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BERBERICH TRAHAN & CO., P.A.  
*Certified Public Accountants*

**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**

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

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.

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.

(Continued)

**KANSAS HOUSING RESOURCES CORPORATION  
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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**  
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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	714,153	665,352	48,801
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	28,434	--	28,434
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	9,656,803	9,817,518	(160,715)
Total net assets	18,652,895	12,433,380	6,219,515
Total liabilities and net assets	<u>\$ 26,381,876</u>	<u>\$ 16,811,897</u>	<u>\$ 9,569,979</u>

(Continued)

**KANSAS HOUSING RESOURCES CORPORATION  
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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.

(Continued)

**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**

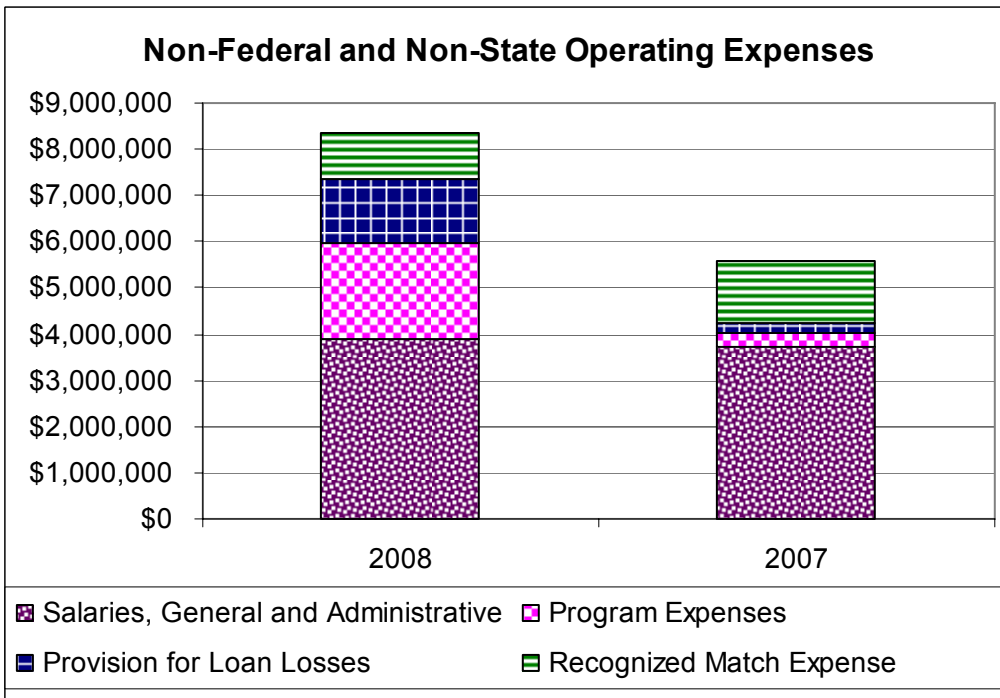
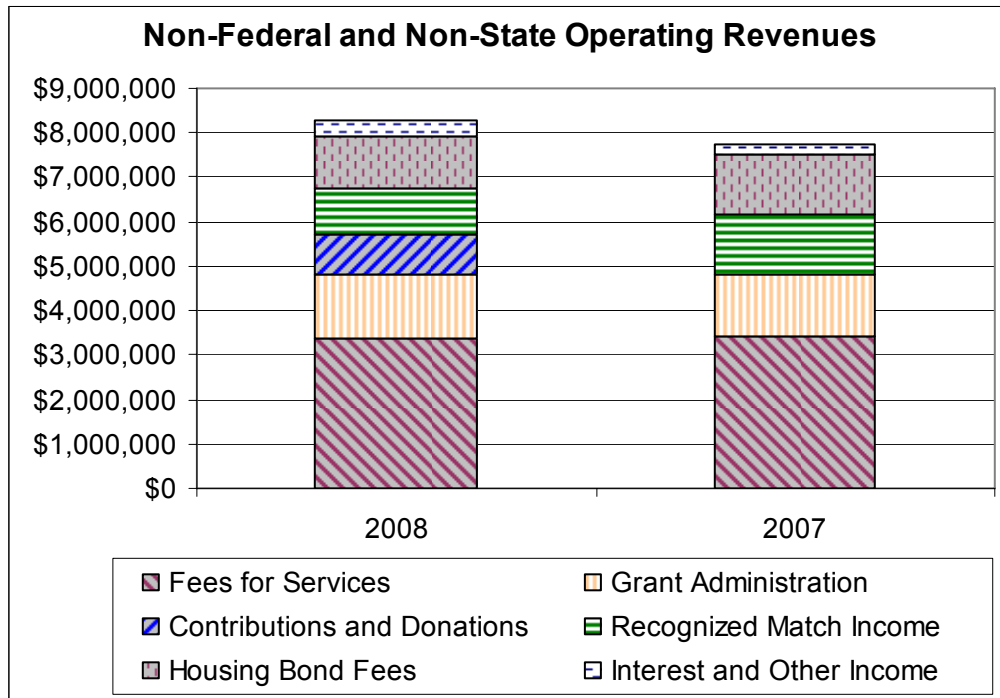
The following table presents condensed statements of revenues, expenses, and changes in net assets for the years ended June 30, 2008 and 2007:

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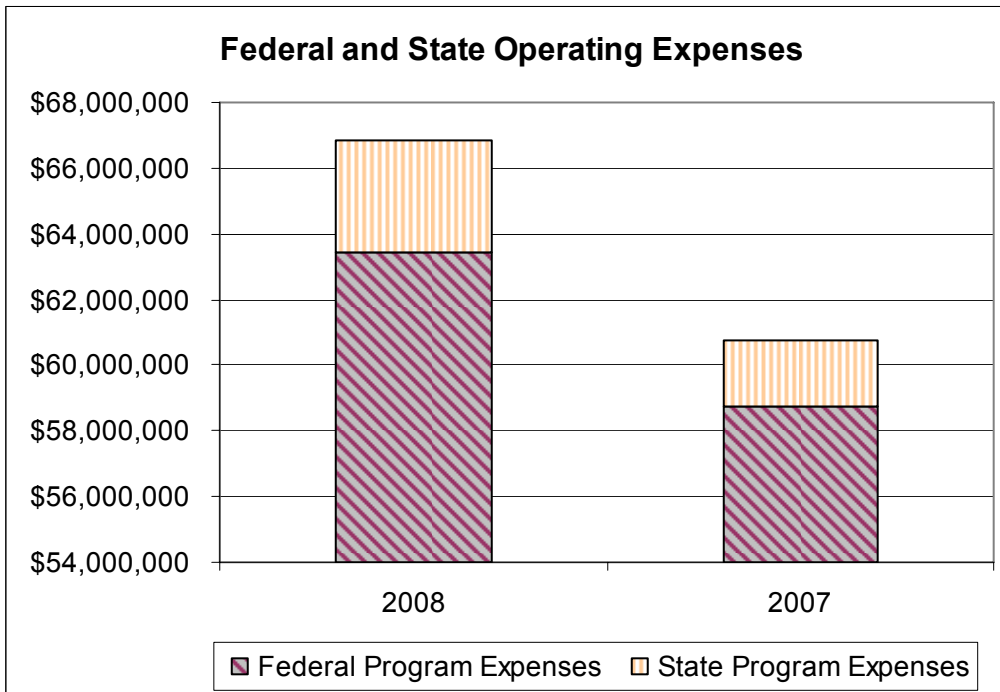
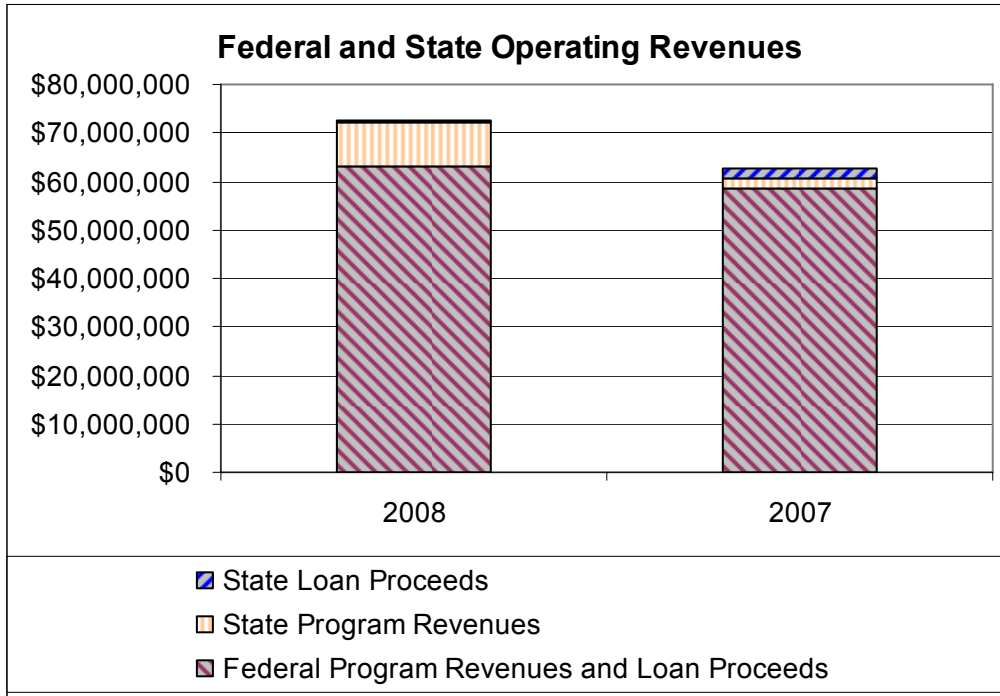
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2008  
(Continued)



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



(Continued)

**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

(Continued)

**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
	<u>69,257,715</u>	<u>11,562,347</u>	<u>80,820,062</u>	<u>70,462,189</u>
<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
	<u>68,018,770</u>	<u>7,175,279</u>	<u>75,194,049</u>	<u>66,322,196</u>
Operating income	1,238,945	4,387,068	5,626,013	4,139,993
<b>Nonoperating revenues and expenses:</b>				
Investment income	208,164	385,338	593,502	476,774
	<u>208,164</u>	<u>385,338</u>	<u>593,502</u>	<u>476,774</u>
<b>Transfers in</b>	333,700	1,267,034	1,600,734	-
<b>Transfers out</b>	(1,267,034)	(333,700)	(1,600,734)	-
<b>Excess of revenues over expenses</b>	513,775	5,705,740	6,219,515	4,616,767
<b>Net assets, beginning of year</b>	5,766,610	6,666,770	12,433,380	7,816,613
<b>Net assets, end of year</b>	<u>\$ 6,280,385</u>	<u>\$ 12,372,510</u>	<u>\$ 18,652,895</u>	<u>\$ 12,433,380</u>

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

**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.

**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  
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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  
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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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(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  
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**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
	<u>16,285,923</u>	<u>16,310,303</u>
Total	<u>\$ 16,285,923</u>	<u>\$ 16,310,303</u>

(Continued)

**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>--</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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(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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NOTES TO THE FINANCIAL STATEMENTS  
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**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)

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

**NOTE 5 – CAPITAL ASSETS**

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

<u>Category</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decreases</u>	<u>Ending Balance</u>
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.

(Continued)

**KANSAS HOUSING RESOURCES CORPORATION  
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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)

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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	<u>\$ 28,434</u>

**Employer Contributions for Fiscal 2008**

Claims + Admin Paid on Behalf of Retirees	\$ --
Retiree Contributions	--
Net Employer Contributions	<u>\$ --</u>

**Net OPEB Obligation**

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

**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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**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  
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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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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  
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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

**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	-	-	-	-	-	113,502	-	-	1,912	-	115,414
Federal Program Revenues	-	42,222,427	10,051,323	2,462,504	2,952,236	4,353,334	758,878	124,973	-	-	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>\$ 2,720,675</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>\$ 11,388,727</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>
<b>Transfers In</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 333,700</b>	<b>\$ 54,163</b>	<b>\$ -</b>	<b>\$ 41,533</b>	<b>\$ 1,099</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (96,795)</b>	<b>\$ 333,700</b>
<b>Transfers Out</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,363,829)</b>	<b>96,795</b>	<b>(1,267,034)</b>
<b>Excess of Revenues Over (Under) Expenses</b>	<b>\$ 278,613</b>	<b>\$ 1,049,231</b>	<b>\$ 292,413</b>	<b>\$ (9,159)</b>	<b>\$ 64,486</b>	<b>\$ (6,214)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (1,155,595)</b>	<b>\$ -</b>	<b>\$ 513,775</b>

Net assets, beginning of year 5,766,610

Net assets, end of year \$ 6,280,385

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

**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	-	-	-	-	-	-	-
Housing Bond Fees (MRB/MCC)	1,210,648	-	-	-	-	-	1,210,648
PAB Multifamily Allocation Fees	52,400	-	-	-	-	-	52,400
Program Loan and Other Interest	101,516	-	-	-	-	794	102,310
Contributions and Donations	909,489	-	-	-	-	-	909,489
Other Income	-	2,500	-	-	-	-	2,500
Federal Program Revenues	-	-	-	-	-	-	-
State Program Revenues	-	-	-	4,000,000	-	5,000,000	9,000,000
State Loan Proceeds	285,000	-	-	-	-	-	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	-	-	-	-	-	-	-
State Program Expenses	-	-	-	-	-	2,340,095	2,340,095
<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>
<b>Transfers In</b>	<b>\$ -</b>	<b>\$ 13,212</b>	<b>\$ -</b>	<b>\$ 3,822</b>	<b>\$ 1,250,000</b>	<b>\$ -</b>	<b>\$ 1,267,034</b>
<b>Transfers Out</b>	<b>(333,700)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(333,700)</b>
<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>\$ 1,679,901</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

**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>\$ 43,274,151</b>	<b>\$ 7,406,208</b>	<b>\$ 2,715,100</b>	<b>\$ 3,287,244</b>	<b>\$ 5,506,170</b>	<b>\$ 1,747,453</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>\$ 3,290,629</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.

**State Housing Trust Fund**

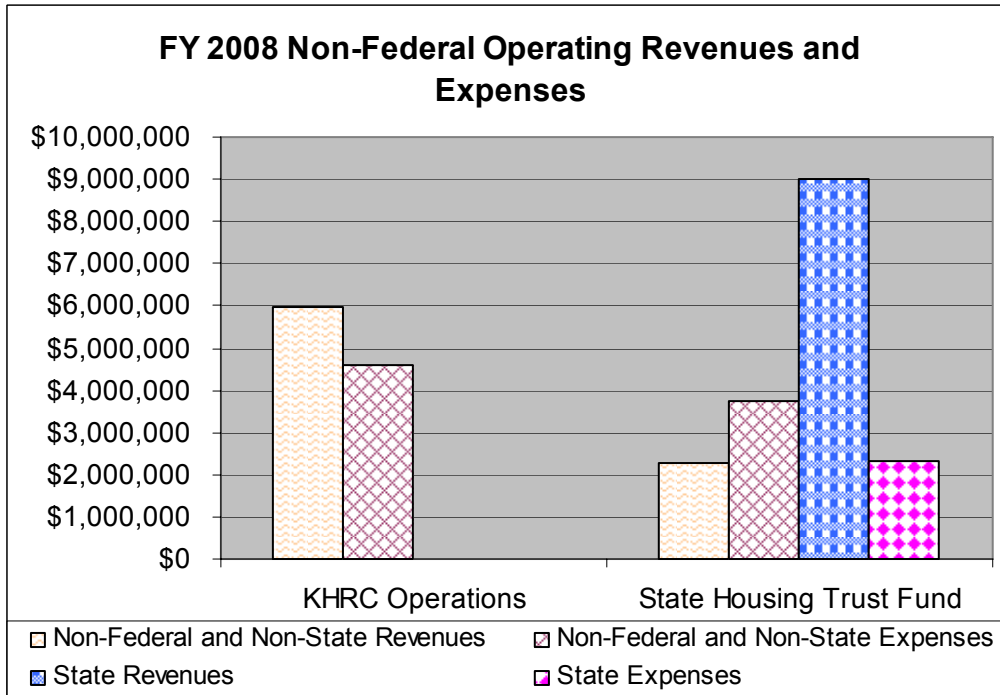
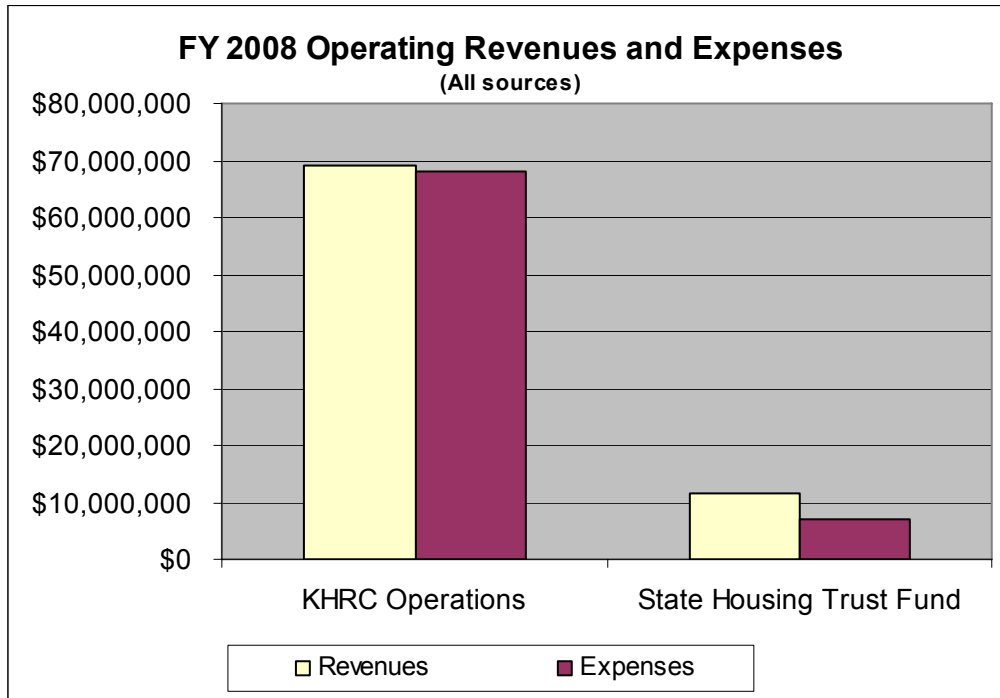
**Kansas Housing Resources Corporation  
State Housing Trust Fund Statement of Revenues and Expenses by Program  
For the Year Ended June 30, 2007**

	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>
<b>Transfers In</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Transfers Out</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<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.*

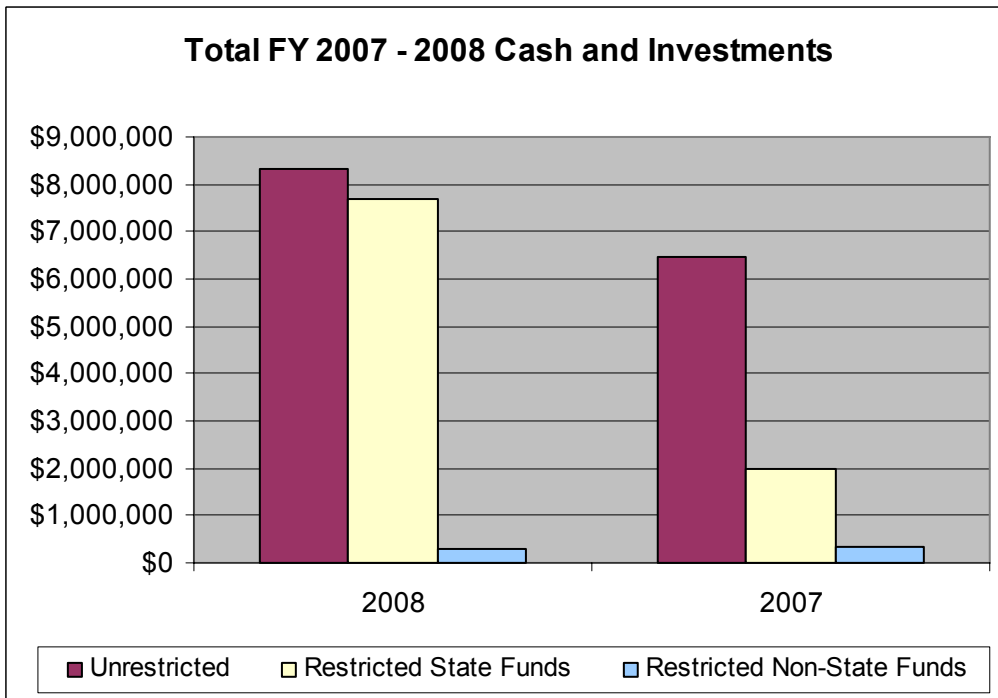
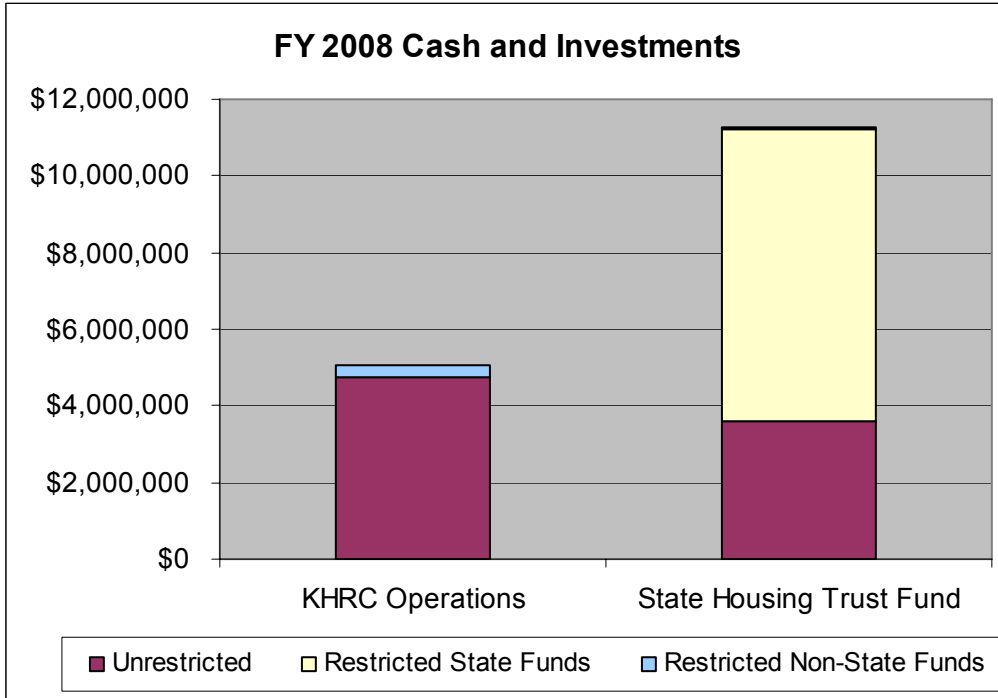
**KANSAS HOUSING RESOURCES CORPORATION  
(A COMPONENT UNIT OF THE STATE OF KANSAS)**

Year Ended June 30, 2008



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

Year Ended June 30, 2008



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.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.