issuance of revenue bonds for activities and projects of state agencies as requested by the Secretary of Administration, provided such activities or projects have been approved by an appropriation or other act of the legislature or have been approved by the State Finance Council. K DFA is also authorized to issue bonds for the purpose of refunding any outstanding bonded indebtedness of any state agency to reduce the cost of interest. Bond proceeds are used for such projects as construction and acquisition of office buildings, restoration of the Capitol Building, and renovation of state correctional facilities.

K DFA also issues bonds for two state revolving loan fund programs, one targets municipal and rural waste water systems and the other targets drinking water systems for political subdivisions. In conjunction with the Kansas Department of Commerce and Housing, K DFA issues bonds for the Investments in Major Projects and Comprehensive Training Program (IMPACT) which provides funds for job training and major project investments for companies which are locating or expanding their business in Kansas.

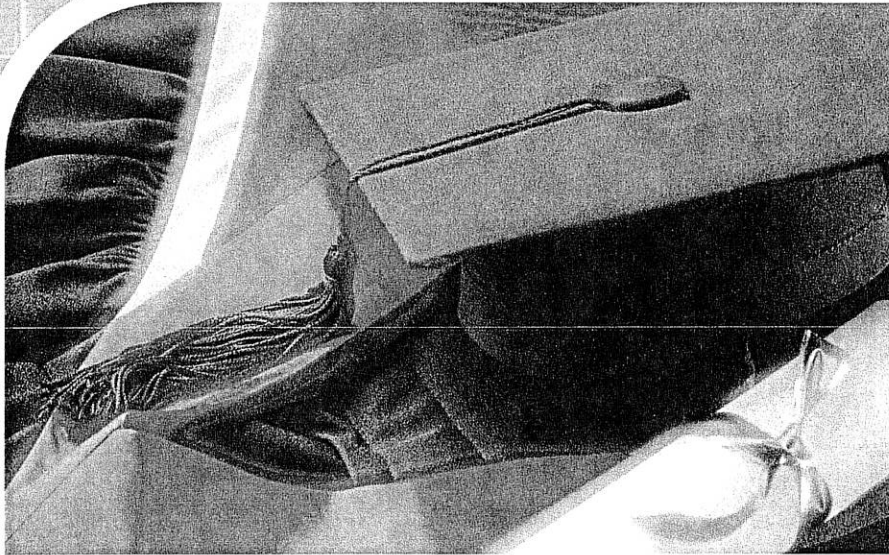
The Kansas Development Finance Authority promotes economic development for Kansas by facilitating long-term financing for capital projects and programs via the issuance of taxable and tax-exempt bonds or other securities. Created by the 1987 Kansas Legislature and dedicated to the growth and prosperity of our state, K DFA will work to help you obtain long-term financing. For information on capital finance mechanisms available to governmental units and qualifying private enterprises, K DFA is "Your Financial Resource."

**K DFA**

Kansas Development Finance Authority

353 337-4447 • FAX 353-337-4478 • 201 S. Kansas • Topeka, KS 66605 • [www.kdfa.org](http://www.kdfa.org)

## BOARD OF REGENTS FINANCING



The Kansas Legislature authorized K DFA to issue revenue bonds to finance projects on behalf of the Kansas Board of Regents. The Board of Regents is responsible for formulating policy under which the state universities operate and for recommending to the state legislature the amount of state funds to be made available to each institution. The Regents govern Emporia State University, Fort Hays State University, Kansas State University, Kansas State University-Salina, Pittsburg State University, Wichita State University, the University of Kansas and the University of Kansas Medical Center. These revenue bonds have been issued for various purposes such as the construction of a recreation complex, residence hall, cafeteria, student center, parking garage, laboratory facilities, stadium improvements and for the renovation of residence halls and other campus buildings. The bonds are secured by various student fees, rental payments and other revenues from the institutions.

The Comprehensive Rehabilitation and Repair Project Bonds are issued for the purpose of paying a portion of the costs of construction, rehabilitation, repair and equipping of various facilities located on the campus of all six Regent universities. The bonds are secured by annual appropriations made to the Comprehensive Rehabilitation and Repair Fund of the Board from the Kansas Educational Building Fund, a special revenue fund of the state funded by a one mill property tax levy on tangible property in the state.

The Kansas Development Finance Authority promotes economic development for Kansas by facilitating long-term financing for capital projects and programs via the issuance of taxable and tax-exempt bonds or other securities. Created by the 1987 Kansas Legislature and dedicated to the growth and prosperity of our state, K DFA will work to help you obtain long-term financing. For information on capital finance mechanisms available to governmental units and qualifying private enterprises, K DFA is "Your Financial Resource."

**K DFA**

Kansas Development Finance Authority

155 West 1145 • Fax 787 337 4178 • 115 S Kansas Avenue, Ste. 291 • Topeka, KS 66603 • www.kdfa.org

## EDUCATIONAL FACILITIES FINANCING



**K**ansas Development Finance Authority is authorized to issue bonds for public and private educational facilities, including community colleges, private colleges and other public and private educational facilities. In addition to state projects such as residence halls, recreation facilities, student unions, research facilities and classrooms, KDFA has issued bonds on behalf of athletic foundations to fund significant stadium and arena improvements at Kansas University, Kansas State University and Wichita State University. KDFA also issued bonds to finance auditorium improvements for a private high school, St. Thomas Aquinas High School located in Kansas City.

The Kansas Development Finance Authority promotes economic development for Kansas by facilitating long-term financing for capital projects and programs via the issuance of taxable and tax-exempt bonds or other securities. Created by the 1987 Kansas Legislature and dedicated to the growth and prosperity of our state, KDFA will work to help you obtain long-term financing. For information on capital finance mechanisms available to governmental units and qualifying private enterprises, KDFA is "Your Financial Resource."

**KDFA**

Kansas Development Finance Authority

785-357-1111 • Fax 785-357-4178 • 552 S. Kansas Avenue, Ste. 20 • Topeka, KS 66603 • [www.kdfa.org](http://www.kdfa.org)



# KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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<http://www.kslegislature.org/klrd>

February 18, 2009  
*Revised and Updated*

**To:** Kansas Legislators  
**From:** Julian Efird, Principal Analyst  
**Re:** Governor's Proposed Debt Restructuring Plan for FY 2009 and FY 2010

In the *Governor's FY 2010 Budget Report*, Volume 1, page 196, a recommendation for debt restructuring is detailed as a plan to help balance the FY 2009 and FY 2010 budgets. The Governor recommends a plan that includes a portion of the state's bonded indebtedness that is to be restructured in order to achieve budgetary relief. The Governor's recommendation states that where possible, State General Fund serviced bonds will be restructured so that interest on the debt is paid from the State General Fund in FY 2009 and FY 2010, but principal payments in those cases will be "deferred" in FY 2009 and FY 2010, then spread over the remaining years of the loan. The *Governor's FY 2010 Budget Report* concludes in recommending that the bond restructuring lowers the expected State General Fund debt service payments by \$14.0 million in FY 2009 and by \$39.0 million in FY 2010, for a total of \$53.0 million in debt payment relief for the State General Fund.

In essence, the Governor's original bond restructuring proposal would have used the proceeds from a series of three new bond issues during FY 2009 and FY 2010 to make the principal payments on certain outstanding bond issues, thus relieving the State General Fund obligation of making certain principal payments in those fiscal years. Then, the Governor's proposal would spread the repayment of the three new bond issues over a period of years, beginning in FY 2011, and continuing until FY 2035. The Governor's original recommendation was to pay \$53.0 million of current obligations in the FY 2009 and FY 2010 budgets with the new bond proceeds, and then make a series of repayments for the "deferred" debt restructuring that totals approximately \$121.0 million over the term of the new bonds, based on an estimate provided by the Kansas Development Finance Authority (K DFA). The estimated interest cost over the term was originally \$68.0 million.

The Governor on February 17, 2009, vetoed a provision in section 37(t) of 2009 SB 23 that would have lapsed \$10,070,000, all from the State General Fund, for making the FY 2009 payments for KPERS pension obligation bonds. Part of the Governor's original bond restructuring proposal included lapsing this funding and replacing the payments with proceeds from refunding bonds. Shortly after the Governor's veto was communicated to the Legislature, K DFA indicated it was canceling the portion of the refunding bond issue referred to as Series 2009 B that included the KPERS 2004 H debt restructuring, and that only the remaining \$4.3 million in refunding bonds would be finalized on February 26, 2009.

In the Governor's veto message, it was indicated that by vetoing the originally recommended lapse of debt service money, the state could meet its obligations to make debt service payments in FY 2009 for the KPERS pension obligation bonds. The Governor's veto only addressed the current fiscal year and at this time, no other recommendation regarding FY 2010 has been made or communicated to the Legislature as part of the veto message.

## Background

The Governor's original recommended plan would have reduced State General Fund expenditures in FY 2009 and FY 2010 by a total of \$53.0 million for certain outstanding bond issues associated with specific agencies and projects as noted in Table 1.

Table 2 shows the various outstanding bond issues that would have been included in the Governor's recommended plan for debt restructuring. The "refunding amount" refers to the funding obligation that is shifted from the State General Fund to the bond proceeds, as noted in Table 2. Bond proceeds would be used to make principal payments in FY 2009 and FY 2010 for the outstanding bond issues listed in Table 2.

Table 3 shows the original bond repayment schedules for each of the three new issues identified as bond series 1, 2, and 3. An annual amount for repayments by fiscal year also is included in Table 3. Repayments for the Governor's original proposal through FY 2035 would have totaled \$121.4 million, of which an estimated \$68.1 million would be interest. The final cost may be more or less, depending upon the actual sales of the bonds and the final interest rates established by the three different sales.

The rationale for three new bond issues is related to a requirement that each of the bond transactions must be concluded within 90 days of the settlement date for issuing the new bonds and the time at which the principal payments outstanding are due on the existing bonds. The first new bond issue will be used to pay outstanding bond principal amounts due March 1, April 1, and May 1, 2009 (in FY 2009). The second new bond issue will be used to pay outstanding bond principal amounts due September 1, October 1, and November 1, 2009 (in FY 2010). The third new bond issue will be used to pay outstanding bond principal amounts due March 1, April 1, and May 1, 2010 (in FY 2010).

Enclosures

**Table 1: Governor's Recommendation  
Reductions in SGF Principal**

	FY 2009	FY 2010
<b>Dept. of Administration</b>		
Energy Conservation	\$ (352,500)	\$ (70,000)
Statehouse Improvements	(1,190,000)	(5,870,000)
KPERS Pension \$500M	(10,070,000)	(10,415,000)
Public TV Digital Conv.	(315,000)	(325,000)
Judicial Ctr	-	(70,000)
KDOT Hwy	-	(7,300,000)
<b>Subtotal -- DoA</b>	<b>\$ (11,927,500)</b>	<b>\$ (24,050,000)</b>
<b>KPERS 13th Check</b>	<b>\$ -</b>	<b>\$ (2,575,000)</b>
<b>Board of Regents</b>		
University R&D	\$ -	\$ (4,975,000)
KPERS TIAA Bonds	-	(1,405,000)
<b>Subtotal - BoR</b>	<b>\$ -</b>	<b>\$ (6,380,000)</b>
<b>PSU Armory Ctr</b>	<b>\$ (160,000)</b>	<b>\$ (165,000)</b>
<b>KU School of Pharmacy</b>	<b>\$ -</b>	<b>\$ (720,000)</b>
<b>WSU Aviation Resch</b>	<b>\$ -</b>	<b>\$ (1,340,000)</b>
<b>Dept. of Corrections</b>		
El Dorado Facility	\$ (40,000)	\$ (40,000)
Infrastructure	-	(645,000)
Dept. of Corrections	-	(150,000)
<b>Subtotal - DoC</b>	<b>\$ (40,000)</b>	<b>\$ (835,000)</b>
<b>KBI Headqtrs Bldg*</b>	<b>\$ (280,000)</b>	<b>\$ (300,000)</b>
<b>Adjutant General</b>		
Armory Rehab Repair	\$ (1,140,000)	\$ (1,395,000)
Armory PSU	(55,000)	(60,000)
<b>Subtotal - AdjGen</b>	<b>\$ (1,195,000)</b>	<b>\$ (1,455,000)</b>
<b>Kansas State Fair</b>	<b>\$ (410,000)</b>	<b>\$ (1,210,000)</b>
<b>TOTALS</b>	<b>\$ (14,012,500)</b>	<b>\$ (39,030,000)</b>

\* FY 2009 amount of \$285,000 also in GBR data base.

Source: GBR, Vol. 1 page 196 for agencies and totals; bond details KLRD.

**Table 2: Detail of Proposed Debt Restructuring Plan  
-- FY 2009 and FY 2010**

<b>Issue</b>	<b>Purpose</b>	<b>Principal Amount</b>	<b>Refunding Amount</b>
1993L	Energy Conservation Revenue Bonds, (State Building Conservation Projects)	\$ 445,000	\$ 222,500
2001S	Kansas Public Broadcasting Council Digital Conversion Projects, Series 2001L	255,000	255,000
	State Building Energy Conservation Projects, Series 2001P (Refunding of 1992G)	130,000	130,000
2004G	G-1: DOA, Division of Facilities Management, Capital Restoration	750,000	750,000
	G-2: DOA, Division of Facilities Management, Refunding 1994C-89F KBI	280,000	280,000
2004C	2004C KPERS (Taxable)	10,070,000	10,070,000
2004A	2004A-2 State Fair	410,000	410,000
2005H	DOA - Refunding Public Broadcasting Council BAN	60,000	60,000
	DOA - Refunding Capitol Restoration 2000V	15,000	15,000
	Adjutant General - Refunding Armories Renov. BAN	210,000	210,000
	Adjutant General - Refunding Armories 2004A-4	300,000	300,000
	Adjutant General - Refunding Armories 2003J-2	365,000	365,000
	Adjutant General - Refunding Armories 2001W-6	130,000	130,000
	Adjutant General - Refunding Armories 2000T	135,000	135,000
	DOC - Refunding El-Dorado 1999H	40,000	40,000
2006L	Capitol Restoration	425,000	425,000
	Pittsburg State University	160,000	160,000
	Adjutant General	55,000	55,000
<b>Bond Issue 1 Total:</b>		<b>\$ 14,235,000</b>	<b>\$ 14,012,500</b>
<b>SUBTOTAL – FY 2009</b>		<b>\$ 14,235,000</b>	<b>\$ 14,012,500</b>

**Table 2: Detail of Proposed Debt Restructuring Plan  
-- FY 2009 and FY 2010**

<b>Issue</b>	<b>Purpose</b>	<b>Principal Amount</b>	<b>Refunding Amount</b>
1999A	Department of Corrections	\$ 150,000	\$ 150,000
2000V	DOA, Division of Facilities Management, Capital Restoration, Phase I-A	1,100,000	1,100,000
2000W	DOA, Division of Facilities Management, Capital Restoration, Phase I-B	630,000	630,000
2001W	Kansas State Fair at Hutchinson - Capital Improvement Project	780,000	780,000
	DOA, Judicial Center & Capitol Complex Improvements	70,000	70,000
2002C	State Capitol Restoration Parking Facility Project	705,000	705,000
2003H	KPERS, 13th Check Group	2,575,000	2,575,000
	KPERS, TIAA - Board of Regents	1,405,000	1,405,000
2003C	University R&D Bonds	1,830,000	1,280,000
2005D	University R&D Bonds (TAXABLE)	5,035,000	5,035,000
2006A	DOA Comprehensive Transportation Program	7,300,000	7,300,000
2007K	State of Kansas Projects State House Renovation	905,000	905,000
	State of Kansas Projects	300,000	300,000
	State of Kansas Projects Adj Gen Armory	105,000	105,000
	State of Kansas Projects	645,000	645,000
2008L	State Projects - State Capitol Restoration	1,310,000	1,275,000
	State Projects - Refund Adj Gen Armory BAN 2008-2	105,000	105,000
	State Projects - KU Pharmacy Lawrence	560,000	560,000
	State Projects - KU Pharmacy Wichita	160,000	160,000
<b>Bond Issue 2 Total:</b>		<b>\$ 25,670,000</b>	<b>\$ 25,085,000</b>

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**Table 2: Detail of Proposed Debt Restructuring Plan  
-- FY 2009 and FY 2010**

<b>Issue</b>	<b>Purpose</b>	<b>Principal Amount</b>	<b>Refunding Amount</b>
1996J	Energy Conservation Revenue Bonds, (State Building Conservation Projects)	\$ 70,000	\$ 70,000
2001S	Kansas Public Broadcasting Council Digital Conversion Projects, Series 2001L	265,000	265,000
2004G	G-1: DOA, Division of Facilities Management, Capital Restoration	800,000	800,000
	G-2: DOA, Division of Facilities Management, Refunding 1994C-89F KBI	300,000	300,000
2004C	2004C KPERS (Taxable)	10,415,000	10,415,000
2004A	2004A-2 State Fair	430,000	430,000
2005H	DOA - Refunding Public Broadcasting Council BAN	60,000	60,000
	DOA - Refunding Capitol Restoration 2000V	15,000	15,000
	Adjutant General - Refunding Armories Renov. BAN	220,000	220,000
	Adjutant General - Refunding Armories 2004A-4	320,000	320,000
	Adjutant General - Refunding Armories 2003J-2	375,000	375,000
	Adjutant General - Refunding Armories 2001W-6	130,000	130,000
	Adjutant General - Refunding Armories 2000T	140,000	140,000
	DOC - Refunding El-Dorado 1999H	40,000	40,000
2006L	Capitol Restoration	440,000	440,000
	Pittsburg State University	165,000	165,000
	Adjutant General	60,000	60,000
<b>Bond Issue 3 Total:</b>		<b>\$ 14,245,000</b>	<b>\$ 14,245,000</b>
<b>SUBTOTAL – FY 2010</b>		<b>\$ 39,915,000</b>	<b>\$ 39,330,000</b>
<b>GRAND TOTAL – FY 2009 &amp; FY 2010</b>		<b>\$ 54,150,000</b>	<b>\$ 53,342,500</b>

Source: Kansas Development Finance Authority.



Impact of Refunding Transactions

**Table 3: Refunding Bonds**

FY	Bond Series 1	Bond Series 2	Bond Series 3	Totals
2011 \$	984,828 \$	1,493,037 \$	1,098,929 \$	3,576,794
2012	984,828	1,493,037	928,672	3,406,537
2013	984,828	1,493,037	928,672	3,406,537
2014	984,828	1,493,037	928,672	3,406,537
2015	1,349,828	1,493,037	928,672	3,771,537
2016	1,351,796	1,493,037	928,672	3,773,505
2017	1,347,187	1,493,037	928,672	3,768,896
2018	1,351,316	1,493,037	928,672	3,773,025
2019	1,348,552	1,493,037	928,672	3,770,261
2020	1,349,211	1,493,037	928,672	3,770,920
2021	1,350,798	1,493,037	928,672	3,772,507
2022	1,350,023	1,493,037	1,593,672	4,436,732
2023	1,346,886	2,184,192	1,589,317	5,120,395
2024	1,351,386	2,184,681	1,592,011	5,128,078
2025	1,347,848	2,186,463	1,591,275	5,125,586
2026	1,351,611	2,184,468	1,587,099	5,123,178
2027	1,346,998	2,183,561	1,589,557	5,120,116
2028	1,349,348	2,188,280	1,587,978	5,125,606
2029	1,347,986	4,589,776	1,587,263	7,525,025
2030	1,347,911	3,482,230	1,587,063	6,417,204
2031	1,348,786	3,482,308	1,587,027	6,418,121
2032	1,350,273	3,483,661	1,591,802	6,425,736
2033	1,347,195	3,480,926	1,590,696	6,418,817
2034	1,349,980	3,478,749	1,588,037	6,416,766
2035	1,349,248	3,481,361	1,591,389	6,421,998
<b>Totals</b>	<b>\$ 32,273,479 \$</b>	<b>56,507,100 \$</b>	<b>32,639,835 \$</b>	<b>121,420,414</b>
Principal	\$ 14,010,000 \$	25,085,000 \$	14,245,000 \$	53,340,000
Interest*	\$ 18,263,479 \$	31,422,100 \$	18,394,835 \$	68,080,414

Note: May not add due to rounding.

\* Estimated and may not include other costs of refunding.

Source: Kansas Development Finance Authority.

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1-75

**KANSAS**  **HOUSING**  
**RESOURCES CORPORATION**

**PRESENTATION BEFORE THE HOUSE**  
**FEDERAL AND STATE AFFAIRS COMMITTEE**

*February 25, 2009*

*Presenter: Gary Allsup, KHRC Executive Director*

***Introduction***

Chairman Neufeld and Members of the Committee, our nation has endured record numbers of foreclosures, increasing unemployment, and the near collapse of the housing and financial markets during this past year. Not immune from these national concerns, Kansas communities also continue to recover from natural disasters that devastated their homes in 2007. The need for affordable, safe, and decent housing in Kansas has never been greater. With this backdrop in mind, as Executive Director of Kansas Housing Resources Corporation (KHRC), I am proud to present this overview of a corporation that continues to meet these ever-changing challenges, while remaining financially viable, self-sufficient, and flexible.

***Background of KHRC***

Kansas Housing Resources Corporation (KHRC) was formerly the Division of Housing within the Department of Commerce and Housing. In 2003, Executive Reorganization Order No. 30 and Senate Bill No. 285 transferred KHRC to the Kansas Development Finance Authority (KDFA) to be organized in accordance with the KDFA Act. Pursuant to KSA 74-8904(v), KHRC was incorporated July 1, 2003. It has its own Board of Directors and operates independently of KDFA.

***KHRC Fiscal Operations***

A self-supporting entity, KHRC serves two administrative roles for the State of Kansas: Federal Housing Program Administrator and State Housing Trust Fund Administrator. While KHRC receives no appropriation from the State for any administrative costs, the corporation has previously received one-time appropriations for weatherization assistance, disaster aid and energy efficiency improvement assistance. In addition, KHRC has also received state funds to administer the Housing Development Grant Program, a program approved by the Legislature to provide grants to disaster-affected cities or counties for housing development and infrastructure-related activities. A financial overview of the Corporation and its activities is attached as Addendum A for your review. KHRC's audited financial statements may also be found at [www.kshousingcorp.org](http://www.kshousingcorp.org).

House Fed & State Affairs

Date: 2/25/09

Attachment 2

## ***KHRC Programs***

KHRC administers a variety of Federal and State housing programs encompassing homeownership, rental housing development, weatherization assistance, emergency repairs and accessibility modifications. KHRC's mission is to enhance Kansas communities with housing opportunities. We utilize a variety of strategies and approaches to achieve this goal, including increasing homeownership opportunities, leveraging the construction of more affordable rental housing, promoting energy efficiency improvements for owner-occupied and rental housing and providing affordable housing through rent assistance to low-income families and senior citizens. Most recently, KHRC has partnered with the Department of Commerce in administering the Federal Neighborhood Stabilization Program. A complete list of our programs is also attached as Addendum B for your review.

## ***Impact of Federal Stimulus Dollars***

To maximize the impact of the recently enacted American Recovery and Reinvestment Act, KHRC is prepared to quickly and efficiently administer the economic stimulus funds for home weatherization, rental housing development gap financing, and emergency shelter grants. All of the stimulus funds are provided through existing programs administered by KHRC and bring with them restrictions on their use. Over one-half of the funds come from the Department of Energy Weatherization Program which KHRC has administered since the mid 1970's. A summary of additional Federal stimulus dollars is attached as Addendum C.

## ***Conclusion***

While the headlines may change, the need for affordable, quality housing in our State remains. KHRC is committed to continuing its mission of enhancing Kansas communities with housing opportunities. At this time, I welcome any questions you may have.

# ***ADDENDUM A***

## **FINANCIAL OVERVIEW**

### **KANSAS HOUSING RESOURCES CORPORATION**

The Kansas Housing Resources Corporation (KHRC) is self-supporting and serves two roles for the State of Kansas: Federal Housing Program Administrator and State Housing Trust Fund Administrator.

Although KHRC receives no appropriation from the State for any administrative costs, it has received appropriations for weatherization assistance, disaster assistance, energy efficiency, and the Housing Development Grant Program for Kansas communities.

Fiscally, KHRC is divided into two separate funds on its fiscal year 2008 audit report:

1. **KHRC Operations** – Federal housing program administration activities, which include fee for service and federal grant program administration.
2. **State Housing Trust Fund** – Funding sources are defined as funds received for being the provider of housing services to the State of Kansas, and include state-funded program appropriations, Single Family Mortgage Revenue Bond housing bond fees, and transfers from *KHRC Operations*. State Housing Trust Fund programs include:

#### **State-Funded**

Weatherization Assistance Program  
Disaster Assistance  
Kansas Energy Efficiency Program  
Housing Development Grant Program

#### **Non-State-Funded**

Kansas Accessibility Modification Program  
Emergency Repair Program  
Supplemental Disaster Assistance  
Other Housing Assistance

In fiscal year 2008, *KHRC Operations* transferred all of its net operating income to the State Housing Trust Fund to fund housing programs for Kansas communities. While the *State Housing Trust Fund* had cash and investment balances of over \$11.3 million at June 30, 2008, \$10.7 million of that total was committed for specific program purposes that will be disbursed in a subsequent fiscal year.

KHRC's challenge continues to be growing its funding sources and resources in order to meet Kansans' housing needs in the future.

## ***ADDENDUM B***

### **DESCRIPTION OF PROGRAMS**

#### **KANSAS HOUSING RESOURCES CORPORATION**

Governor Kathleen Sebelius created Kansas Housing Resources Corporation (KHRC) as a subsidiary corporation of the Kansas Development Finance Agency in 2003, establishing KHRC as a “one stop shop for housing in Kansas.” KHRC now serves as the Housing Finance Agency for the State of Kansas. With this in mind, KHRC has four primary areas of emphasis: Homeownership, Rental Housing, Housing with Supportive Services, and Asset Management. The goal of KHRC’s activities in all of these areas is to enhance Kansas communities with housing opportunities. This goal is achieved through a variety of strategies and approaches, including increasing homeownership opportunities, leveraging the construction of more affordable rental housing, promoting energy efficiency improvements for owner-occupied and rental housing, providing affordable housing through rent assistance to low-income families and senior citizens, and creating housing opportunities for previously underserved persons and communities. A summary of KHRC programs follows:

#### ***Community Services Block Grant***

The Community Services Block Grant (CSBG) funds Community Action agencies throughout Kansas. Community Action Agencies are organizations designed to develop and implement community-wide solutions to the causes and conditions of poverty in their communities. The CSBG program is funded through an annual Federal allocation from the U.S. Department of Health and Human Services. Allowable activities are those which produce measurable outcomes in one or more of the six national CSBG goals and which will fill a documented need. The six national goals are:

- Low-income people become more self-sufficient (employment, employment supports, economic asset enhancement and utilization).
- The conditions in which low-income people live are improved (community improvement and revitalization, community quality of life and assets).
- Low-income people own a stake in their community (civic investment, community empowerment through maximum feasible participation).
- Partnerships among supporters and providers of service to low-income people are achieved (expanding opportunities through community-wide partnerships).
- Agencies increase their capacity to achieve results (broadening the resource base).
- Low-income people, especially vulnerable populations, achieve their potential by strengthening family and other supportive systems (independent living, emergency assistance, child and family development).

Households at or below 125 percent of the Federal poverty level who live in areas served by Community Action Agencies are eligible for their programs.

**Achievements:** In 2008, 12,039 families received assistance from eight Community Action Agencies, using \$4,759,714 in CSBG funds.

### ***Emergency Repair Program***

The Emergency Repair Program (ERP) assists nonprofit service providers to facilitate emergency repairs for low-income homeowners. The program is funded by KHRC through the State Housing Trust Fund. Emergency repairs are allowable based on individual need, up to \$7,500 for existing owner-occupied properties. Examples of emergencies include, but are not limited to, an inoperable or faulty furnace, leaking roof, unsafe electrical wiring or plumbing, or hazardous structural conditions. Total household income must not exceed 80 percent of the area gross median income for the county of residence.

**Achievements:** In 2008, Emergency Repair funding provided \$426,954.37 in assistance to 101 families in 54 counties. ERP network providers made 101 homes safer over the past year, including 43 roof repairs, 20 furnace replacements, 24 plumbing repairs and 8 electrical upgrades.

### ***Emergency Shelter Grant***

The grant is intended to create a continuum of assistance to prevent homelessness and to enable homeless individuals and families to move toward independent living. The Emergency Shelter Grant (ESG) program was originally established by the Homeless Housing Act of 1986, in response to the growing issue of homelessness among men, women, and children in the U.S. The U.S. Department of Housing and Urban Development allocates annual formula funding to the State of Kansas through the Consolidated Plan. The ESG program funds rehabilitation of emergency homeless shelters, shelter operational costs, essential services to homeless individuals and families, and homeless prevention activities.

**Achievements:** In 2008, the Emergency Shelter Grant program awarded \$866,500.00 in federal allocation to 65 agencies assisting homeless individuals and families. Through the TBRA (see program description on page 3), KHRC distributed rental assistance vouchers to 90 households who were homeless.

### ***HOME Investment Partnerships Program***

The Federal government allocates funds annually for the HOME Investment Partnerships Program. The amount allocated for First Time Homebuyers is determined annually and published in the Consolidated Plan Annual Plan after public comment. The HOME Investment Partnerships Program supports four grant activities:

First Time Homebuyers Program and American Dream Downpayment Initiative: The First Time Homebuyers Program (which includes funding for the American Dream Downpayment Initiative) offers funds to assist qualified buyers outside the city limits of Kansas City, Lawrence, Topeka, Wichita, and Johnson County with the purchase of a first home. No repayment is required if the family remains in the home for 10 years. Households whose income does not exceed 80 percent of the area gross median income are eligible for up to 30 percent of the purchase price of their first home in down payments, closing costs, and legal fees associated with a purchase. The home must be inspected by a state-certified Housing Quality Standards (HQS) inspector and approved for purchase.

**Achievements:** In 2008, \$3,633,071.50 was invested in 270 homes for first time homebuyers in Kansas.



HOME Rental Development: The HOME Rental Development program assists communities and developers with increasing the supply of affordable rental housing. To meet HOME Investment Partnerships Program requirements, at least 15 percent of the State's annual HOME funding is set aside for Community Housing Development Organizations (CHDO) for HOME Rental Development. Home Rental Development funds may be used for acquisition and rehabilitation of existing rental housing, rehabilitation of existing rental housing owned by another entity, and new construction of rental housing. Housing developers may apply for a loan in an amount up to \$300,000; the loan allows the owner/developer to lessen the amount of debt required to finance a development, thus allowing rents to be lowered. Ninety percent of the units developed through HOME Rental must be occupied by residents who earn no more than 60 percent of the area median gross income. The rent on these units cannot exceed the lesser of the fair market rent or 30 percent of the imputed income limitations for a family making no more than 65 percent of area median gross income.

**Achievements:** In 2008, \$2,383,000 was awarded to 6 CHDO developments for construction of 106 units.

Homeowner Rehabilitation of Existing Property: The Homeowner Rehabilitation of Existing Property (Homeowner Rehabilitation) program assists communities with repair and rehabilitation of owner-occupied housing in their areas. Homeowners whose gross household income does not exceed 80 percent of the area median income are eligible for this program. Activities are eligible if they are necessary to rehabilitate a housing unit to meet building codes and Section 8 Housing Quality Standards (HQS). Some eligible hard costs include major structural repairs, repair or replacement of major housing systems, costs to meet rehabilitation standards and local codes, reduction of lead-based paint hazards, accessibility modifications, and necessary site improvements. Soft costs are eligible, such as architectural, engineering, or related professional services; credit and title costs; recording fees, building permits, and appraisals.

**Achievements:** In 2008, \$2 million was awarded to 11 Kansas communities to facilitate the renovation, accessibility and weatherization of substandard housing. The grants awarded will help provide a safe environment for 100 families who otherwise can't afford basic repairs to their homes.

Tenant Based Rental Assistance: The Tenant Based Rental Assistance (TBRA) program assists individuals and families with their rent expenses. TBRA provides individuals and families with security deposits, utility deposits, and/or the difference between 30 percent of the family's adjusted monthly income and the lesser of the established payment standard or federal Fair Market Rent (FMR). The FMRs are published annually by the U.S. Department of Housing and Urban Development. Households earning no more than 60 percent of the area median gross income are eligible for this assistance.

**Achievements:** In FY 2009, \$1.1 million was awarded in HOME TBRA funds to grantees across the state, assisting more than 1,000 Kansas families.

### ***Housing Reentry Program***

This program is part of a larger Kansas Strategy for Reentry, with the goal that every offender released from prison will have the tools needed to succeed in the community. The Housing Reentry Program is intended to increase housing units available to returning offenders, by accessing existing housing and by increasing housing stock available, with a goal of avoiding the release of offenders to homelessness to the maximum extent practicable. The Housing Reentry Program is funded through a contract with the Kansas Department of Corrections. Staff works with correctional facilities (staff and inmates) and with community organizations to provide landlord-tenant and fair housing training. Staff also coordinates with housing and service providers to increase available housing for ex-offenders and increase collaboration between landlords and agencies that provide supportive services for ex-offenders.

### ***Kansas Accessibility Modifications Program***

The Kansas Accessibility Modifications Program (KAMP) provides handicap accessibility modifications to residences to allow individuals to better use their homes. The program is funded by KHRC through the State Housing Trust Fund. Accessibility modifications are allowable based on individual need, up to \$7,500 for owner-occupied residences and up to \$4,000 for tenant-occupied residences. These accessibility modifications may include, but are not limited to, installation of a ramp, widening doorways, installation of grab bars, bathroom modifications, kitchen modifications, and/or placement of light switches. Modifications to rental units require the owner's prior written approval. Total household income must not exceed 80 percent of the area gross median income for the county of residence. In some cases, where verifiable medical expenses may be deducted justifiably from household income, consideration will be given to individuals with total household income up to 115 percent of the area gross median income for the county.

**Achievements:** In 2008, 122 homes received accessibility modifications at a cost of \$430,479.32.

### ***Kansas Energy Efficiency Loan Program***

The Kansas Energy Efficiency Loan Program (KEEP) encourages installation of energy-efficient appliances and repairs to owner-occupied homes by funding half the home improvement loan amounts, up to a maximum of \$10,000, at a zero interest rate. This translates into a lower blended rate, saving money compared with taking out a normal second mortgage loan. The KEEP program is funded by a one-time \$2,000,000 allocation of the Kansas Legislature; it is intended to be a revolving loan. KEEP funds may be used for home energy audits by professional raters, installation of insulation, replacement of existing heating and cooling system, air sealing of cracks in the house shell, insulation of air ducts, replacement of water heaters, installation of energy-efficient doors and windows, etc. Appliances must meet ENERGY STAR<sup>SM</sup> requirements and windows must meet energy-efficiency requirements.

**Achievements:** In 2008, approximately \$620,000 was loaned to 145 households statewide for energy-efficiency improvements.

### ***Kansas Housing Development Grant***

The purpose of the Kansas Housing Development Grant program is to provide grants to eligible cities or counties for housing development activities. The Kansas Legislature approved \$4 million annually for the Kansas Housing Development Grant, beginning July 1, 2008, and ending June 30, 2015. Eligible activities include construction or rehabilitation of infrastructure necessary to support construction of new residential dwellings, and actual construction of new residential dwellings by a county or city housing authority created pursuant to municipal housing law at K.S.A. 17-2334 *et seq.* No more than \$25,000 in grant funds may be used for the construction of a single-family residential dwelling by a housing authority, excluding infrastructure costs.

**Achievements:** In 2008, \$8 million in Housing Development Grants was awarded to assist 10 disaster-affected communities:

- \$5,950,000 was allocated for infrastructure developments, such as streets, water and sewer systems.
- \$2,050,000 for the construction of 82 new residential dwellings.

### ***Low Income Housing Tax Credit Program***

The purpose of the Housing Tax Credit program is to secure private equity capital to develop and maintain affordable rental housing. This influx of equity reduces the cost of debt financing which, in turn, lowers the rents in the housing developed. Under the 1986 Tax Reform Act, states are allocated annual federal tax credits which are awarded to developer/applicants and are used for ten years. Kansas has an allotment of approximately \$6.4 million of tax credit authority annually, which results in a ten-year reduction in tax liability to investors of \$64 million. The amount of credit awarded to a specific application is based upon a percentage of the eligible basis for a qualified development. The developer sells the tax credits to a syndicator, which provides 60 to 70 percent of the funds needed for the development. Eligible activities from funds derived from sale of the tax credits include acquisition of existing housing; rehabilitation of existing housing, which may be converted to homeownership after completion of 15 years of an affordability period; and construction of new rental housing, which may be converted to homeownership after completion of 15 years of an affordability period. Historically, the tax credit units are placed in service within 2 years.

**Achievements:** During FY08, our Rental Housing Development Division allocated nearly \$64 million in 10-year tax credits to finance the development of 23 properties in counties. The tax credit program created 804 rental units for income-eligible Kansans and 79 market rate units. Over the past year, HTC has created:

- 804 units for low-income families
- 250 units for seniors
- 20 units for homeless individuals
- 20 units for individuals with special needs

### ***Private Activity Bonds***

The purpose of Private Activity Bonds (PABs) is to secure private equity capital to develop and maintain affordable rental housing. Similar to the Housing Tax Credit program, this influx of equity reduces the cost of debt financing which, in turn, lowers the rents in the housing developed. Private Activity Tax-Exempt Bond financing is available through the State's PAB allocation. The federal government empowers the State to authorize the issuance of \$232 million per year in PABs for several purposes, including industrial development, student loans, beginning farmer loans, multi-family rental housing development, and single-family mortgage revenue bonds for first time home buyers. Investors who buy the bonds are not required to pay federal income tax on the earnings. The bonds are issued by the Kansas Development Finance Authority. The Kansas Department of Commerce administers the PAB program with an agreement that KHRC will review and make recommendations on all rental housing applications. When PABs are used for rental housing, a 4 percent level tax credit is available to developers as a source of equity. KHRC receives all of the fees due to Commerce when a PAB allocation is provided for any housing development, including the mortgage revenue bonds. Eligible activities for PABs include acquisition of existing housing, if rehabilitation expenses equal or exceed 15 percent of the acquisition cost; rehabilitation of existing housing; and construction of new rental housing.

**Achievements:** In 2008, one PAB award in the amount of \$25 million was made for rental housing to rehabilitate 410 units.

### ***Weatherization Assistance Program***

The Weatherization Assistance Program (WAP) provides housing improvements that increase energy efficiency in eligible single- or multi-family dwellings, including manufactured homes. The program is funded through a formula Federal allocation from the U.S. Department of Energy and 15 percent of the Federal allocation to the State for the Low Income Energy Assistance Program (funded by the U.S. Department of Health and Human Services).

Funds are awarded to local weatherization providers, who provide services to households including an automated energy audit by a State-certified inspector; furnace inspection and necessary repair or replacement of unsafe units; upper plane and building envelope air leakage; ceiling, sidewall, floor, and perimeter insulation; reduction of air infiltration; incidental repairs for the protection or enhancement of the installed weatherization materials; and a post-weatherization inspection to assure the work has been completed correctly and professionally.

Weatherization of rental properties requires the prior written approval of the owner; if a furnace replacement is required, the owner is responsible for costs in excess of \$250 for that item. Households are eligible for weatherization if their income does not exceed the higher of 150 percent of the federal poverty guidelines or 60 percent of the statewide median income.

**Achievements:** In 2008, WAP providers weatherized 1894 homes in 97 Kansas counties at a cost of \$6,327,658. WAP replaced 477 dangerous furnaces, repaired 1187 homes with elderly and persons with disabilities and repaired 222 homes with children under the age of 6.

### ***Compliance Monitoring***

In addition to the programs operated, KHRC assists in maintaining the financial and physical integrity of the HUD-assisted housing properties throughout their useful life. The Asset Management Division exists to ensure the affordability, safety, and durability of housing units assisted by HUD's Section 8 Project-based Housing Assistance Payments (HAP) program. Compliance monitoring is funded by the U.S. Department of Housing and Urban Development through a contract with the State. The staff provides technical assistance and monitoring services to ensure that property owners and management companies comply with Federal housing regulations.

# ***ADDENDUM C***

## **AMERICAN RECOVERY AND REINVESTMENT ACT**

### **OVERVIEW OF HOUSING STIMULUS FUNDS**

(Updated as of February 23, 2009)

KHRC is prepared to quickly and effectively administer in the estimated \$110 million allocated to Kansas by the American Recovery and Reinvestment Act. These funds are to be used for weatherization, rental housing development gap financing and emergency shelter grants. An overview summary of the Federal stimulus dollars follows:

<b><u>Program</u></b>	<b><u>National Allocation</u></b>	<b><u>KHRC</u></b>	<b><u>Others Involved</u></b>	<b><u>Timeframe</u></b>
1. Tax Credit Program	na	\$21m	Swap up to 40% of 2009 Allocation	2009 Allocation
2. HOME Allocation	\$2.25b	\$16m	No funding to entitlement communities	2 years
3. Neighborhood Stabilization II	\$2b	\$10M	Commerce & KHRC Partnership	18 months
4. Weatherization	\$5b	\$58m	Currently provided through 9 weatherization agencies	2 years
5. Emergency Shelter Grants	\$1.5b	\$5m	Entitlement Communities/\$3m	18 months
6. Community Service Block Grant	\$1b	\$83,000	\$8.3 m to local CSBG Agencies, 1% admin to KHRC	18 months
7. First Time Home Buyer Tax Credit		0	\$7500 Tax Credit extended. Works with MRB and MCC	N/A
8. Section 8 Rental Assistance	\$2b	0	Full year commitments for Sec 8 properties	N/A
9. Public Housing Capital Fund	\$4b	0	For HUD properties	N/A
10. Assisted Housing Energy Retrofits	\$250m	0	For HUD properties	N/A
11. Community Development Block Grant	\$1B	0	\$3-4 million to Commerce	N/A
12. Rural Housing	\$200m	0	For USDA to support \$11.5b Section 502 loans	N/A



**Tax Credit Program:** The Stimulus provides the option for state HFA's to exchange up to 40% of the 2009 allocation for funds from the Treasury. This will change the structure of our tax credit deals, perhaps removing the equity partner entirely. Should we decide to take advantage of this option, we could swap about \$21 million. We would likely use these funds in some of our harder to market areas such as Coffeyville.

**Capacity:** KHRC is prepared to utilize these resources with minimal startup time and limited administrative burden.

**HOME Allocation:** The Stimulus provides \$2.25 billion to fund supplemental HOME allocations. Based on the total national funding, Kansas can expect a total of around \$16 million. All funds go to the tax credit allocating agencies. These funds are for gap funding of tax credit developments.

**Match:** HOME's normal 25% match will still be required, which KHRC is prepared to absorb.

**Time Frame:** Normally HOME funds must be used within five years; stimulus funds must be used within three years.

**Capacity:** KHRC is prepared to utilize these resources with minimal startup time and limited administrative burden.

**Neighborhood Stabilization Program II:** The Stimulus includes \$2 billion for a second round of funding for the NSP program. Kansas can expect approximately \$10 million. These funds will be in addition to the \$21 million allocated to the State last summer.

**Administrator:** Department of Commerce is the primary grant administrator; however, Commerce and KHRC are jointly administering the program.

**Time Frame:** HUD has provided an initial approval of our State plan. However, HUD has yet to prepare and provide a grant agreement to the State. Once HUD provides the Grant Agreement, the program is ready for implementation. NSP rules require funds to be committed within 18 months after they are available to the State.

**Capacity:** KHRC and Commerce are prepared to utilize these resources with minimal startup time and limited administrative burden. However, HUD has been slow in establishing program rules and approving State plans. The primary obstacle to timely implementation and utilization of this program will be HUD.

**Weatherization:** The House Bill provides \$5 billion nationally for Department of Energy Weatherization funding. Kansas can expect to receive \$58 million of those funds directly to KHRC.

**Bill Provisions: Per Home Limits:** Includes an increase in the maximum spending per home from \$2,500 to \$6,500.

**Income Eligibility Limits:** The weatherization program includes an increase in maximum income eligibility for families from the greater of 150% of poverty or 60% of median income to the greater of 200% of poverty or 60% of median.

Family Size	Maximum Income
1	\$21,184
2	\$28,000
4	\$42,400

**Time Frame:** The Bill requires all funds to be expended within two years.

**Program Rules:** DOE is reportedly considering a set of temporary agency program rules that would further expand both income limits and eligible use. Any increase in either income limits, per home cost maximum, or eligible uses will increase effective utilization of these funds.

**Background:** For 2008 DOE provided \$2.7 million for weatherization. Funding for 2009 has just been announced at \$5.4 million, a 100% increase in activity.

**Capacity:** We have a much greater concern with the effective utilization of these funds. We now utilize sub-grantees around the state. These grantees are typically small not-for-profit agencies that are already in the process of gearing up in response to the 2009 funding increase. In order to utilize this funding over a two year period, we would need to complete 5 to 6,000 homes per year. This compares to less than 800 completed in the last complete program year. While we are prepared to engage, we anticipate the sheer growth to be a major obstacle.

**Emergency Shelter Grants:** The Stimulus includes an additional \$1.5 billion nationally. Kansas could expect approximately just over \$8 million.

**Distribution:** Entitlement communities will share approximately \$3 million and KHRC will receive \$5 million.

**Limitation:** The funds can only be used for homeless prevention activities, though the scope of those activities has been expanded. Examples of newly eligible activities include:

- Rental and mortgage assistance extended from short to medium term
- Utility and rent deposits
- Housing relocation and stabilization
- Credit repair assistance

**Observation:** KHRC could utilize a portion of these funds to create a program to help renters and homeowners catch up on rent and mortgage payments and remain in their homes.

**Time Frame:** All funds to be expended within 18 months.

**Capacity:** KHRC is prepared to utilize these resources with minimal startup time and limited administrative burden.

**Community Service Block Grants:** The Stimulus includes an additional \$1 billion nationally. Kansas can expect approximately \$2 million.

**Distribution:** KHRC would be a pass through for 99% of these funds. Of the remaining, 1% would be used for program administration funds.

**Capacity:** KHRC is prepared to utilize these resources with minimal startup time and limited administrative burden.

**Time Frame:** All funds to be expended within 18 months.

**First Time Homebuyer Tax Credit:** The Stimulus provides a tax credit of up to \$7,500 for first time home buyers. States, except for Kansas, can use this credit in conjunction with their state-administered mortgage revenue bond and mortgage credit certificate programs to reduce the net cost of the home purchase at the time of closing. However, KHRC is statutorily prohibited from making such loans.

**Section 8 Project Based Rental Assistance:** The Stimulus provides \$2 billion to HUD to improve timeliness of HUD rental subsidy payments to landlords. While KHRC administers 264 HUD contracts in Kansas, the additional funding will have little if any impact on KHRC or the State as a whole.

**Public Housing Capital Fund:** This is a HUD administered fund that they use to rehab public housing. It will not impact KHRC, though it likely will impact PHA's in Kansas with rehabbed units.

**Assisted Housing Energy Retrofits:** This again is a HUD administered fund that they use for energy improvements for HUD public housing. It will not impact KHRC, though it likely will impact PHA's in Kansas with more energy efficient units.

**Community Development Block Grant:** The Stimulus provided \$1 billion nationally. Kansas can expect \$3-4 million. These funds will be administered by the Kansas Department of Commerce.

**Rural Housing:** The Stimulus includes \$200 million to USDA to administer an additional capacity to provide an additional \$1 billion in Section 502 Direct Loans and \$10.5 billion in Section 502 Guaranteed loans

**Additional Note:** Though not addressed in the Stimulus, we wish to comment on the lack of activity in the Housing Tax Credit (HTC) market. Until the credit market returns to a more vigorous level, KHRC will continue to encounter difficulty with the tax credit program. HTC has slowed substantially for a number of months, and KHRC has several approved developments that are just sitting while we wait for the credit market to begin to move again. NCSHA has reported on discussions to use a portion of the unused T.A.R.P. funds to address the bond and tax credit market. NCSHA has also advised of limited discussion about limiting restrictions relating to the Alternative Minimum Tax that would allow smaller investors to utilize the federal tax credits. KHRC staff believes such a change would make a substantial impact for Kansas.

# KANSAS HOUSING



**RESOURCES CORPORATION**

## MEMO

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**DATE:** February 23, 2009 (Updated)  
**To:** Gary Allsup, Executive Director  
 Norma Phillips, Deputy Director  
**FROM:** Fred Bentley, Rental Housing Director  
 Bradley S. Reiff, HOME Program Director  
**REGARDING:** Housing Development Grant Program Progress Report

Kansas Housing Resources Corporation received a total of \$8 million (\$4million upon bill passage and an additional \$4million on July 1<sup>st</sup>) for the Housing Development Grant Program during last year's legislative session with the approval of SB417. The chart below summarizes the grant awards and disbursements as of this date. Additionally, an activity summary and status report for each grantee follows the chart.

Grantee	Award	Under Contract	Disbursed/Requested
Caney	\$ 130,000	\$ 130,000	\$ 126,650
Chanute	25,000	25,000	25,000
Chetopa	90,000	90,000	90,000
Coffeyville	1,500,000	1,500,000	-
Greensburg	2,200,000	2,200,000	822,628
Independence	1,136,277	1,136,277	68,729
Iola	1,000,000	1,000,000	374,908
Kiowa County	700,000	700,000	337,535
Neodesha	278,446	278,446	-
Osawatomie	940,277	940,277	597,864
<b>Sum</b>	<b>\$ 8,000,000</b>	<b>\$ 8,000,000</b>	<b>\$ 2,443,314</b>

**City of Caney** - Caney was awarded \$130,000 to buy land and hire an engineer to lay out the lots and locate the streets and utility lines. This new subdivision could support up to 20 single family homes.

Funding Committed and Under Contract: \$130,000  
 Funding Disbursed/Requested to Date: \$126,650  
 Status: Land has been acquired and engineering work is underway.

**City of Chanute** – Chanute was awarded \$25,000 to help the Chanute Housing Authority build a house for a low to moderate income family. A Vision Chanute team with assistance from USD #413 and Neosho County Community College are assisting with this effort.

Funding Committed and Under Contract: \$25,000

Funding Disbursed/Requested to Date: \$0

Status: The Housing Authority, with its partners, are identifying potential site and are in the early stages of design planning.

**City of Chetopa** – Chetopa was awarded \$90,000 to asphalt 6 city blocks in a new housing addition. This new subdivision has 5 new homes already constructed and could support up to nine more single family homes.

Funding Committed and Under Contract: \$90,000

Funding Disbursed/Requested to Date: \$90,000

Status: The work has been put out for bids and the environmental assessment has been completed and published.

**City of Coffeyville** – Coffeyville was awarded \$1,500,000 to build infrastructure, to allow the development of a 72-unit apartment complex and 30 single family homes. Infrastructure will include streets, sanitary sewer, water lines mains, and electric/gas extensions.

Funding Committed and Under Contract: \$0

Funding Disbursed/Requested to Date: \$0

Status: The initial site for the rental housing met with considerable neighborhood opposition. A second site was identified, but ultimately rejected due to environmental issues. The development team is considering other sites, but the downturn in the economy has made this project more difficult. City staff are developing alternate proposal for City Commission consideration at their meeting on December 23, which will then be submitted to KHRC for consideration.

**Update:** On December 23, 2008, the Coffeyville Board of Commissioners adopted Resolution No. R-08-172, thus amending their initial application. Also on December 23, 2008, the City submitted an executed grant agreement in the amount of \$1,500,000. The amended grant application and agreement have been reviewed and approved by KHRC. The new application will leverage infrastructure development of up to 124 building lots through water, storm water and waste water improvement, streets and street engineering, and utility extensions.

Funding Committed and Under Contract: \$1,500,000

Funding Disbursed/Requested to Date: \$0

**City of Greensburg** – Greensburg was awarded \$2,200,000 for both infrastructure and housing development. Of these funds, \$800,000 will be used as construction subsidy to build new homes and \$1,400,000 will be for infrastructure improvements (streets and water lines).

Funding Committed and Under Contract: \$2,200,000

Funding Disbursed/Requested to Date: \$822,628

Status: Funds have been committed towards the construction of 24 homes. Applications for 6 more homes have been submitted and are being reviewed (\$150,000). The City is in the process of conducting a pre-construction conference for the infrastructure work.

Demolition of damaged streets and water lines will begin shortly after the first of the year with completion anticipated in the late summer.

**City of Independence** – Independence was awarded \$1,136,277 to continue development efforts in the Eisenhower Subdivision, located in northern Independence. This award will extend the infrastructure (\$611,277 total) to twenty-one lots and provide a construction subsidy of \$25,000 per unit (\$525,000 total). Infrastructure will include streets and storm sewer, sanitary sewer and water lines.

Funding Committed and Under Contract: \$1,136,277

Funding Disbursed/Requested to Date: \$68,729

Status: Planning and design have been completed. Sewer line installation has been contracted and should be complete shortly after the first of the year. Water mains and streets will commence in late winter/early spring. Bids for the first phase of housing construction have been received and approved. Construction will begin in as weather permits.

**City of Iola** - Iola was awarded \$1,000,000 to complete the first phase of infrastructure work to a 56 acres site in northeast Iola. Infrastructure will include streets and storm sewer, sanitary sewer, water mains and electrical lines. The infrastructure will immediately assist in the development of 30 single family rental units. The remaining lots can be utilized for market rate housing, and the developer of the rental units has already committed to building 10 market rate homes.

Funding Committed and Under Contract: \$1,000,000

Funding Disbursed/Requested to Date: \$374,908

Status: The water line extension and electric lines into the site are complete. Bids for the street, storm water and waste water extension into and through the site have been accepted and work will begin as soon as weather permits.

**Kiowa County** – Kiowa County was awarded \$700,000 for both infrastructure and housing development. Of these funds, \$662,465 will be used as construction subsidy to build new homes and \$37,535 will be for infrastructure improvements.

Funding Committed and Under Contract: \$700,000



Funding Disbursed/Requested to Date: \$337,535

Status: Funds have been committed towards the construction of 8 homes. Applications for 4 more homes have been submitted and are being reviewed (\$100,000). Infrastructure work (curb and gutter around new apartment complex) has been completed and KHRC should soon be receiving a disbursement request. Kiowa County has also begun taking applications for properties within the Greensburg city limits, since the City has exhausted funding.

**City of Neodesha** – Neodesha was awarded \$278,446 for the first phase of infrastructure development to a 6.2 acre site in northeast Neodesha. The anticipated development is planned to occur in two phases, with each phase supporting a 32 unit apartment complex (64 units total). Infrastructure will include streets and storm sewer, sanitary sewer and water lines.

Funding Committed and Under Contract: \$278,446

Funding Disbursed/Requested to Date: \$0

Status: The City is in the process of developing plans and specifications for the first phase of infrastructure.

**City of Osawatomie** - Osawatomie was awarded \$940,277 to build infrastructure, to allow the development of a 24 unit elderly apartment complex. Infrastructure will include streets and storm sewer, sanitary sewer, sewer lift station, water mains and electrical lines. These infrastructure improvements could facilitate further development efforts in the northwest portion of Osawatomie.

Funding Committed and Under Contract: \$940,277

Funding Disbursed/Requested to Date: \$597,863

Status: Street and sewer and water extensions are currently being constructed.



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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

**AND**

**INDEPENDENT AUDITORS' REPORT**

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KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)

FINANCIAL STATEMENTS

For the Years Ended June 30, 2008 and 2007

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
**Kansas Housing Resources Corporation**  
Topeka, Kansas

We have audited the accompanying financial statements of each major fund of the Kansas Housing Resources Corporation (KHRC), a Component Unit of the State of Kansas, as of and for the year ended June 30, 2008 which collectively comprise KHRC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of KHRC's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from KHRC's 2007 financial statements and, in our report dated October 25, 2007 we expressed an unqualified opinion on those financial statements.

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. Those standards require that we plan and perform the audit 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Kansas Housing Resources Corporation as of June 30, 2008, and the respective changes in financial position and cash flows for the year 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 October 31, 2008, on our consideration of Kansas Housing Resources Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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's 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.

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Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Berberich Trahan & Co., PA*  
CERTIFIED PUBLIC ACCOUNTANTS

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

October 31, 2008  
Wichita, Kansas

**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008**

This annual financial report of the Kansas Housing Resources Corporation (KHRC) consists of three sections: required supplementary information, basic financial statements, and supplementary information. This section of the report presents management's discussion and analysis (MD&A) of financial position and changes in financial position for the fiscal year ended June 30, 2008. This information is being presented to provide additional information regarding the activities of KHRC and to meet the disclosure requirements of Government Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

KHRC is a self-supporting entity and utilizes enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. This analysis should be read in conjunction with the Independent Auditors' Report, audited financial statements, and accompanying notes.

**FINANCIAL HIGHLIGHTS**

Effective July 1, 2007 KHRC reported separately *KHRC Operations* and activities of the *State Housing Trust Fund* (SHTF). This separate reporting provides an increased level of understanding for KHRC Operations and SHTF activities. KHRC Operations are defined as fee for service and federal and state grant administration, while SHTF activities include funding KHRC receives based solely on its designation as the provider of housing services for the State of Kansas. KHRC administers the SHTF on behalf of the State of Kansas.

***KHRC Operations***

- Total assets were \$13.8 million at June 30, 2008.
- Total revenues were \$69.3 million in fiscal year 2008, an increase of 6.6 percent from fiscal year 2007. Excluding federal program revenues, total revenues were \$6.0 million in fiscal year 2008, a decrease of 4.0 percent from fiscal year 2007.
- Total expenses were \$68.0 million in fiscal year 2008, an increase of 6.9 percent from fiscal year 2007. Excluding federal program expenses, total expenses were \$4.6 million in fiscal year 2008, a decrease of 6.2 percent from fiscal year 2007.
- Operating income was \$1.2 million in fiscal year 2008 compared to operating income of \$1.3 million in fiscal year 2007, a decrease of approximately \$100,000.
- Net assets were \$6.3 million at June 30, 2008.

***State Housing Trust Fund***

- Total assets were \$12.6 million at June 30, 2008.
- Total revenues were \$11.6 million in fiscal year 2008, an increase of 110.4 percent from fiscal year 2007. Excluding state program revenues, total revenues were \$2.3 million in fiscal year 2008, an increase of 52.4 percent from fiscal year 2007.
- Total expenses were \$7.2 million in fiscal year 2008, an increase of 166.7 percent from fiscal year 2007. Excluding state program expenses, total expenses were \$3.7 million in fiscal year 2008, an increase of 443.3 percent from fiscal year 2007.

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008  
(Continued)

- Operating income was \$4.4 million in fiscal year 2008 compared to operating income of \$2.8 million in fiscal year 2007, an increase of approximately \$1.6 million.
- Net assets were \$12.4 million at June 30, 2008.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The *Balance Sheet* answers the question, "How is our financial health at the end of the year?" This statement includes all assets and liabilities of KHRC, both financial and capital, short-term and long-term, using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. The resulting net assets presented in the statement are displayed as restricted or unrestricted. Assets are restricted when their use is subject to external limits such as legal agreements or statutes. Assets falling outside this category are characterized as unrestricted. Over time, changes in net assets may serve as a useful indicator of whether the financial position of KHRC is improving or deteriorating.

All of the current year's revenues and expenses of KHRC are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Assets*. This statement measures the activities of KHRC's operations over the past year and presents the excess of revenues over expenses and changes in net assets. It can be used to determine whether KHRC has successfully recovered all of its costs through loans, externally funded programs, and other revenue sources. This statement helps answer the question, "Is KHRC as a whole better off or worse off as a result of the year's activities?"

The primary purpose of the *Statement of Cash Flows* is to provide information about the sources and uses of KHRC's cash and the change in cash balance during the reporting period. This statement reports cash receipts, cash payments, and net changes resulting from operating, capital and related financing, non-capital financing, and investing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements follow the basic financial statements.

(Continued)

**KANSAS HOUSING RESOURCES CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF KANSAS)**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008  
(Continued)

**CONDENSED FINANCIAL INFORMATION**

**Balance Sheets**

The following table presents condensed balance sheets at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease) 2008 vs. 2007</u>
<b>Assets</b>			
Current assets			
Restricted	\$ 9,884,115	\$ 2,870,202	\$ 7,013,913
Unrestricted	9,535,439	9,584,947	(49,508)
Noncurrent			
Net capital assets	366,575	367,034	(459)
Restricted	5,881,594	3,324,362	2,557,232
Unrestricted	<u>714,153</u>	<u>665,352</u>	<u>48,801</u>
Total assets	<u>\$ 26,381,876</u>	<u>\$ 16,811,897</u>	<u>\$ 9,569,979</u>
<b>Liabilities</b>			
Current liabilities			
Restricted	\$ 1,906,383	\$ 862,475	\$ 1,043,908
Unrestricted	564,356	432,781	131,575
Noncurrent liabilities			
Restricted	5,229,808	3,083,261	2,146,547
Unrestricted	<u>28,434</u>	<u>--</u>	<u>28,434</u>
Total liabilities	7,728,981	4,378,517	3,350,464
<b>Net assets</b>			
Invested in capital assets	366,575	367,034	(459)
Restricted	8,629,517	2,248,828	6,380,689
Unrestricted	<u>9,656,803</u>	<u>9,817,518</u>	<u>(160,715)</u>
Total net assets	18,652,895	12,433,380	6,219,515
<b>Total liabilities and net assets</b>	<u>\$ 26,381,876</u>	<u>\$ 16,811,897</u>	<u>\$ 9,569,979</u>

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008  
(Continued)

**Total assets, liabilities, and net assets:** The \$7,013,913 increase in restricted current assets is primarily due to receipt of restricted state program revenues for disaster assistance and the Housing Development Grant Program. The restricted noncurrent asset increase of \$2,557,232 in 2008 is primarily due to increases in HOME match credits, while the restricted current liabilities increase of \$1,043,908 and restricted noncurrent liabilities increase of \$2,146,547 are due to increases in HOME match unearned revenue. Net assets increased in 2008 by \$6,219,515, or 50.0% from fiscal year 2007, primarily due to receipt of restricted state program revenues for disaster assistance and the new Housing Development Grant program, and continued strong operations.

KHRC started with substantial cash and program loans receivable balances on July 1, 2003 from transactions and activity that occurred in the Housing Division while part of the Kansas Department of Commerce and Housing. Even though KHRC has grown and preserved its cash and net asset balances from KHRC Operations and State Housing Trust Fund activities since that time, KHRC's challenge will continue to be growing its funding sources and resources in order to meet Kansans' housing needs in the future.

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**KANSAS HOUSING RESOURCES CORPORATION**  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008  
(Continued)

**Statements of Revenues, Expenses, and Changes in Net Assets**

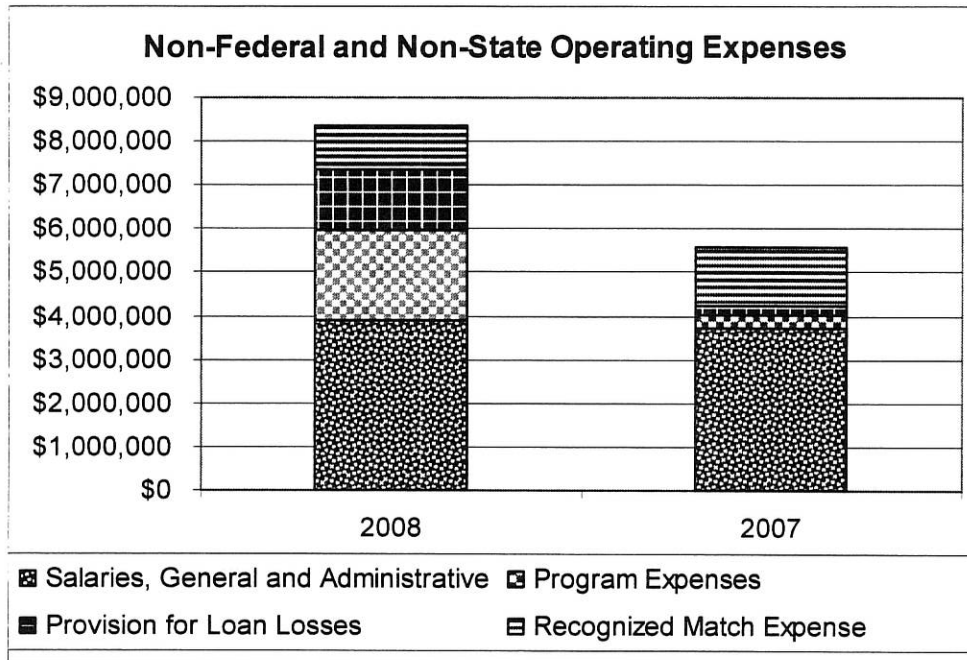
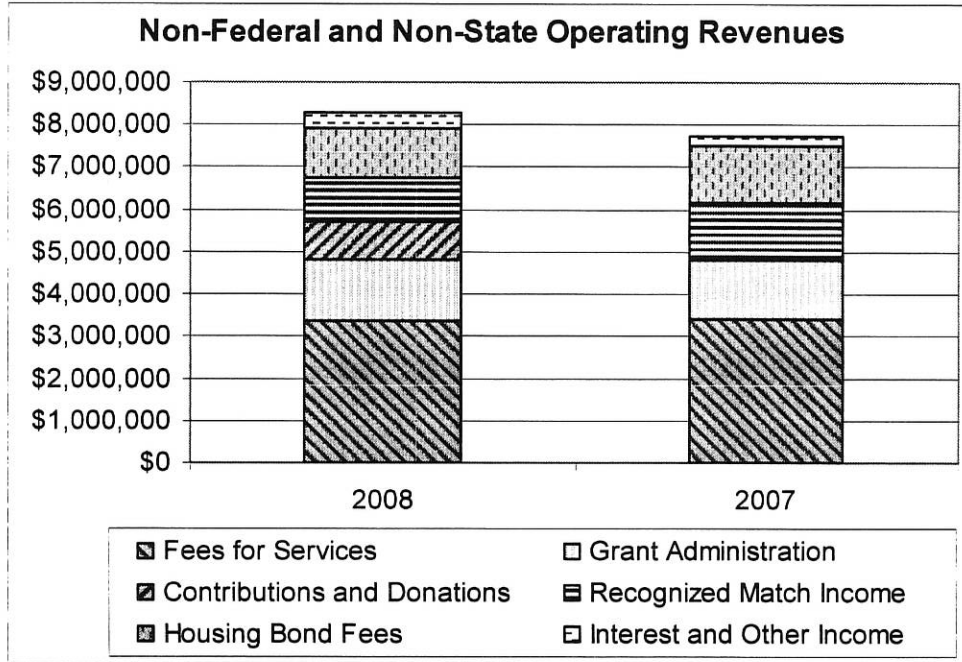
The following table presents condensed statements of revenues, expenses, and changes in net assets for the years ended June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease) 2008 vs.2007</u>
<b>Revenues</b>			
Operating revenues			
Fees for services	\$ 3,396,346	\$ 3,439,326	\$ (42,980)
Grant administration	1,431,041	1,386,065	44,976
Recognized match income	991,392	1,332,181	(340,789)
Housing bond fees	1,210,648	1,353,193	(142,545)
Contributions and donations	909,489	-	909,489
Other income	320,971	214,372	106,599
Federal program revenues	62,925,675	58,737,052	4,188,623
Federal loan proceeds	349,500	-	349,500
State program revenues	9,000,000	2,000,000	7,000,000
State loan proceeds	285,000	2,000,000	(1,715,000)
Investment income	593,502	476,774	116,728
<b>Total revenues</b>	<u>81,413,564</u>	<u>70,938,963</u>	<u>10,474,601</u>
<b>Expenses</b>			
Operating expenses			
Salaries, general and administrative	3,897,729	3,703,426	194,303
Provision for loan losses	2,809,454	222,004	2,587,450
Program expenses	2,079,754	327,533	1,752,221
Recognized match expense	991,392	1,332,181	(340,789)
Federal program expenses	63,075,625	58,737,052	4,338,573
State program expenses	2,340,095	2,000,000	340,095
<b>Total expenses</b>	<u>75,194,049</u>	<u>66,322,196</u>	<u>8,871,853</u>
<b>Transfers in</b>	1,600,734	-	1,600,734
<b>Transfers out</b>	<u>(1,600,734)</u>	<u>-</u>	<u>(1,600,734)</u>
<b>Excess of revenues over expenses</b>	<u>6,219,515</u>	<u>4,616,767</u>	<u>1,602,748</u>
Total net assets, beginning of year	<u>12,433,380</u>	<u>7,816,613</u>	<u>4,616,767</u>
<b>Total net assets, end of year</b>	<u>\$ 18,652,895</u>	<u>\$ 12,433,380</u>	<u>\$ 6,219,515</u>

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

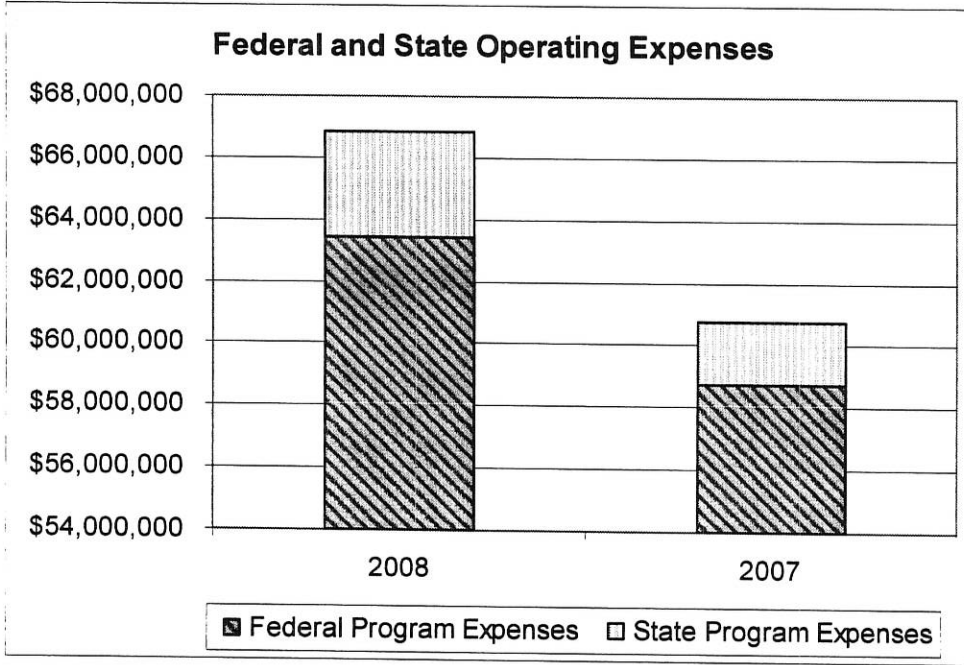
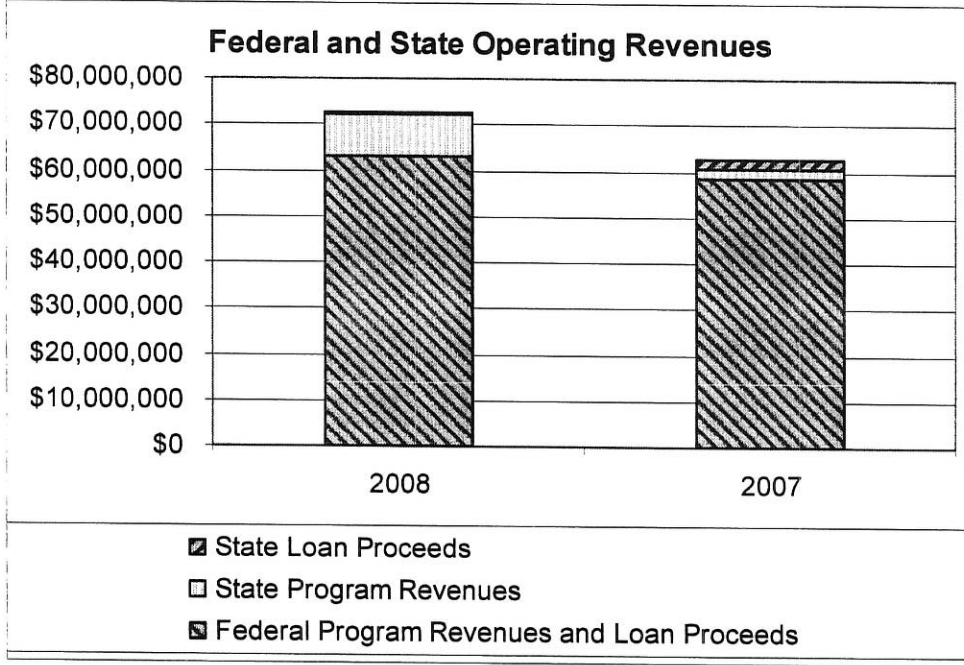
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008  
(Continued)



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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008  
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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008  
(Continued)

**Revenues, Expenses, and Changes in Net Assets:** The majority of KHRC's revenue is from federal and state program revenues, fees for services, and grant administration, which produce approximately 95% of KHRC's revenues (excluding 2008's contributions and donations income discussed below).

From 2007 to 2008, fees for services decreased from \$3,439,326 to \$3,396,346, or \$(42,980). This decrease is due to a reduction in the number of Section 8 properties administered by Asset Management.

The contributions and donations income of \$909,489 is the result of HUD Restructured loans donated to KHRC through the Office of Affordable Housing Preservation per Section 517 (a)(5) of the Multifamily Assisted Housing Restructuring Act of 1997. Correspondingly, \$909,489 of the 2008 \$2,587,450 increase in the provision for loan losses is due to receipt of the HUD restructured loans, since it is probable KHRC will be unable to collect all amounts due per contractual agreement.

Federal program revenues and expenses increased by \$4,188,623 due to increased grant payments, which represent subsidy (pass-through) proceeds and other financial assistance received by KHRC and transferred to or spent on behalf of secondary recipients. Revenues of the pass-through subsidy programs equal expenses of the pass-through subsidy programs resulting in a net effect, on KHRC's financial statements, of zero. The federal programs, along with the federal low-income housing tax credit program, are an integral part of achieving the objectives of KHRC. KHRC continues to take advantage of federal government programs that serve its mission by utilizing those that provide resources that leverage its net assets and other resources to finance affordable rental and owner-occupied housing for Kansans.

The \$7,000,000 increase in state program revenues are due to receipt of \$5 million from the State of Kansas State Finance Council for disaster assistance and \$4 million from the State of Kansas for the new Housing Development Grant Program (HDGP). These state program funds represent subsidy (pass-through) grant proceeds received by KHRC and transferred to or spent on behalf of secondary recipients. The funds are recognized as revenue upon receipt from the State and are recognized as expense when transferred to or spent on behalf of secondary recipients.

The \$1,715,000 decrease in state loan proceeds in 2008 is due to receipt of the one-time KEEP revolving loan program funds in 2007 as part of the Governor's WARM Initiatives Program.

The \$2,587,450 increase in provision for loan losses is due primarily to receipt of the donated HUD restructured loans (\$909,489), and issuance of disaster assistance loans to assist developers of rental property with new construction or reconstruction of disaster areas. These loan amounts are included in the provision, since it is probable KHRC will be unable to collect all amounts due per contractual agreement.

Program expenses represent Kansas Accessibility Modification Program (KAMP) grants, Emergency Repair Program (ERP) grants, disaster assistance grants, and other grants funded

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008  
(Continued)**

by the State Housing Trust Fund. The \$1,752,221 increase in program expenses is due primarily to disaster assistance provided to families with rebuilding or repairing their homes.

Transfers in and Transfers out totaling \$1,600,734 represent transfers between KHRC Operations and the State Housing Trust Fund (SHTF) as follows: \$1,250,000 from KHRC Operations to the SHTF for disaster assistance, \$17,034 from KHRC Operations to the SHTF for state program administration, and \$333,700 from the SHTF to KHRC Operations for HOME match loans.

KHRC's net assets increased \$6,219,515, or 50.0 percent, from 2007 to 2008 primarily due to receipt of state program revenues for disaster assistance and the new Housing Development Grant Program, and continued strong operations.

**ECONOMIC FACTORS**

If federal funding were to decrease significantly, it would seriously affect KHRC's ability to administer programs and deliver services.

**CONTACTING KHRC'S FINANCIAL MANAGEMENT**

This financial report is designed to provide stakeholders in KHRC with a general overview of KHRC's finances and to show KHRC's accountability for the resources it receives, invests, and expends. If you have questions about this report, or need additional financial information, please contact Susan James, Controller, at Kansas Housing Resources Corporation, 611 Kansas Avenue, Suite 300, Topeka, Kansas 66603-3803, or visit our website at [www.kshousingcorp.org](http://www.kshousingcorp.org).

BASIC FINANCIAL STATEMENTS



**KANSAS HOUSING RESOURCES CORPORATION**  
(A COMPONENT UNIT OF THE STATE OF KANSAS)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
For the Year Ended June 30, 2008  
(With Summarized Financial Information for the Year Ended June 30, 2007)

	2008			2007
	KHRC Operations	State Housing Trust Fund	Total	Total
<b>Operating revenues:</b>				
Fees for services	\$ 3,396,346	\$ -	\$ 3,396,346	\$ 3,439,326
Grant administration income	1,431,041	-	1,431,041	1,386,065
Recognized match income	991,392	-	991,392	1,332,181
Housing bond fees (MRB/MCC/Single Family)	-	1,210,648	1,210,648	1,353,193
PAB multifamily allocation fees	-	52,400	52,400	51,077
Program loan and other interest	48,347	102,310	150,657	94,778
Contributions and donations	-	909,489	909,489	-
Other income	115,414	2,500	117,914	68,517
Federal program revenues	62,925,675	-	62,925,675	58,737,052
Federal loan proceeds	349,500	-	349,500	-
State program revenues	-	9,000,000	9,000,000	2,000,000
State loan proceeds	-	285,000	285,000	2,000,000
<b>Total operating revenues</b>	<b>69,257,715</b>	<b>11,562,347</b>	<b>80,820,062</b>	<b>70,462,189</b>
<b>Operating expenses:</b>				
Salaries and related payroll expenses	2,534,692	115,741	2,650,433	2,430,752
Communication	41,365	1,381	42,746	41,354
Printing and advertising	19,829	4,283	24,112	30,623
Rents and parking fees	219,172	6,312	225,484	231,889
Repairs and maintenance	21,198	857	22,055	16,464
Travel	150,150	24,879	175,029	136,100
Fees - professional and other services	455,276	68,328	523,604	614,961
Insurance	13,053	295	13,348	13,354
Office and data processing supplies	82,420	3,191	85,611	66,254
Expensed furniture and equipment	36,969	860	37,829	68,713
Provision for loan losses	250,151	2,559,303	2,809,454	222,004
Depreciation	97,478	-	97,478	52,962
Program expenses	30,000	2,049,754	2,079,754	327,533
Recognized match expense	991,392	-	991,392	1,332,181
Federal program expenses	62,925,675	-	62,925,675	58,737,052
Federal program income grant expenses	149,950	-	149,950	-
State program expenses	-	2,340,095	2,340,095	2,000,000
<b>Total operating expenses</b>	<b>68,018,770</b>	<b>7,175,279</b>	<b>75,194,049</b>	<b>66,322,196</b>
<b>Operating income</b>	<b>1,238,945</b>	<b>4,387,068</b>	<b>5,626,013</b>	<b>4,139,993</b>
<b>Nonoperating revenues and expenses:</b>				
Investment income	208,164	385,338	593,502	476,774
<b>Total nonoperating revenues</b>	<b>208,164</b>	<b>385,338</b>	<b>593,502</b>	<b>476,774</b>
<b>Transfers in</b>	<b>333,700</b>	<b>1,267,034</b>	<b>1,600,734</b>	<b>-</b>
<b>Transfers out</b>	<b>(1,267,034)</b>	<b>(333,700)</b>	<b>(1,600,734)</b>	<b>-</b>
<b>Excess of revenues over expenses</b>	<b>513,775</b>	<b>5,705,740</b>	<b>6,219,515</b>	<b>4,616,767</b>
<b>Net assets, beginning of year</b>	<b>5,766,610</b>	<b>6,666,770</b>	<b>12,433,380</b>	<b>7,816,613</b>
<b>Net assets, end of year</b>	<b>\$ 6,280,385</b>	<b>\$ 12,372,510</b>	<b>\$ 18,652,895</b>	<b>\$ 12,433,380</b>

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

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**KANSAS HOUSING RESOURCES CORPORATION**  
(A COMPONENT UNIT OF THE STATE OF KANSAS)

**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2008  
(With Summarized Financial Information for the Year Ended June 30, 2007)

	2008			2007
	KHRC Operations	State Housing Trust Fund	Total	Total
<b>Cash flows from operating activities:</b>				
Cash received from others	\$ 69,341,392	\$ 10,755,630	\$ 80,097,022	\$ 67,541,067
Cash paid to others	(66,952,992)	(6,091,020)	(73,044,012)	(64,953,283)
Net cash from operating activities	<u>2,388,400</u>	<u>4,664,610</u>	<u>7,053,010</u>	<u>2,587,784</u>
<b>Cash flows from noncapital and related financing activities:</b>				
Transfers in from other funds	333,700	1,267,034	1,600,734	-
Transfers out to other funds	(1,267,034)	(333,700)	(1,600,734)	-
Net cash from noncapital and related financing activities	<u>(933,334)</u>	<u>933,334</u>	<u>-</u>	<u>-</u>
<b>Cash flows from capital and related financing activities:</b>				
Purchase of property and equipment	(97,019)	-	(97,019)	(170,661)
Net cash from capital and related financing activities	<u>(97,019)</u>	<u>-</u>	<u>(97,019)</u>	<u>(170,661)</u>
<b>Cash flows from investing activities:</b>				
Proceeds from sales and maturities of investments	2,170,011	3,023,130	5,193,141	-
Purchase of investments	(5,599,799)	(7,801,301)	(13,401,100)	(2,442,768)
Investment income	208,164	361,652	569,816	476,774
Net cash from investing activities	<u>(3,221,624)</u>	<u>(4,416,519)</u>	<u>(7,638,143)</u>	<u>(1,965,994)</u>
<b>Net change in cash</b>	(1,863,577)	1,181,425	(682,152)	451,129
<b>Cash and cash equivalents at beginning of year</b>	3,483,422	2,834,621	6,318,043	5,866,914
<b>Cash and cash equivalents at end of year</b>	<u>\$ 1,619,845</u>	<u>\$ 4,016,046</u>	<u>\$ 5,635,891</u>	<u>\$ 6,318,043</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>				
Operating income	\$ 1,238,945	\$ 4,387,068	\$ 5,626,013	\$ 4,139,993
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation	97,478	-	97,478	52,962
Provision for loan losses	250,151	2,559,303	2,809,454	222,004
Changes in assets and liabilities:				
Accounts receivable	1,334,042	60,781	1,394,823	(1,664,702)
Interest receivable	7,633	(94,405)	(86,772)	(32,939)
Prepays	10,193	(14,178)	(3,985)	(1,646)
Program loans receivable	(526,949)	(2,408,729)	(2,935,678)	(53,591)
Accounts payable	(74,005)	1,362	(72,643)	(60,745)
Accrued salaries and wages	16,061	622	16,683	7,797
Grants payable	26,678	168,330	195,008	(58,860)
Unearned revenue	(42,460)	-	(42,460)	16,191
Compensated absences	22,768	3,887	26,655	21,320
Net OPEB obligation	27,865	569	28,434	-
Net cash from operating activities	<u>\$ 2,388,400</u>	<u>\$ 4,664,610</u>	<u>\$ 7,053,010</u>	<u>\$ 2,587,784</u>

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

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

NOTES TO THE FINANCIAL STATEMENTS

**NOTE 1 – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING**

**POLICIES**

**Reporting Entity**

Kansas Housing Resources Corporation (KHRC) was established pursuant to Executive Reorganization Order No. 30 dated February 10, 2003 (ERO 30), and 2003 Kansas Senate Bill No. 285 (SB 285) which transferred the Division of Housing of the Kansas Department of Commerce and Housing to the Kansas Development Finance Authority (KDFA), effective July 1, 2003 to be organized in accordance with the Kansas Development Finance Authority Act (KDFA Act), K.S.A. 74-8901 et seq., as amended. KHRC was incorporated, effective July 1, 2003, by the KDFA to be a subsidiary corporation in accordance with the provisions of K.S.A. 74-8904 (v). That statute further provides that the Board members of KDFA shall constitute all the Board members of KHRC, and KDFA is the sole member of KHRC. KHRC is an independent instrumentality of the State of Kansas and a public body politic and corporate.

KHRC's mission is to enhance Kansas communities with housing opportunities. This goal is achieved through using a variety of strategies and approaches, including increasing home ownership opportunities, leveraging the construction of affordable rental housing, promoting energy efficiency improvements for owner-occupied and rental housing, providing affordable housing through rental assistance to low-income families and senior citizens, and creating housing opportunities for underserved persons and communities.

To accomplish its objectives, KHRC has the rights, powers, privileges, and duties conferred by ERO 30, SB 285, and its articles of incorporation and bylaws. These include making bylaws and adopting rules and regulations to carry out the purposes of KHRC; acquiring, holding, and disposing of real and personal property for its corporate purposes; appointing officers, agents and employees; entering into contracts and agreements; collecting fees and charging for its services; accepting gifts, grants, loans and other aid; investing moneys; procuring insurance; and providing technical assistance and advice to the State of Kansas or political subdivisions of the State.

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. KHRC is financially accountable to the State, and the State exercises oversight responsibility on financial interdependency and accountability for fiscal matters and scope of public service. KHRC is included in the State's financial reporting entity, and KHRC's transactions are reported in the State's Comprehensive Annual Financial Report as a component unit.

KHRC does not have any component units as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement No. 14*.

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Financial Statement Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB).

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2007, from which the summarized information was derived.

**Basis of Accounting**

KHRC accounts for its activities within a proprietary fund. KHRC's activities meet the definition of an enterprise fund because it is the intent of KHRC to recover, primarily through user charges and grant reimbursement, the cost of providing goods or services to the general public.

At June 30, 2007, KHRC reported its financial statement activity in a single proprietary fund presentation. At July 1, 2007, KHRC established separate and distinct beginning balance sheet balances for KHRC Operations and the State Housing Trust Fund. The beginning balance sheet balances and separate reporting allow their activities to be reported in separate self-balancing sets of accounts which improve and enhance financial management and reporting for timely and effective decision making. Thus, the June 30, 2008 basic financial statements are presented with two major funds: KHRC Operations and the State Housing Trust Fund.

Transactions are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Balance Sheet. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

KHRC distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

As required by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, KHRC has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless FASB and/or APB pronouncements conflict with or contradict GASB pronouncements.

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

**NOTES TO THE FINANCIAL STATEMENTS  
(Continued)**

**KHRC Operations**

KHRC defines *KHRC Operations* as fee for service, federal and state grant administration, and other activities that have the characteristics of an exchange transaction.

**State Housing Trust Fund**

The *State Housing Trust Fund* (SHTF) was established by House Bill No. 2517 as a vehicle to deposit housing funds and provide necessary match for the HOME program. Now codified at KSA 74-8959, the SHTF legislation contains few requirements and funding sources and essentially created a discretionary, interest-bearing trust account for the purpose of housing programs and services. These include repair and rehabilitation of existing housing, accessibility modification, and assistance to low-income or disabled persons. The Statute also allows KHRC to maintain and invest funds outside of the State Treasury and apply for and receive grants, gifts, and donations.

KHRC defines SHTF funding sources as funding KHRC receives based solely on its designation as the provider of housing services for the State of Kansas. SHTF sources do not include fee for service, federal and state grant administration, or other activities that have the characteristics of an exchange transaction.

**Pending Governmental Accounting Standards Board Statements**

At June 30, 2008, the Governmental Accounting Standards Board (GASB) had issued a statement not yet implemented by KHRC that might impact KHRC as follows:

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* was issued in June 2007. This statement provides guidance on how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks. The statement provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets. The provisions of this statement are effective for periods beginning after June 15, 2009, and for the most part require retroactive application.

**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 and 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 estimates.

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**KANSAS HOUSING RESOURCES CORPORATION  
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**NOTES TO THE FINANCIAL STATEMENTS  
(Continued)**

**Reclassifications**

Program loan receivable reclassifications were made at June 30, 2008 to reclassify Restricted State Housing Trust Fund loans as Restricted HOME loans and Interim Development loans as Unrestricted State Housing Trust Fund loans. The reclassifications include corresponding accrued interest and allowance for program loan receivable losses.

Operating expense reclassifications were made at June 30, 2008 to reclassify other services and other contractual services to Fees - professional and other services, and Postage and freight to Communications.

Certain other revenues and expenses for the year ended June 30, 2007 were reclassified from nonoperating revenues and expenses to operating revenues and expenses to be consistent with classifications adopted in fiscal year 2008.

**Related Parties**

KHRC reimbursed KDFA for shared staff-related expenses incurred during the year. In addition, KHRC purchases goods, supplies, and services from other State agencies or entities for administrative and office purposes.

**Programs**

The following is a brief description of significant programs financed by Federal, State and KHRC-funded grants over which KHRC exercises fiscal and administrative control:

- Low-Income Housing Tax Credit Program (LIHTC) – The LIHTC program is designed to secure private equity capital for the development of affordable rental housing through tax incentives rather than direct subsidies. Enacted in the Tax Reform Act of 1986, the LIHTC is a ten-year federal tax credit against a taxpayer's ordinary income tax liability available to individuals (directly or through partnerships) and corporations who acquire or develop and own the affordable rental housing properties. The LIHTC can provide as much as 55-60 percent of the total development cost, which reduces the amount of debt financing in affordable rental housing developments. This allows lower rents and greater flexibility. KHRC receives application, service, and compliance monitoring fees from developers and owners who participate in the LIHTC program.

**Federal Grant-Funded Programs:**

- Section 8 Contract Administration Program (Asset Management) – KHRC is the Section 8 Contract Administrator for project-based Section 8 properties in Kansas. The program also provides the Section 8 housing assistance payment to participating owners on behalf of eligible tenants to provide decent, safe, and sanitary housing at rents they can afford. KHRC receives fees from HUD to administer the program and incentive-based administrative fees based on the number of units under contract and KHRC's performance level compared to HUD's acceptable quality levels of administration.

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**KANSAS HOUSING RESOURCES CORPORATION  
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**NOTES TO THE FINANCIAL STATEMENTS  
(Continued)**

- Home Investment Partnership Program (HOME) – Congress created the HOME program as part of the National Affordable Housing Act of 1990 and is funded by HUD. The intent of the HOME Program is to provide decent, affordable housing to lower-income households, expand the capacity of non-profit housing providers, strengthen the ability of state and local governments to provide housing, and leverage private-sector participation. KHRC administers the federal and State (KHRC) match required funds to carry out program activities related to down payment assistance, homeowner rehabilitation, multi-family rental housing finance and tenant based rental assistance. KHRC receives reimbursement of eligible costs associated with administration of the program, and funds the required State match obligation associated with the program.
- Weatherization Assistance Program (DOE-WAP) – DOE-WAP is a long-term formula grant program funded by the U.S. Department of Energy. The purpose of the program is to make low-income households in income-eligible, single or multi-family dwellings, including manufactured homes, more energy efficient, thereby reducing the utility bills of these families. Funds may be used for leakage reduction, incidental repairs, health and safety measures, furnace repair/replacement, and insulation. KHRC receives reimbursement of eligible costs associated with administration of the program.
- Low-Income Energy Assistance Program (LIEAP) – KHRC receives and administers 15 percent of a portion of the State of Kansas' LIEAP grant funded by Health and Human Services (HHS) for the same purposes as the DOE-WAP program. KHRC receives reimbursement of eligible costs associated with administration of the program.
- Community Services Block Grant (CSBG) – CSBG is a formula grant funded by HHS and enables local agencies to provide a range of services and activities having a measurable and potentially major impact on causes of poverty in the community. Services include the following areas: employment, education, making better use of available income, housing, emergency services, nutrition, and providing linkages to other community resources. KHRC receives reimbursement of eligible costs associated with administration of the program.
- Emergency Shelter Grants Program (ESG) – ESG is a formula grant funded by HUD and provides assistance to units of local government or nonprofit organizations to improve the quality of existing emergency shelters, to help meet the costs of operating emergency shelters, and to provide certain essential social services to homeless individuals. KHRC receives partial reimbursement of eligible costs associated with administration of the program.
- Homeless Management Information Systems (HMIS) Program – HMIS is funded by HUD and provides a database management system to gather unduplicated client-level data on the extent of homelessness in Kansas to improve the effectiveness of homeless shelters and service delivery systems. KHRC receives partial reimbursement of eligible costs associated with administration of the program.

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**KANSAS HOUSING RESOURCES CORPORATION  
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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**State Housing Trust Fund Programs:**

- Kansas Accessibility Modification Program (KAMP) – KAMP provides assistance to individuals with accessibility limitations by modifying their owned or rented housing so they can live more independently, and increases housing stock that is accessible to persons with disabilities. KAMP is funded solely by State Housing Trust Fund resources.
- Emergency Repair Program (ERP) – ERP provides assistance to homeowners with emergency repair of existing owner-occupied properties when no other source of funding is available in the area, and there is need for an emergency home repair, such as an inoperable or faulty furnace, leaking roof, unsafe electrical wiring and plumbing, or hazardous structural conditions. ERP is funded solely by State Housing Trust Fund resources.
- State of Kansas Governor's WARM Initiatives Program (Governor's WARM Initiatives) – With the rapid increase in energy prices, the Governor's WARM Initiatives Program provides interim assistance to low-income citizens in the form of an emergency home winterization kit, provides expanded weatherization funds for the same purposes as the DOE-WAP program, and provides interest free loans to qualified homeowners to make improvements to their homes to increase energy efficiency (Kansas Energy Efficiency Program loans, or KEEP loans). KHRC partnered with the State's Energy Efficiency Office to provide funding for the kits. The weatherization funds and the KEEP revolving loan funds are funded by the State of Kansas.
- Disaster Assistance (Disaster) – Disaster relief funds provide assistance to families with rebuilding or repairing their homes and to also assist developers of rental property with new construction or reconstruction of impacted areas in the form of loans or grants. Disaster assistance was funded as follows: \$5 million from the State of Kansas State Finance Council (SFC) and a \$1.25 million transfer from KHRC Operations to the State Housing Trust Fund.
- Housing Development Grant Program (HDGP) – The Housing Development Grant Program assists local communities with development of affordable housing and housing-related infrastructure. The program provides \$4 million per year for fiscal years 2008 through 2014 for housing development grants. The program initially targets communities that suffered recent disasters, but later expands eligibility in 2010 to include all rural cities. HDGP is funded by the State of Kansas.

**Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, KHRC cash equivalents are defined as short-term highly liquid investments that are readily convertible to cash with an original maturity of three months or less.

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**KANSAS HOUSING RESOURCES CORPORATION  
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**NOTES TO THE FINANCIAL STATEMENTS  
(Continued)**

Restricted cash and cash equivalents include cash held under Federal grant programs, all valued at fair value, cash held under the Governor's WARM Initiatives' revolving loan program (KEEP loans), and state disaster and Housing Development Grant funds, all valued at fair value. Various government programs dictate how these restricted funds may be used.

**Investments**

Investments are reported at fair value based on quoted market prices. KHRC's investment policy limits investments to the following investment types: U.S. Treasury Securities, U.S. Government agency obligations, certificates of deposit, investments in the Kansas Municipal Investment Pool, repurchase agreements, promissory notes with maturities of one year or less, commercial paper and money market funds.

**Accounts Receivable**

KHRC 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.

**Program Loans Receivable**

Program loans receivable consist of no-interest or below market-interest rate loans made to financially assist and develop difficult-to-develop affordable housing areas and provide funding for modifications benefiting disabled and moderate to very low-income rental housing tenants and homeowners. Program loans receivable are carried at the unpaid principal balance outstanding less an allowance for estimated program loans receivable losses. Program loans receivable are generally secured by a subordinated collateral position to the property owner's first mortgage.

Restricted program loans receivable consist of HOME loans funded by the HOME program or reported as HOME match contributions, FAF loans, KEEP loans and a SHTF re-entry housing loan. Since HOME match contributions are permanent contributions to the HOME program, subsequent repayment of the loans are restricted to a HOME project or to HOME-eligible housing. Subsequent repayment of the FAF loans is subject to a ten-year compliance period from the date of receipt of the FAF funds for McKinney Homeless Assistance Act of 1988 uses. Subsequent repayment of the KEEP loans is restricted to KEEP revolving loan fund uses. Subsequent repayment of the re-entry housing loan is restricted to re-entry housing uses.

**Allowance for Program Loans Receivable Losses**

The allowance for program loans receivable losses is increased by charges to expense and decreased by charge-offs (net of recoveries). The provision for program loans receivable losses is charged to expense when, in management's opinion, it is probable KHRC will be unable to collect all amounts (principal and interest) under the contractual terms of the loan agreement. The provision for program loans receivable losses also includes corresponding accrued interest on program loans receivable included in the allowance for program loans receivable losses. In

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**KANSAS HOUSING RESOURCES CORPORATION  
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**NOTES TO THE FINANCIAL STATEMENTS  
(Continued)**

evaluating the provision, management generally considers the age of the various program loans receivable portfolios, historical performance of the borrower, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, subordination position, and current economic conditions.

Management believes the allowance for program loans receivable losses is adequate. While management uses available information to recognize losses on program loans receivable, future additions to the allowance may be necessary based on changes in economic or other conditions.

**Interest on Program Loans Receivables**

Interest on program loans receivable is accrued based upon the principal amounts outstanding per program loans receivable agreements and includes interest on principal amounts outstanding included in the allowance for program loans receivable losses.

**Capital Assets**

Capital assets are stated at cost less accumulated depreciation. Individual items with a cost of \$5,000 or more or significant bulk purchases deemed material are capitalized. Maintenance and repairs, which do not improve or extend the useful lives of the respective assets, are expensed as incurred. Depreciation is computed using the straight-line method with no salvage value over the estimated useful lives of the assets ranging from twenty-nine to sixty months for leasehold improvements to eight years for equipment.

**HOME Match Credits and Unearned Revenue**

By establishing the HOME program, Congress intended to establish a partnership between the Federal government and states, units of local government, and nonprofit organizations to expand the supply of affordable, standard housing for low-income families. In keeping with the concept of partnership, each jurisdiction participating in the HOME program is required to make contributions to qualified housing in an amount equal to 25 percent of appropriated HOME funds drawn for housing projects. These contributions are known as "match". KHRC incurs match obligation each federal fiscal year based on the amount of HOME funds drawn from its U.S. Treasury account. Each federal fiscal year KHRC must make eligible matching contributions in an amount that equals the match obligation incurred during that fiscal year. Matching contributions made in excess of the match obligation may be carried forward to meet the next year's obligation. However, such excess contributions (or credits) are recorded as unearned revenue until such time additional match obligations are incurred against which the credits may be applied.

**Unearned Revenue, Other**

Unearned revenue arises when resources are received by KHRC before it has a legal claim to them. Amounts received under certain intergovernmental grant agreements are recognized only to the extent of allowable expenses. Any amounts received in excess of expenses incurred are unearned revenue.

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**KANSAS HOUSING RESOURCES CORPORATION  
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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Grants Payable**

Grants payable represent amounts received for various Federal government program grant awards unpaid to grant recipients as of year end, and KAMP, ERP and other grant expenses incurred but unpaid as of year end.

**Compensated Absences**

Under terms of the State's Active State Employee Benefits Guide, KHRC employees accrue vacation and sick leave at a rate based upon the number of years employed. Upon retirement or termination, KHRC employees are paid for accrued vacation leave up to their maximum accumulation plus any accrued compensatory time.

**Net Assets**

Net assets are classified as follows:

*Invested in capital assets* – represent KHRC's total investment in capital assets.

*Restricted* – represent those operating funds on which external restrictions have been imposed that limit the purposes for which such funds can be used. KHRC is legally or contractually obligated to spend these funds in accordance with the restriction imposed by third parties.

*Unrestricted* – consist of those operating funds over which the Board of Directors retains full control to use in achieving any of its authorized purposes.

When an expense is incurred that can be paid using either restricted or unrestricted resources, KHRC's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

**Revenues and Expenses**

Revenues are classified as operating or nonoperating according to the following criteria:

*Operating revenues* – include activities that have the characteristics of an exchange transaction (i.e., transactions where essentially equal value is exchanged) as well as those incurred which relate directly to housing programs for persons of low and moderate income such as a) program servicing fees, and b) grant administration fees. Operating revenues also include interest income on program loans, federal and state program revenues associated with grant administration, and other miscellaneous administration fees as part of KHRC's principal ongoing operations.

*Nonoperating revenues* – include activities that have the characteristics of non-exchange transactions such as investment income which is defined as non-operating revenue by GASB Statement No. 9, Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting, and GASB Statement No. 34.

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**KANSAS HOUSING RESOURCES CORPORATION  
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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Expenses are classified as operating or nonoperating according to the following criteria:

*Operating Expenses* – include activities that have the characteristics of an exchange transaction such as a) employee salaries, benefits, and related expenses; b) supplies and other services; c) professional fees; and d) depreciation expenses related to capital assets. Operating expenses also include federal and state program expenses associated with grant administration.

*Nonoperating Expenses* – include activities that have the characteristics of non-exchange transactions not meeting the above definition for operating expenses.

**Income Taxes**

KHRC is a tax-exempt quasi-governmental organization under Section 115 (1) of the Internal Revenue Code. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

**NOTE 2 – CASH AND INVESTMENTS**

A summary of cash and investments as of June 30, 2008 consisted of the following:

	2008	
	Cost	Fair Value
Cash		
Kansas State Treasurer's Office	\$ 4,016,046	\$ 4,016,046
Financial Institution	685,449	685,449
Money market funds	458,396	458,396
Securities purchased under agreements to resell	476,000	476,000
US Treasury Bond and Agency obligations	10,650,032	10,674,412
Total	\$ 16,285,923	\$ 16,310,303

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**KANSAS HOUSING RESOURCES CORPORATION  
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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

A summary of investments and maturities as of June 30, 2008 consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
U.S. Agency securities	\$ 8,643,470	\$ 1,008,105	\$ 7,635,365
Mortgage backed securities	<u>2,030,942</u>	--	<u>2,030,942</u>
Total	<u>\$ 10,674,412</u>	<u>\$ 1,008,105</u>	<u>\$ 9,666,307</u>

*Investment Policy.* KHRC has adopted a formal investment policy. The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield. The standard of care to be used by investment officials shall be the "prudent person" standard, and shall be applied in the context of managing an overall portfolio. Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

*Interest Rate Risk.* KHRC minimizes the risk it will realize losses due to declines in the market value of securities in its portfolios by structuring its investment portfolio so that securities mature to meet cash requirements for scheduled disbursements or ongoing operations, taking into account cash balances available or expected to be available for such requirements, thereby avoiding the need to sell securities on the open market prior to maturity. KHRC also diversifies its investments to minimize the risk of loss resulting from over concentration of assets in specific maturity, specific issuer, or specific class of securities.

*Credit Risk.* The risk that an issuer or other counterparty to an investment will not fulfill its obligation is called credit risk. Per the investment policy, KHRC will minimize credit risk through pre-qualifying institutions, diversifying its portfolios, and maintaining a standard of quality of authorized eligible investments. As of June 30, 2008, KHRC's investments were rated A+ to AAA by Standard & Poor's.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of the failure of the counterparty, KHRC will not be able to recover the value of its deposits or investments that are in the possession of an outside party. KHRC's investment policy requires collateralization on all demand deposit accounts, and to secure investments in Certificates of Deposits and Repurchase Agreements. KHRC also minimizes custodial credit risk by pre-qualifying the custodial or depository institutions, broker/dealers, intermediaries, and advisors with which KHRC will do business. Investments held at June 30, 2008, including the underlying securities on the repurchase agreement, are held by the investment's counterparty. The repurchase agreement and deposits held with a financial institution were fully collateralized at June 30, 2008.

*Risks and Uncertainties.* The Company maintains a portion of its total assets in a combination of bonds, fixed income securities, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market fluctuation and credit risk. Due to the

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**KANSAS HOUSING RESOURCES CORPORATION  
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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect investments and the amounts reported in the combined statements of financial position.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Accounts receivable as of June 30, 2008 consisted of the following:

	<u>2008</u>
Low-Income Housing Tax Credit program fees receivable, net	\$ 218,212
Low-income Housing Tax Credit compliance monitoring fees receivable	159,808
Section 8 Asset Management fees receivable	545,273
Housing bond fees (MRB/MCC/Single Family)	813
Other receivables	<u>71,745</u>
Total accounts receivable	<u>\$ 995,851</u>

KHRC is responsible for the administration and allocation of the Low-Income Housing Tax Credit (LIHTC) program for the State of Kansas. LIHTC program fees are recognized as revenue as projects progress through the tax credit application process from initial application to final allocation. The allowance for uncollectibles and related provision for bad debts represent an estimate of tax credit fees that will not be paid due to developers not being able to bring projects to completion. Tax credits for these properties are returned to KHRC and reissued in future application rounds. LIHTC program fees receivable are shown net of allowance for uncollectible fees of \$10,000 at June 30, 2008.

Since compliance monitoring reports and related fees are reported on a calendar year basis, LIHTC compliance monitoring fees receivable generally represent an estimate of compliance monitoring fees due for the periods January 2008 through June 2008 for 2008.

Amounts billed to and collected from government agencies are subject to adjustment as a result of government audits. Thus, Section 8 Asset Management fees receivable are subject to adjustment. HUD audited KHRC's Section 8 Contract Administration performance-based operations in December 2007 and October 2006 and its Section 8 Contract Administration nonperformance-based operations in October 2004. There were no adjustments as a result of these audits.

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**KANSAS HOUSING RESOURCES CORPORATION  
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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**NOTE 4 – PROGRAM LOANS RECEIVABLE**

Program loans receivable as of June 30, 2008 consisted of the following:

	2008		
	Program Loans Receivable Balance	Allowance for Program Loans Receivable Losses	Net Program Loans Receivable Balance
Restricted HOME loans, bearing interest at 3.0%-5.02%, collateralized by mortgages	\$ 1,321,846	\$ (824,500)	\$ 497,346
Restricted State Housing Trust Fund loans, bearing interest at 3.0%, collateralized by mortgages	285,000	(75,000)	210,000
Unrestricted State Housing Trust Fund loans, bearing interest at 0%-5.1%, collateralized by mortgages	2,221,785	(1,431,249)	790,536
HUD Restructured loans, bearing interest at 1.0%, collateralized by mortgages	2,600,234	(2,600,234)	--
Financing Adjustment Factor loans, non-interest bearing, collateralized by mortgages	295,176	(268,545)	26,631
Disaster loans, bearing interest at 0%-5%, collateralized by mortgages	1,136,000	(1,086,000)	50,000
Kansas Energy Efficiency Program loans, non-interest bearing, collateralized by mortgages	<u>187,546</u>	<u>--</u>	<u>187,546</u>
Total program loans receivable	<u>\$ 8,047,587</u>	<u>\$ (6,285,528)</u>	<u>\$ 1,762,059</u>

Program loans accrued interest receivable as of June 30, 2008, consisted of the following:

	2008		
	Program Loans Accrued Interest Receivable	Allowance for Program Loans Receivable Losses	Net Program Loans Accrued Interest Balance
Restricted HOME loans	\$ 82,154	\$ (74,922)	\$ 7,232
Restricted State Housing Trust Fund loans	3,750	(987)	2,763
Unrestricted State Housing Trust Fund loans	254,600	(220,101)	34,499
HUD Restructured loans	66,538	(66,538)	-
Financing Adjustment Factor loans	--	--	--
Disaster loans	794	(794)	--
Kansas Energy Efficiency Program loans	<u>--</u>	<u>--</u>	<u>--</u>
Total program loans receivable	<u>\$ 407,836</u>	<u>\$ (363,342)</u>	<u>\$ 44,494</u>

(Continued)

**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**STATE HOUSING TRUST FUND LOANS**

The following is a brief description of the various types of program loans financed by KHRC Operations and the State Housing Trust Fund:

**Restricted HOME loans** provide loans for housing programs and services, which include programs for the repair, rehabilitation, and improvement of existing residential housing, accessibility modifications, rental subsidies and the provision of housing services and assistance to disabled persons and persons having low or moderate income. Most loans are secured by subordinated mortgages that run concurrent with the first mortgage. Loan repayment is generally based on a percentage of excess cash flow when the debt coverage ratio reaches or exceeds 1.15 to 1.25 or on an amortized schedule. First mortgages on LIHTC properties are generally based on a 30-year amortization with a 15-year balloon payment. First mortgages on Section 8 properties are generally 40-year terms. Maturity dates vary from 2013-2047. HOME loans are restricted to a HOME project or to HOME eligible housing.

**Restricted and Unrestricted State Housing Trust Fund loans** provide loans for housing programs and services, which include programs for the repair, rehabilitation, and improvement of existing residential housing, accessibility modifications, rental subsidies and the provision of housing services and assistance to disabled persons and persons having low or moderate income. Most loans are secured by subordinated mortgages that run concurrent with the first mortgage. Loan repayment is generally based on a percentage of excess cash flow when the debt coverage ratio reaches or exceeds 1.15 to 1.25 or on an amortized schedule. First mortgages on LIHTC properties are generally based on a 30-year amortization with a 15-year balloon payment. First mortgages on Section 8 properties are generally 40-year terms. Maturity dates vary from December 2008-2032. Interim loans provide developers with loans for difficult-to-develop properties in Kansas. Loans may be leveraged with financing from conventional markets, and can be used for start-up organization costs, preliminary engineering fees, market studies, construction financing fees, and other costs. The loans are generally due by either a specific date or two years from the first draw request or when the final syndication payment is received, whichever is later. Maturity dates vary from December 2008 to July 2009. All loans are secured by a mortgage, which is generally subordinated to the first mortgage. Delinquent loans are generally the result of either a delay in payment of deferred developer's fees, or a property not meeting sufficient occupancy to satisfy release of the final syndication payment. Restricted SHTF loans are restricted to Department of Corrections re-entry housing purposes.

**HUD Restructured loans** were donated to KHRC through the Office of Affordable Housing Preservation per Section 517 (a)(5) of the Multifamily Assisted Housing Restructuring Act of 1997, which provides debt restructuring, including the subordination of HUD held notes, to qualified FHA insured multifamily Section 8 properties. Loan repayment is based on 75 percent of Surplus Cash per HUD definition. The properties receive project-based Section 8 subsidy and have 30-year first mortgages expiring in 2034 and 2037.

**Financing Adjustment Factor (FAF) loans** are available per Section 1012(a) of the Stewart B. McKinney Homeless Assistance Act of 1988, as amended, which provided 50 percent of the amounts recaptured from the refinancing of certain bond-financed projects shall be made

(Continued)

**KANSAS HOUSING RESOURCES CORPORATION  
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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

available to KHRC for loans and grants. These funds are to be used in the State of Kansas to provide decent, safe, and sanitary housing affordable to very low-income families or persons. Loan repayment is generally based on 25 to 75 percent of surplus cash per HUD definition. Most of the properties receiving FAF loans are Section 8 – FHA insured and have 40-year first mortgages expiring in 2021-2035. Subsequent repayment of FAF loans is subject to a ten-year compliance period from the date of receipt of the FAF funds for McKinney Homeless Assistance Act of 1988 uses.

**Disaster loans** provide loans for new construction or reconstruction of disaster affected communities. Disaster loans were funded by the State of Kansas State Finance Council. Loan repayment is generally based on a 20-year balloon payment. Maturity dates vary from 2011-2028.

**Kansas Energy Efficiency Program (KEEP) loans** provide interest free loans to qualified Kansas homeowners to make improvements to their homes to increase energy efficiency. KEEP loans were funded by the State of Kansas Governor's WARM Initiatives Program. Loan repayment is made on a monthly basis. Maturity dates vary from 2010-2023. Subsequent repayment of KEEP loans is restricted to KEEP revolving loan fund uses.

A summary of the allowance for program loans receivable losses activity for the period ending June 30, 2008 is as follows:

	Allowance for Program Loans Receivable Losses		
	Program Loans Receivable	Program Loans Accrued Interest Receivable	Total
Ending balance June 30, 2007	\$ 3,596,193	\$ 243,223	\$ 3,839,416
Provision for loan losses	2,691,063	120,119	2,811,182
Loans written off, net of recoveries	(1,728)	--	(1,728)
Ending balance June 30, 2008	\$ 6,285,528	\$ 363,342	\$ 6,648,870

(Continued)

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2008 is as follows:

Category	Beginning Balance	Increase	Decreases	Ending Balance
Furniture and equipment	\$ 355,833	\$ 223,753	\$ (30,420)	\$ 549,166
Software implementation in progress	126,734	-	(126,734)	-
Vehicles	12,428	-	-	12,428
Building improvements	48,515	-	-	48,515
 Total capital assets	 <u>543,510</u>	 <u>223,753</u>	 <u>(157,154)</u>	 <u>610,109</u>
 Less accumulated depreciation				
Furniture and equipment	(149,563)	(81,457)	30,420	(200,600)
Vehicles	(8,907)	(2,485)	-	(11,392)
Building improvements	(18,006)	(13,536)	-	(31,542)
 Total accumulated depreciation	 <u>(176,476)</u>	 <u>(97,478)</u>	 <u>30,420</u>	 <u>(243,534)</u>
 Capital assets, net	 <u>\$ 367,034</u>	 <u>\$ 126,275</u>	 <u>\$ (126,734)</u>	 <u>\$ 366,575</u>

**NOTE 6 – PROGRAM OBLIGATIONS**

At June 30, 2008, the State Housing Trust Fund has cash and investment balances of \$11,260,669. Of that amount, \$10,669,281 was earmarked or awarded for specific program purposes on or before June 30, 2008 for which disbursements will be made in the subsequent or future fiscal years.

**NOTE 7 – HOME MATCH CREDITS AND HOME MATCH, UNEARNED REVENUE**

At June 30, 2008, KHRC had received excess match contributions of \$6,838,338, which may be carried forward and applied to next year's obligation.

**NOTE 8 – COMPENSATED ABSENCES**

Compensated absences represent accrued vacation and compensatory time earned. Upon retirement or termination, KHRC employees are paid for accrued vacation and discretionary day leave up to their maximum accumulation and accrued compensatory time.

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**NOTE 9 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

*Plan Description.* Kansas statute provides that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements until the individuals become eligible for Medicare coverage at age 65. The health insurance benefit provides the same coverage for retirees and their dependents as for active employees and their dependents. The health insurance benefit plan is a single-employer defined benefit plan administered by the Kansas Health Policy Authority (KHPA). The benefit is available for selection at retirement and is extended to retirees and their dependents until the individuals become eligible for Medicare at age 65. The accounting for the health insurance for retirees was performed in accordance with the KHPA's interpretation of the provisions of GASB 45. As the annual OPEB cost was provided and disclosed to each agency/entity, OPEB amounts noted below are for KHRC employees only.

*Funding Policy.* KHRC 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, establishes that participating retirees may be required to contribute to the employee group health benefits plan, including administrative costs at an amount not to exceed 125 percent of the premium cost for other similarly situated employees. KHRC requires participating retirees to contribute 100 percent of the blended premium cost of active employees up to age 60 (including the employers and employee share). Participating retirees between the ages of 60 and 65 are required to contribute 75 percent of the blended premium cost of active employees (including the employer and employee share).

GASB Statement 45 does not require the funding of OPEB liability, and the State has chosen not to fund it. However, KHRC and the State accrue the annual required contribution on its financial statements beginning in the period ended June 30, 2008 for the costs associated with this retirement benefit and provides funding for the expenditures on a pay-as-you-go basis through the KHPA. The State funds on a cash basis as benefits are paid. In 2008, active and retired plan members receiving benefits contributed \$0 to the plan and KHRC contributed \$0 to the plan.

*Annual OPEB Cost and Net OPEB Obligation.* The State and KHRC's annual OPEB (other postemployment benefit) cost is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the 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 30 years. The following table presents the components of KHRC's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in KHRC's net OPEB obligation:

(Continued)

**KANSAS HOUSING RESOURCES CORPORATION  
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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Annual OPEB Cost for Fiscal 2008**

Amortization of UAAL	\$ 8,664
Normal Cost (with interest)	19,436
Interest on Amortization of UAAL	334
Annual Required Contribution (ARC)	28,434
Interest on Net OPEB Obligation	--
Adjustment to the ARC	--
Annual OPEB Cost	\$ 28,434

**Employer Contributions for Fiscal 2008**

Claims + Admin Paid on Behalf of Retirees	\$ --
Retiree Contributions	--
Net Employer Contributions	\$ --

**Net OPEB Obligation**

Net Obligation at July 1, 2007	\$ --
Annual OPEB Cost	28,434
Net Employer Contributions	--
Net Obligation at June 30, 2008	\$ 28,434

**Schedule of Employer Contributions (for fiscal year ended June 30)**

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2008	\$28,434	\$--	0%	\$28,434

*Funded Status and Funding Progress.* As of June 30, 2008, the most recent actuarial valuation date, the plan was not funded. The unfunded actuarial accrued liability for benefits (UAAL) was \$184,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2 million, and the ratio of the UAAL to the covered payroll was 9.0 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. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with 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, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits (2008 is the first year so only one year of data is available).

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern

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**KANSAS HOUSING RESOURCES CORPORATION  
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**NOTES TO THE FINANCIAL STATEMENTS  
(Continued)**

of sharing of benefit costs 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 the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation, the projected unit credit method was used. The actuarial assumptions include a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's own investments, an annual health care cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after ten years. The UAAL is being amortized over a 30 year open period, in level dollar amounts.

**NOTE 10 – EMPLOYEES RETIREMENT SYSTEM**

Employees of KHRC 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 KHRC employees covered by KPERs for the years ended June 30, 2008 and 2007 were \$1,630,784 and \$1,558,393 and the total salaries were \$2,090,426 and \$1,941,149, respectively.

Eligible employees of KHRC 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 ten years of service. Vested employees may choose from several retirement options. KPERs also provides death and disability benefits. Benefits are established by State statute. Covered employees are currently 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 were 6.97%, 5.77%, and 5.27%, for the years ended June 30, 2008, 2007 and 2006, respectively. Total contributions to KPERs for KHRC employees for the years ended June 30, 2008, 2007 and 2006 were \$178,896, \$152,255, and \$147,830, which consisted of \$109,891, \$89,920, and \$84,042 from KHRC and \$69,005, \$62,335, and \$63,788 from employees, respectively, equal to the statutory required contributions for each year.

**NOTE 11 – DEFERRED COMPENSATION PLAN**

The State offers a Deferred Compensation Plan (Plan), a voluntary defined contribution retirement plan, as authorized by Internal Revenue Service (IRS) Code Section 457. Salary reduction agreements are made with eligible employees whereby prescribed amounts are withheld from the employees' pay and remitted to the Trustee, ING Financial Advisers, LLC, 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 the 2008 fiscal year, 15 KHRC employees participated in the Plan.

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

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.

**NOTE 12 – LEASES**

KHRC has a non-cancelable operating lease in two commercial buildings for office and parking garage space from October 1, 2004 through September 30, 2009.

Rent expense for office space for the year ended June 30, 2008 was \$170,306, and rent expense for parking space was \$10,883.

Rent expense for equipment operating leases for the year ended June 30, 2008 was \$12,513.

Future minimum lease payments due under the non-cancelable office and parking garage space and equipment operating leases as of June 30, 2008 are as follows:

<u>Fiscal Year End</u>	
2009	\$ 203,090
2010	<u>49,801</u>
Total future minimum lease payments	<u>\$ 252,891</u>

**NOTE 13 - MATCH EXPENSE**

*HOME Match Expense* - The HOME program requires a 25 percent matching obligation when HOME funds subject to matching requirements are drawn from its U.S. Treasury account. HOME match income and expense amounts represent match contributions provided by KHRC and non-KHRC (e.g., subgrantee) resources, which reduce KHRC's HOME match obligation.

*ESG Match Expense* – The ESG program requires a dollar for dollar matching obligation when ESG funds subject to matching requirements are drawn from its U.S. Treasury account. ESG match income and expense amounts represent match contributions provided by KHRC and non-KHRC (e.g., subgrantee) resources, which reduce KHRC's ESG match obligation. ESG income equals ESG match expense resulting in a net effect of zero on KHRC's financial statements. Unlike HOME match, excess ESG match may not be carried forward to meet the next year's obligation.

*HMIS Match Expense* – The HMIS program requires a 25 percent matching obligation when HMIS funds subject to matching requirements are drawn from its U.S. Treasury account. HMIS match income and expense amounts represent match contributions provided by KHRC resources, which reduce KHRC's HMIS match obligation. HMIS match income equals

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**KANSAS HOUSING RESOURCES CORPORATION  
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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

HMIS match expense resulting in a net effect of zero on KHRC's financial statements. Unlike HOME match, excess HMIS match may not be carried forward to meet the next year's obligation.

Match expense for the period ending June 30, 2008 is as follows:

	2008
Recognized match income - HOME	\$ 181,317
Recognized match income - ESG	778,663
Recognized match income - HMIS	31,412
Total recognized match income	991,392
Recognized match expense - HOME	181,317
Recognized match expense - ESG	778,663
Recognized match expense - HMIS	31,412
Total recognized match expense	991,392
Net recognized match expense	\$ --

Match expense reflected on KHRC's financial statements represents HOME match expense inclusive of non-KHRC match contributions, excluding excess match from other sources carried over to future years (see also Note 7), and ESG and HMIS match.

**NOTE 14 -- INTERFUND TRANSFERS**

A summary of interfund transfers by fund for the year ended June 30, 2008 is as follows:

	Transfers In	Transfers Out
KHRC Operations	\$ 333,700	\$ 1,267,034
State Housing Trust Fund	1,267,034	333,700
	\$ 1,600,734	\$ 1,600,734

The most significant interfund transfers included: a) a \$1.25 million transfer from KHRC Operations to the State Housing Trust Fund to supplement Disaster Assistance Programs as discussed in Note 1, and b) a \$333,700 transfer from the State Housing Trust Fund to KHRC Operations to fund program loans that qualified for HOME projects or HOME eligible housing.

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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**NOTE 15 – RISK MANAGEMENT**

KHRC is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Claims expenses and liabilities are reported when it is probable a loss has occurred and the amount of the loss can be reasonably estimated. KHRC has not made a claim against any of the insurance policies. KHRC has commercial insurance coverage related to miscellaneous professional liability with a limit of liability of \$2,000,000 and retention of \$10,000 deductible. KHRC also has commercial insurance coverage on personal property with a limit of \$600,780 and a \$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 including Employment Practices Liability with an aggregate limit of \$2,000,000 and a deductible of \$10,000, and Business Auto coverage including hired and non-owned auto liability with a limit of \$1,000,000 combined single limit for Bodily Injury and Property Damage. KHRC also participates in the State's employee health benefit plan. Insurance settlements have not exceeded insurance coverage for the fiscal year ending June 30, 2008.

**NOTE 16 – CONTINGENCIES AND COMMITMENTS**

*Intergovernmental Financial Assistance* – KHRC administers various Federal and State programs. These programs are subject to audit and adjustment by the awarding agencies and other organizations. Any disallowed claims, including amounts already collected may constitute a liability of the applicable program. The amount, if any, of expenses disallowed cannot be determined at this time. KHRC expects such amounts, if any, to be immaterial.

*Litigation* – KHRC, in the normal course of business, is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, KHRC believes the resolution of these matters will not have a material adverse effect on the financial condition of KHRC.

**NOTE 17 – JOINT POWERS AGREEMENTS**

KHRC entered into a joint powers agreement with the State of Kansas' Department of Social and Rehabilitation Services (SRS) on March 25, 2004. The purpose of the agreement is to transfer 15 percent of a portion of the Low Income Energy Assistance (LIEAP) regular block grant to supplement KHRC's Department of Energy Weatherization Assistance Program funds. The percentage represents the maximum amount that may be used for Weatherization, according to federal limitations. The agreement is continual, but is subject to federal funding availability.

**NOTE 18 – FEDERAL GRANTS AUDIT UNDER OMB CIRCULAR A-133**

The U.S. Office of Management and Budget (OMB) *Circular A-133 and Government Auditing Standards* require audits of KHRC's expenditures of federal awards, since KHRC's expenditures were \$500,000 or more in the fiscal year ended June 30, 2008. Such expenditures are included in the June 30, 2008 *OMB Circular A-133* audit for the State of Kansas.

**KANSAS HOUSING RESOURCES CORPORATION  
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**REQUIRED SUPPLEMENTARY INFORMATION  
As of June 30, 2008**

Schedule of Funding Progress for OPEB

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 Percentage of Covered Payroll ((b-a)/c)
6/30/2008	\$0	\$184,000	\$184,000	0%	\$2,051,451	9%

SUPPLEMENTARY INFORMATION

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**KHRC Operations**

**Kansas Housing Resources Corporation  
KHRC Operations Statement of Revenues, Expenses, and Changes in Net Assets by Program  
For the Year Ended June 30, 2008**

	LIHTC	Asset Management	HOME	DOE	LIEAP	CSBG	ESG	HMIS	KHRC Corporate	Eliminate KHRC Ops. Intrafund Transfers	Total
<b>Operating Revenues:</b>											
Fees for Services	\$ 939,173	\$ 2,457,173	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,396,346
Grant Administration Income	-	-	721,579	258,171	144,984	283,603	22,704	-	-	-	1,431,041
Recognized Match Income	-	-	181,317	-	-	-	778,663	31,412	-	-	991,392
Housing Bond Fees (MRB/MCC/Single Family)	-	-	-	-	-	-	-	-	-	-	-
PAB Multifamily Allocation Fees	-	-	-	-	-	-	-	-	-	-	-
Program Loan and Other Interest	4,626	-	43,721	-	-	-	-	-	-	-	48,347
Contributions and Donations	-	-	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-	-	-
Federal Program Revenues	-	42,222,427	10,051,323	2,462,504	2,952,236	4,353,334	758,878	124,973	1,912	-	62,925,675
Federal Loan Proceeds	-	-	349,500	-	-	-	-	-	-	-	349,500
State Program Revenues	-	-	-	-	-	-	-	-	-	-	-
State Loan Proceeds	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Revenues</b>	<b>\$ 943,799</b>	<b>\$ 44,679,600</b>	<b>\$ 11,347,440</b>	<b>\$ 2,720,875</b>	<b>\$ 3,097,220</b>	<b>\$ 4,750,439</b>	<b>\$ 1,560,245</b>	<b>\$ 156,385</b>	<b>\$ 1,912</b>	<b>\$ -</b>	<b>\$ 69,257,715</b>
<b>Operating Expenses:</b>											
Salaries and Related Payroll Expenses	\$ 488,241	\$ 941,261	\$ 454,560	\$ 218,990	\$ 60,104	\$ 347,733	\$ 23,803	\$ -	\$ -	\$ -	\$ 2,534,692
Communication	7,909	13,700	12,010	2,509	1,004	4,211	-	-	22	-	41,365
Advertising and Printing	7,345	4,525	4,051	1,111	291	2,506	-	-	-	-	19,829
Rents and Parking Fees	53,999	63,651	54,481	15,550	5,764	25,727	-	-	-	-	219,172
Equipment Repairs and Maintenance	1,268	13,404	3,611	1,189	556	1,170	-	-	-	-	21,198
Travel	36,146	36,249	23,879	24,230	1,386	28,193	-	-	67	-	150,150
Fees - Professional and Other Services	26,375	257,823	106,881	36,793	8,231	17,464	-	-	1,709	-	455,276
Insurance	2,332	5,219	2,071	2,213	104	1,114	-	-	-	-	13,053
Office and Data Processing Supplies	19,168	32,640	15,414	7,524	684	6,946	-	-	44	-	82,420
Expensed Furniture and Equipment	9,182	10,152	13,028	1,476	438	2,693	-	-	-	-	36,969
Provision for Loan Losses	-	-	250,151	-	-	-	-	-	-	-	250,151
Depreciation	13,221	29,318	36,000	9,908	1,936	7,095	-	-	-	-	97,478
Program Expenses	-	-	30,000	-	-	-	-	-	-	-	30,000
Recognized Match Expense	-	-	181,317	-	-	-	778,663	31,412	-	-	991,392
Federal Program Expenses	-	42,222,427	10,051,323	2,462,504	2,952,236	4,353,334	758,878	124,973	-	-	62,925,675
Federal Program Income Grant Expenses	-	-	149,950	-	-	-	-	-	-	-	149,950
State Program Expenses	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 665,186</b>	<b>\$ 43,630,369</b>	<b>\$ 11,398,727</b>	<b>\$ 2,783,997</b>	<b>\$ 3,032,734</b>	<b>\$ 4,798,186</b>	<b>\$ 1,561,344</b>	<b>\$ 156,385</b>	<b>\$ 1,842</b>	<b>\$ -</b>	<b>\$ 68,018,770</b>
<b>Operating Income</b>	<b>\$ 278,613</b>	<b>\$ 1,049,231</b>	<b>\$ (41,287)</b>	<b>\$ (63,322)</b>	<b>\$ 64,486</b>	<b>\$ (47,747)</b>	<b>\$ (1,099)</b>	<b>\$ -</b>	<b>\$ 70</b>	<b>\$ -</b>	<b>\$ 1,238,945</b>
<b>Non-Operating Revenues &amp; Expenses:</b>											
Investment Income	-	-	-	-	-	-	-	-	208,164	-	208,164
<b>Total Non-Operating Income (Expenses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 208,164</b>	<b>\$ -</b>	<b>\$ 208,164</b>
Transfers In	\$ -	\$ -	\$ 333,700	\$ 54,163	\$ -	\$ 41,533	\$ 1,099	\$ -	\$ -	\$ (96,795)	\$ 333,700
Transfers Out	-	-	-	-	-	-	-	-	(1,363,829)	96,795	(1,267,034)
<b>Excess of Revenue Over (Under) Expenses</b>	<b>\$ 278,613</b>	<b>\$ 1,049,231</b>	<b>\$ 282,413</b>	<b>\$ (6,159)</b>	<b>\$ 64,486</b>	<b>\$ (6,214)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,155,595)</b>	<b>\$ -</b>	<b>\$ 513,775</b>

Please see Note 1, Programs, on pages 18-20 of the Notes to the Financial Statements for explanation of the above programs.

Net assets, beginning of year 5,766,610  
Net assets, end of year \$ 6,280,385

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**State Housing Trust Fund**

**Kansas Housing Resources Corporation  
State Housing Trust Fund Statement of Revenues, Expenses, and Changes in Net Assets by Program  
For the Year Ended June 30, 2008**

	General	Governor's WARM Initiatives	KAMP and ERP	Housing Development Grant Program	SHTF Disaster Assistance	SFC \$5 Million Disaster Assistance	Total
<b>Operating Revenues:</b>							
Fees for Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Grant Administration Income	-	-	-	-	-	-	-
Recognized Match Income	-	-	-	-	-	-	1,210,648
Housing Bond Fees (MRB/MCC)	1,210,648	-	-	-	-	-	52,400
PAB Multifamily Allocation Fees	52,400	-	-	-	-	794	102,310
Program Loan and Other Interest	101,516	-	-	-	-	-	909,489
Contributions and Donations	909,489	-	-	-	-	-	2,500
Other Income	-	2,500	-	-	-	-	-
Federal Program Revenues	-	-	-	4,000,000	-	5,000,000	9,000,000
State Program Revenues	-	-	-	-	-	-	285,000
State Loan Proceeds	285,000	-	-	-	-	-	-
<b>Total Operating Revenues</b>	<b>\$ 2,559,053</b>	<b>\$ 2,500</b>	<b>\$ -</b>	<b>\$ 4,000,000</b>	<b>\$ -</b>	<b>\$ 5,000,794</b>	<b>\$ 11,562,347</b>
<b>Operating Expenses:</b>							
Salaries and Related Payroll Expenses	\$ -	\$ 10,744	\$ 64,925	\$ 3,730	\$ 36,342	\$ -	\$ 115,741
Communication	163	76	750	-	392	-	1,381
Advertising and Printing	1,282	1,329	509	-	1,163	-	4,283
Rents and Parking Fees	-	486	5,826	-	-	-	6,312
Equipment Repairs and Maintenance	-	-	857	-	-	-	857
Travel	185	196	3,031	-	21,467	-	24,879
Fees - Professional and Other Services	58,617	376	9,335	-	-	-	68,328
Insurance	-	-	295	-	-	-	295
Office and Data Processing Supplies	267	5	1,558	92	1,269	-	3,191
Expensed Furniture and Equipment	-	-	712	-	148	-	860
Provision for Loan Losses	1,472,508	-	-	-	-	1,086,795	2,559,303
Depreciation	-	-	-	-	-	-	-
Program Expenses	268,512	-	951,126	-	830,116	-	2,049,754
Recognized Match Expense	-	-	-	-	-	-	-
Federal Program Expenses	-	-	-	-	-	-	-
Federal Program Income Grant Expenses	-	-	-	-	-	2,340,095	2,340,095
State Program Expenses	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 1,801,534</b>	<b>\$ 13,212</b>	<b>\$ 1,038,924</b>	<b>\$ 3,822</b>	<b>\$ 890,897</b>	<b>\$ 3,426,890</b>	<b>\$ 7,175,279</b>
<b>Operating Income</b>	<b>\$ 757,519</b>	<b>\$ (10,712)</b>	<b>\$ (1,038,924)</b>	<b>\$ 3,996,178</b>	<b>\$ (890,897)</b>	<b>\$ 1,573,904</b>	<b>\$ 4,387,068</b>
<b>Non-Operating Revenues &amp; Expenses:</b>							
Investment Income	182,458	81,408	-	15,475	-	105,997	385,338
<b>Total Non-Operating Income (Expenses)</b>	<b>\$ 182,458</b>	<b>\$ 81,408</b>	<b>\$ -</b>	<b>\$ 15,475</b>	<b>\$ -</b>	<b>\$ 105,997</b>	<b>\$ 385,338</b>
Transfers In	\$ -	\$ 13,212	\$ -	\$ 3,822	\$ 1,250,000	\$ -	\$ 1,267,034
Transfers Out	(333,700)	-	-	-	-	-	(333,700)
<b>Excess of Revenues Over (Under) Expenses</b>	<b>\$ 606,277</b>	<b>\$ 83,908</b>	<b>\$ (1,038,924)</b>	<b>\$ 4,015,475</b>	<b>\$ 359,103</b>	<b>\$ 1,879,901</b>	<b>\$ 5,705,740</b>

Please see Note 1, Programs, on pages 18-20 of the Notes to the Financial Statements for explanation of the above programs.

Net assets, beginning of year	6,666,770
Net assets, end of year	\$ 12,372,510

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**KHRC Operations**

**Kansas Housing Resources Corporation  
KHRC Operations Statement of Revenues and Expenses by Program  
For the Year Ended June 30, 2007**

	LIHTC	Asset Management	HOME	DOE	LIEAP	CSBG	ESG	HMIS	KHRC Corporate	Total
<b>Operating Revenues:</b>										
Fees for Services	\$ 946,254	\$ 2,493,072	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,439,326
Grant Administration Income	-	-	656,045	265,271	152,078	288,070	18,106	6,495	-	1,386,065
Recognized Match Income	-	-	489,052	-	-	-	843,129	-	-	1,332,181
Housing Bond Fees (MRB/MCC/Single Family)	-	-	-	-	-	-	-	-	-	-
PAB Multifamily Allocation Fees	-	-	-	-	-	-	-	-	-	-
Program Loan and Other Interest	4,520	-	-	-	-	-	-	-	-	4,520
Contributions and Donations	-	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	58,067	-	-	10,450	68,517
Federal Program Revenues	-	40,781,079	6,261,111	2,449,829	3,135,166	5,160,033	886,218	63,616	-	58,737,052
State Program Revenues	-	-	-	-	-	-	-	-	-	-
State Loan Proceeds	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Revenues</b>	<b>\$ 950,774</b>	<b>\$ 43,274,161</b>	<b>\$ 7,406,208</b>	<b>\$ 2,715,100</b>	<b>\$ 3,287,244</b>	<b>\$ 5,506,170</b>	<b>\$ 1,747,463</b>	<b>\$ 70,111</b>	<b>\$ 10,450</b>	<b>\$ 64,967,661</b>
<b>Operating Expenses:</b>										
Salaries and Related Payroll Expenses	\$ 461,573	\$ 904,017	\$ 448,824	\$ 179,268	\$ 62,341	\$ 261,194	\$ 18,519	\$ 6,495	\$ -	\$ 2,342,231
Communication	7,642	16,249	10,686	2,267	1,000	3,660	-	-	-	41,504
Advertising and Printing	8,930	3,331	4,766	3,165	254	2,133	-	-	-	22,579
Rents and Parking Fees	57,006	75,261	53,220	14,121	5,694	21,037	-	-	-	226,339
Equipment Repairs and Maintenance	689	12,481	1,567	604	231	627	-	-	-	16,199
Travel	36,597	25,338	16,720	13,868	1,255	22,027	-	-	-	115,805
Fees - Professional and Other Services	71,180	324,713	83,452	36,933	64,064	21,941	-	-	-	602,283
Insurance	2,156	5,341	2,386	1,875	247	1,032	-	-	-	13,037
Office and Data Processing Supplies	10,570	16,932	11,588	3,239	18,021	3,809	-	-	-	64,159
Expensed Furniture and Equipment	11,594	25,269	12,906	8,157	1,429	7,784	-	-	-	67,139
Provision for Loan Losses	-	-	-	-	-	-	-	-	-	-
Depreciation	8,343	23,957	9,270	4,902	927	4,172	-	-	-	51,571
Program Expenses	-	-	-	-	-	-	-	-	-	-
Recognized Match Expense	-	-	489,052	-	-	-	843,129	-	-	1,332,181
Federal Program Expenses	-	40,781,079	6,261,111	2,449,829	3,135,166	5,160,033	886,218	63,616	-	58,737,052
Federal Program Income Grant Expenses	-	-	-	-	-	-	-	-	-	-
State Program Expenses	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$ 676,280</b>	<b>\$ 42,213,968</b>	<b>\$ 7,405,548</b>	<b>\$ 2,718,228</b>	<b>\$ 3,280,629</b>	<b>\$ 5,509,449</b>	<b>\$ 1,747,866</b>	<b>\$ 70,111</b>	<b>\$ -</b>	<b>\$ 63,632,079</b>
<b>Operating Income</b>	<b>\$ 274,494</b>	<b>\$ 1,060,183</b>	<b>\$ 660</b>	<b>\$ (3,128)</b>	<b>\$ (3,385)</b>	<b>\$ (3,279)</b>	<b>\$ (413)</b>	<b>\$ -</b>	<b>\$ 10,450</b>	<b>\$ 1,335,582</b>
<b>Non-Operating Revenues &amp; Expenses:</b>										
Investment Income	-	-	-	-	-	-	-	-	476,774	476,774
<b>Total Non-Operating Income (Expenses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 476,774</b>	<b>\$ 476,774</b>
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers Out	-	-	-	-	-	-	-	-	-	-
<b>Excess of Revenues Over (Under) Expenses</b>	<b>\$ 274,494</b>	<b>\$ 1,060,183</b>	<b>\$ 660</b>	<b>\$ (3,128)</b>	<b>\$ (3,385)</b>	<b>\$ (3,279)</b>	<b>\$ (413)</b>	<b>\$ -</b>	<b>\$ 487,224</b>	<b>\$ 1,812,356</b>

*Please see Note 1, Programs, on pages 18-20 of the Notes to the Financial Statements for explanation of the above programs.*

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**State Housing Trust Fund**

**Kansas Housing Resources Corporation  
State Housing Trust Fund Statement of Revenues and Expenses by Program  
For the Year Ended June 30, 2007**

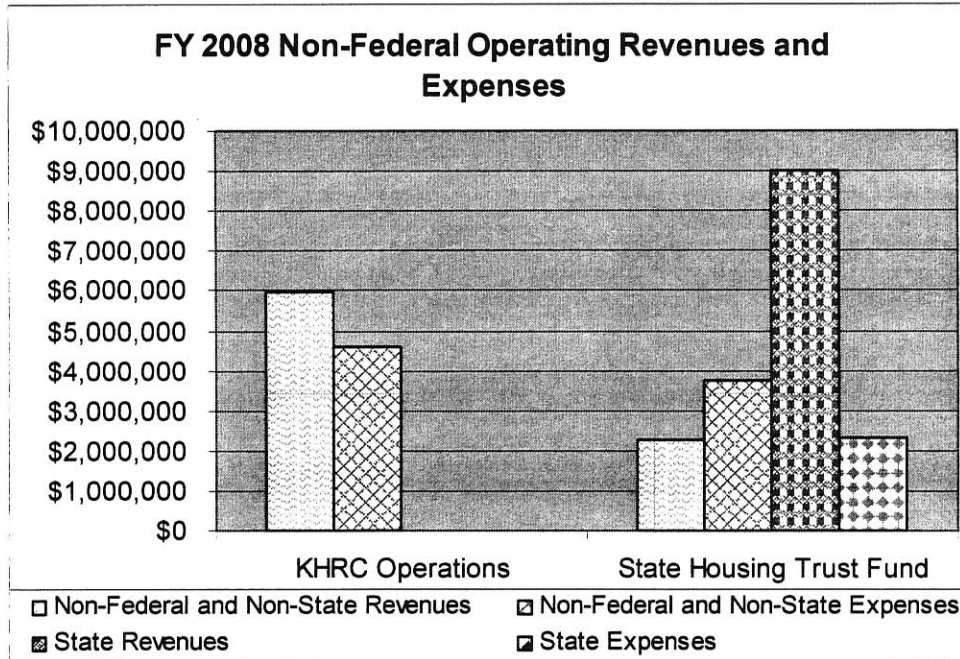
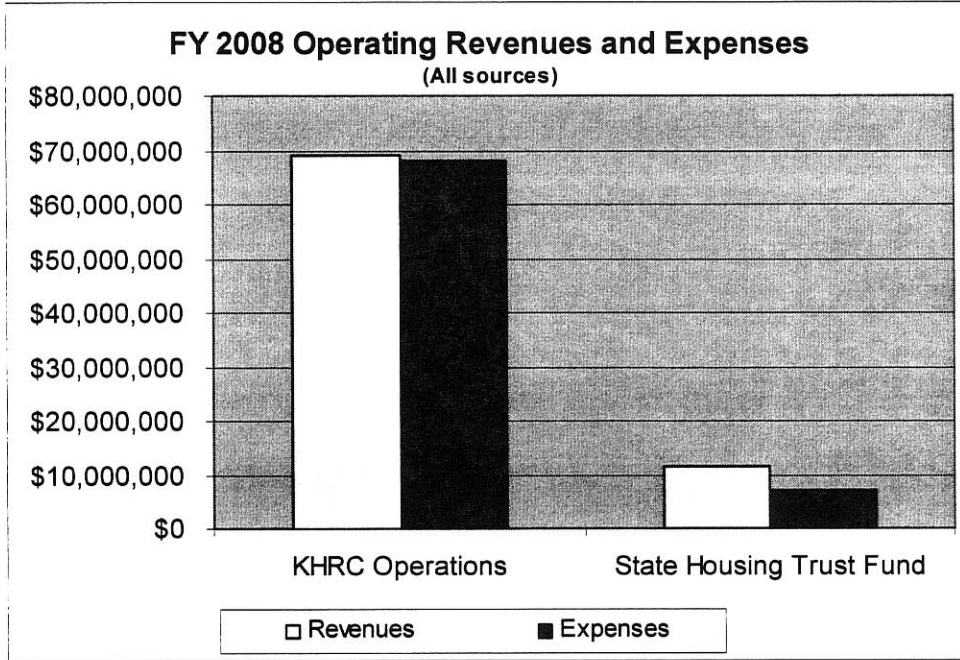
	General	Governor's WARM Initiatives	KAMP and ERP	SHTF Disaster	Total
<b>Operating Revenues:</b>					
Fees for Services	\$ -	\$ -	\$ -	\$ -	\$ -
Grant Administration Income	-	-	-	-	-
Recognized Match Income	-	-	-	-	-
Housing Bond Fees (MRB/MCC)	1,353,193	-	-	-	1,353,193
PAB Multifamily Allocation Fees	51,077	-	-	-	51,077
Program Loan and Other Interest	90,258	-	-	-	90,258
Contributions and Donations	-	-	-	-	-
Other Income	-	-	-	-	-
Federal Program Revenues	-	-	-	-	-
State Program Revenues	-	2,000,000	-	-	2,000,000
State Loan Proceeds	-	2,000,000	-	-	2,000,000
<b>Total Operating Revenues</b>	<b>\$ 1,494,528</b>	<b>\$ 4,000,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,494,528</b>
<b>Operating Expenses:</b>					
Salaries and Related Payroll Expenses	\$ -	\$ 12,149	\$ 48,870	\$ 27,502	\$ 88,521
Communication	-	-	740	-	740
Advertising and Printing	-	7,374	670	-	8,044
Rents and Parking Fees	-	-	5,550	-	5,550
Equipment Repairs and Maintenance	-	-	265	-	265
Travel	212	127	1,258	18,698	20,295
Fees - Professional and Other Services	4,623	19	8,036	-	12,678
Insurance	-	-	317	-	317
Office and Data Processing Supplies	-	-	980	225	1,205
Expensed Furniture and Equipment	-	-	1,280	294	1,574
Provision for Loan Losses	222,004	-	-	-	222,004
Depreciation	-	-	1,391	-	1,391
Program Expenses	18,239	24,990	284,304	-	327,533
Recognized Match Expense	-	-	-	-	-
Federal Program Expenses	-	-	-	-	-
Federal Program Income Grant Expenses	-	-	-	-	-
State Program Expenses	-	2,000,000	-	-	2,000,000
<b>Total Operating Expenses</b>	<b>\$ 245,078</b>	<b>\$ 2,044,659</b>	<b>\$ 353,661</b>	<b>\$ 46,719</b>	<b>\$ 2,690,117</b>
<b>Operating Income</b>	<b>\$ 1,249,450</b>	<b>\$ 1,955,341</b>	<b>\$ (353,661)</b>	<b>\$ (46,719)</b>	<b>\$ 2,804,411</b>
<b>Non-Operating Revenues &amp; Expenses:</b>					
Investment Income	-	-	-	-	-
<b>Total Non-Operating Income (Expenses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers Out	-	-	-	-	-
<b>Excess of Revenues Over (Under) Expenses</b>	<b>\$ 1,249,450</b>	<b>\$ 1,955,341</b>	<b>\$ (353,661)</b>	<b>\$ (46,719)</b>	<b>\$ 2,804,411</b>

Please see Note 1, Programs, on pages 18-20 of the Notes to the Financial Statements for explanation of the above programs.

2-6-07

**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

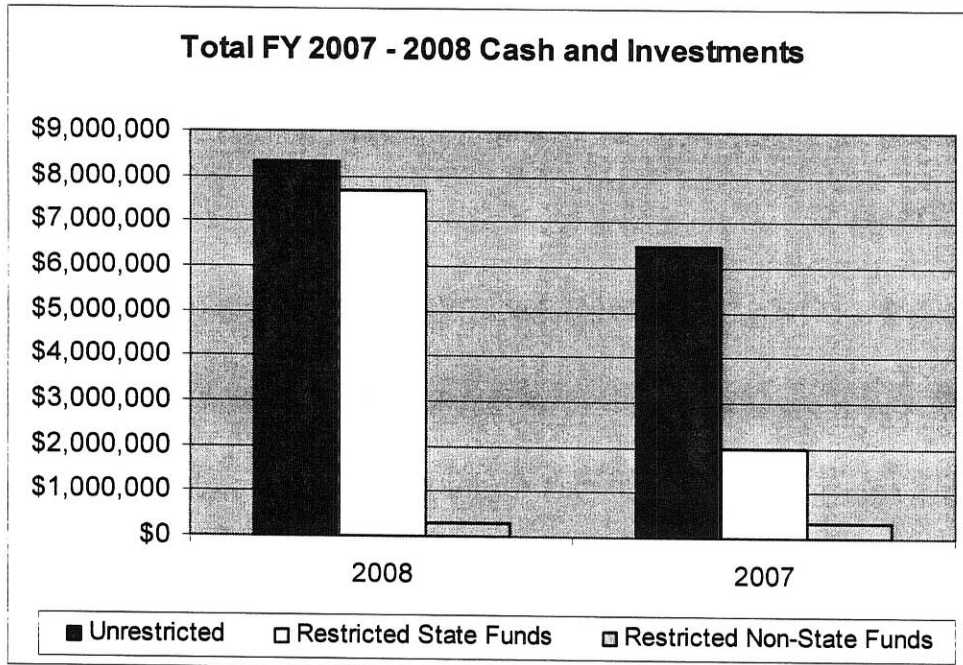
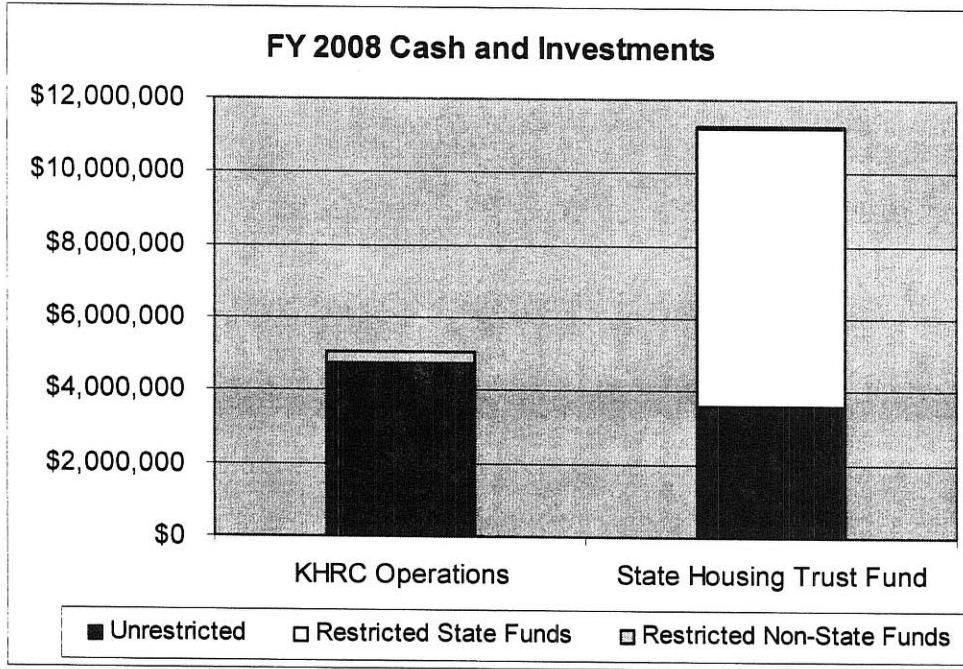
Year Ended June 30, 2008



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**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

Year Ended June 30, 2008



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INDEPENDENT AUDITOR'S 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

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To the Board of Directors  
**Kansas Housing Resources Corporation**  
Topeka, Kansas

We have audited the financial statements of each major fund of the Kansas Housing Resources Corporation (KHRC), a Component Unit of the State of Kansas, as of and for the year ended June 30, 2008, which collectively comprise KHRC's basic financial statements and have issued our report thereon dated October 31, 2008. 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 KHRC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KHRC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KHRC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 a 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2008-1 to be a significant deficiency in internal control over financial reporting.

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, and accordingly, would not necessarily disclose all significant deficiencies considered to be material weaknesses. We believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KHRC'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 those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

KHRC'S response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit KHRC'S response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board Directors and management and 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

October 31, 2008  
Wichita, Kansas

**KANSAS HOUSING RESOURCES CORPORATION**  
**SCHEDULE OF FINDINGS AND RESPONSES**

Year Ended June 30, 2008

**Item 2008-1: Significant Deficiency**

During fiscal year 2008, there was a lack of segregation of duties related to the Controller's access related to disbursements. The Controller has "administrator" rights within the new accounting software system, has the ability to write and sign checks, and performed the reconciliations of the bank accounts for part of the year due to vacancy of the senior accountant position. Mitigating controls include: staff accountants code and enter invoices into the system, bank statements are sent unopened to the Deputy Director for review, and budget vs. actual comparisons of expenditures are provided to and reviewed by management monthly.

**Management Response (unaudited):**

KHRC experienced repeated turnover and vacancy of the Senior Accountant position from mid-February 2008 through June 30, 2008. Due to the small size of KHRC's finance staff, continued ongoing accounting software implementation efforts with development and establishment of new procedures, and high priority placed on continuing KHRC finance responsibilities and obligations, the Controller performed reconciliations of the bank accounts until the Senior Accountant position was permanently filled. In early July 2008 the position was permanently filled and resumed performing reconciliations of the bank accounts going forward.