

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

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

AND

INDEPENDENT AUDITOR'S REPORT



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

FINANCIAL STATEMENTS

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KANSAS HOUSING RESOURCES CORPORATION
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FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise KHRC's basic financial statements as listed on the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 KHRC as of June 30, 2016, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Comparative Information

We have previously audited KHRC's 2015 financial statements, and we expressed unmodified audit opinions on the respective financial statements of each major fund in our report dated September 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit for the year ended June 30, 2016 was conducted for the purpose of forming opinions on the financial statements that collectively comprise KHRC's basic financial statements. The accompanying supplementary information for the year ended June 30, 2016 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2016, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2016.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the basic financial statements of KHRC as of and for the year ended June 30, 2015 (presented herein as summarized comparative information), and have issued our report thereon dated September 14, 2015, which contained unmodified opinions on the respective financial statements of each major fund. The supplementary information for the year ended June 30, 2015 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2015 financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the 2015 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those financial statements or to those financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2015.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016 on our consideration of KHRC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the KHRC's internal control over financial reporting and compliance.

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

September 23, 2016
Wichita, KS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

This annual financial report of the Kansas Housing Resources Corporation (KHRC) consists of three sections: basic financial statements, required supplementary information, 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, 2016.

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 Auditor's Report, audited financial statements, and accompanying notes.

FINANCIAL HIGHLIGHTS

KHRC reports 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 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 transferred \$1.6 million from KHRC Operations to the SHTF to fund two new programs: Kansas Individual Development Account (IDA) and Kansas Accessibility Modification and Emergency Repair (KAMP/ERP) with funding of \$450,000 and \$1,150,000, respectively. IDA assists clients who are saving for housing repairs/rehabilitation with a three-year savings and education program and 2:1 savings match ratio, which cannot be funded by Federal dollars. KAMP/ERP facilitates weatherization client repairs with a traditional grant, which allows Federally funded weatherization measures to move forward rather than a savings and education program.

For the year ended June 30, 2016, KHRC converted traditional sick and vacation leave to a modern personal time off (PTO) system, effective July 1, 2016. Under the new PTO system, unscheduled absences can be significantly reduced, and KHRC is better positioned to seek a competitive advantage in attracting and retaining high-caliber employees at all levels. The \$375,000 one-time conversion cost increased fiscal year 2016 salaries and related payroll expenses and June 30, 2016 Compensated Absences liability.

Beginning in fiscal year 2009 and through fiscal year 2013, KHRC administered over \$138 million in time-sensitive Federal American Recovery and Reinvestment Act (ARRA) allocations that provided financial assistance for Tax Credit developments, improved residential energy efficiency, helped prevent homelessness, and increased community action activities across the State.

KHRC continues to take advantage of Federal and State government programs that serve its mission and provide resources leveraging its net position with other resources to finance affordable rental and owner-occupied housing for Kansans. Despite an era of dwindling

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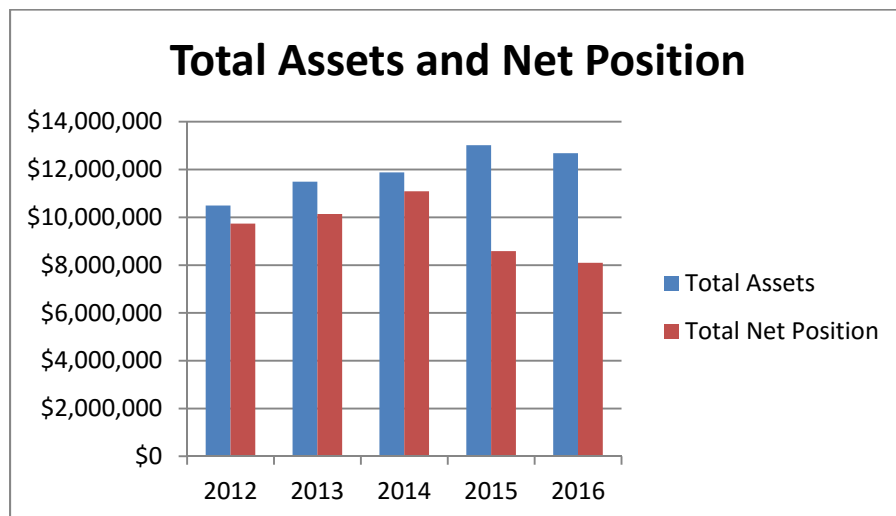
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

revenues from Federal sources and continued challenges to effectively and efficiently administer programs, KHRC remains strong and viable in the new normal economy. However, KHRC's challenge continues to be identifying longer term funding opportunities to meet Kansans' housing needs.

KHRC Operations

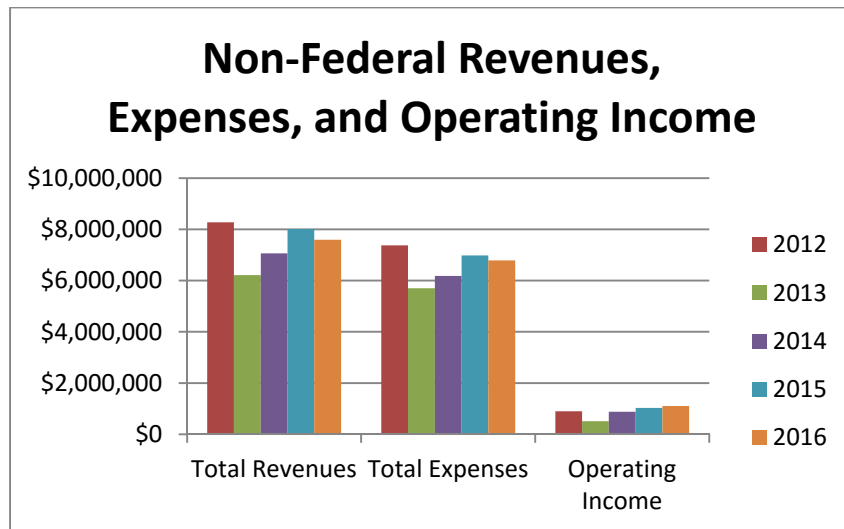
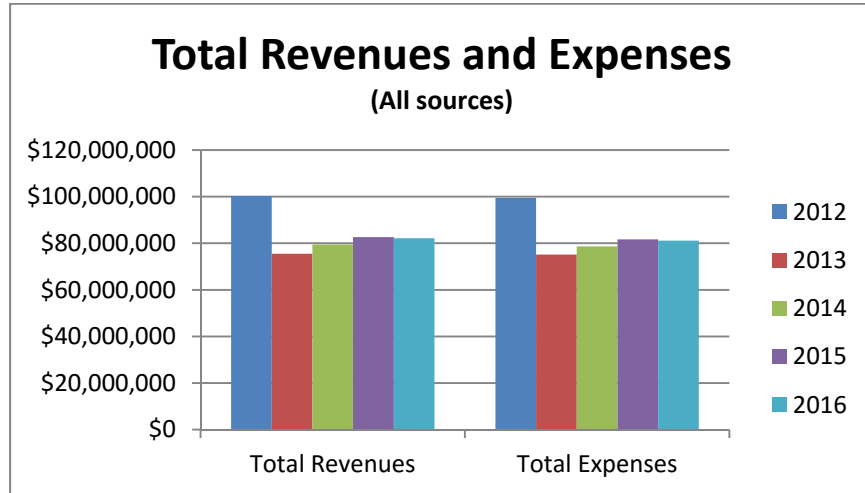
- Total assets were \$12.7 million at June 30, 2016, a decrease of 2.6 percent from fiscal year 2015.
- Total liabilities were \$4.6 million in fiscal year 2016, an increase of 10.5 percent from fiscal year 2015 due primarily to KHRC's change from a traditional sick and vacation leave system to PTO at June 30, 2016.
- Net position was \$8.1 million at June 30, 2016, a net *decrease* of \$0.5 million or 5.6 percent from fiscal year 2015 due primarily to the \$1.6 million Transfers out to the SHTF to fund the new IDA and KAMP/ERP programs.
- Total revenues were \$82.2 million in fiscal year 2016, a decrease of 0.6 percent from fiscal year 2015. Excluding Federal program revenues ("pass-throughs"), total revenues were \$7.6 million in fiscal year 2016, a decrease of 5.2 percent from fiscal year 2015.
- Total expenses were \$81.2 million in fiscal year 2016, a decrease of 0.7 percent from fiscal year 2015. Excluding Federal program expenses ("pass-throughs"), total expenses were \$6.8 million in fiscal year 2016, a decrease of 2.8 percent from fiscal year 2015.
- Operating income was \$1.0 million in fiscal year 2016, an increase of 6.7 percent from fiscal year 2015.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016



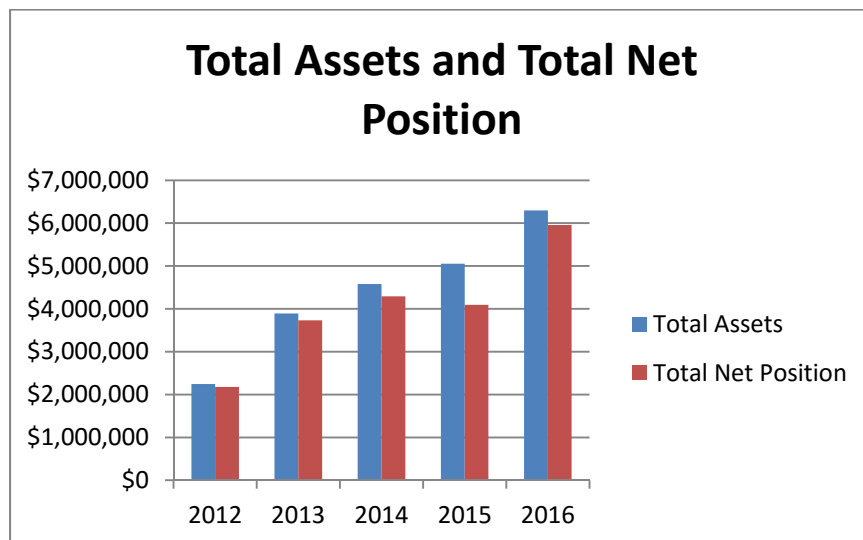
**KANSAS HOUSING RESOURCES CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

State Housing Trust Fund

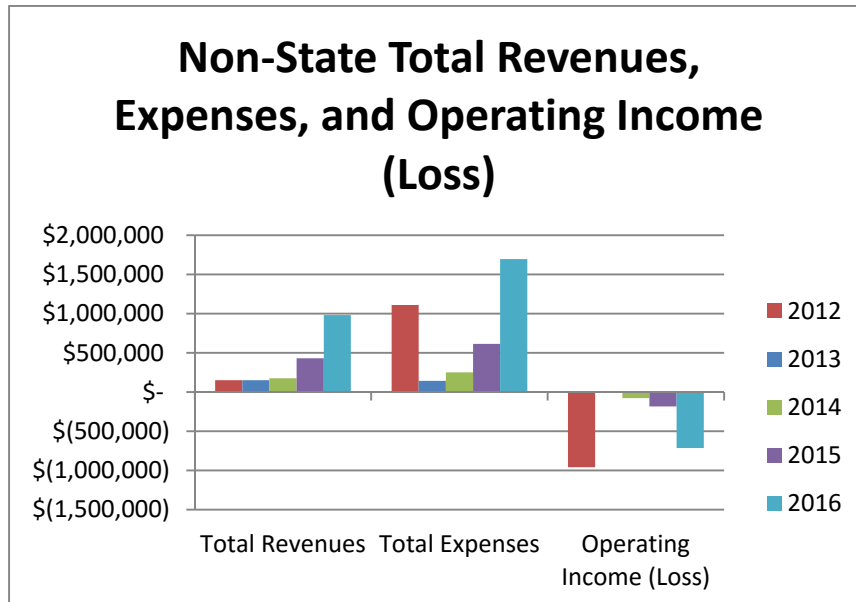
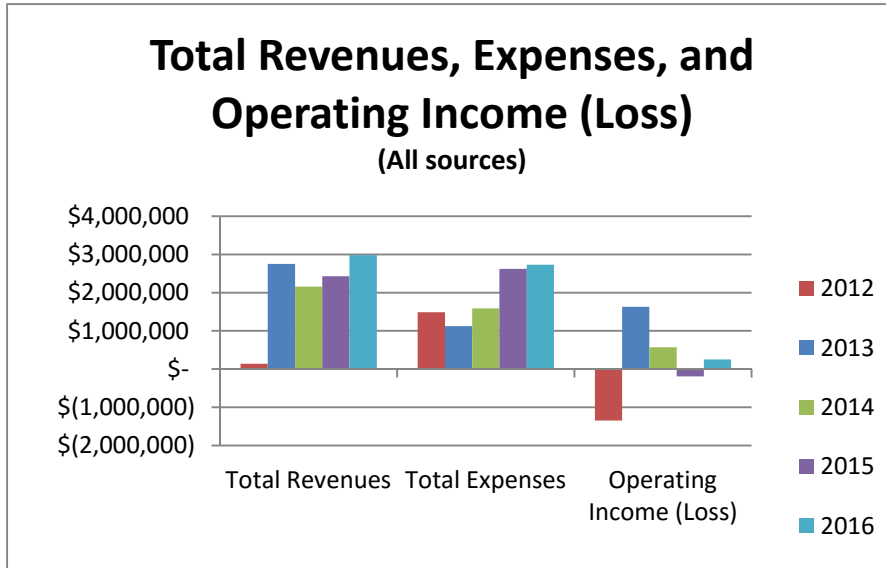
- Total assets were \$6.3 million at June 30, 2016, an increase of 24.6 percent from fiscal year 2015.
- Net position was \$6.0 million at June 30, 2016, an increase of 45.6 percent, or \$1.9 million, from fiscal year 2015 due primarily to increased net cash and investment balances from the following: (1) \$1.6 million Transfers in from KHRC Operations to fund the new IDA and KAMP/ERP programs less \$601,000 program expenses (\$1.0 million net increase), and (2) \$2.0 million Moderate Income Housing (MIH) allocation received less \$1.0 million program expenses (\$1.0 million net increase).
- Total revenues were \$3.0 million in fiscal year 2016, an increase of 23.0 percent from fiscal year 2015 due to recognizing \$653,000 of earned revenue in 2016 from a one-time \$1.2 million donation from Kansas Gas Service (KGS) for weatherization services received in 2015. Remaining proceeds of approximately \$221,000 will be recognized in 2017 as eligible costs are incurred. Excluding state program revenues, total revenues were approximately \$1.0 million in fiscal year 2016, an increase of 129.8 percent or \$558,000 from fiscal year 2015 due primarily to recognizing \$387,000 increased KGS earned revenue for 2016 weatherization services and \$180,000 for the new KHC revenue presentation.
- Total expenses were \$2.8 million in fiscal year 2016, an increase of 6.4 percent from fiscal year 2015. Excluding state program expenses, total expenses were approximately \$1.8 million in fiscal year 2016, an increase of 185.8 percent or \$1.1 million from fiscal year 2015 due primarily to payment in 2016 of \$387,000 increased KGS weatherization expenses and \$565,000 for the new KHRC-funded KAMP/ERP program.
- Operating income was \$0.2 million in fiscal year 2016 compared to an operating loss of \$0.2 million in fiscal year 2015. The \$0.4 million increase in operating income is due primarily to \$653,000 of earned revenue recognized from the KGS one-time \$1.2 million donation for weatherization services provided in 2016.



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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016



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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The *Balance Sheet* answers the question, "How is our financial health at the end of the year?" This statement includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 position presented in the statement is 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 for KHRC Operations, changes in net position may serve as a useful indicator of whether its financial position is improving or deteriorating. In contrast, the State Housing Trust Fund is designed to be a conduit for the deposit and subsequent payment or "pass-through" of housing funds to serve housing needs of the citizens of Kansas; thus, its financial position should not be evaluated from that perspective.

All of the current year's revenues and expenses of KHRC are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position*. 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 position. It can be used to determine whether KHRC has successfully recovered all of its costs through 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

CONDENSED FINANCIAL INFORMATION

Balance Sheets

The following table presents condensed balance sheets at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease) 2016 vs. 2015</u>
Assets			
Current assets			
Restricted	\$ 3,620,547	\$ 3,301,525	\$ 319,022
Unrestricted	13,080,074	12,763,333	316,741
Noncurrent			
Net capital assets	598,633	483,871	114,762
Restricted	529,752	279,681	250,071
Unrestricted	1,152,898	1,241,181	(88,283)
Total assets	<u>18,981,904</u>	<u>18,069,591</u>	<u>912,313</u>
Deferred outflows of resources	<u>248,249</u>	<u>229,231</u>	<u>19,018</u>
Total assets and deferred outflows of resources	<u>\$ 19,230,153</u>	<u>\$ 18,298,822</u>	<u>\$ 931,331</u>
Liabilities			
Current liabilities			
Restricted	\$ 310,843	\$ 926,824	\$ (615,981)
Unrestricted	992,282	650,081	342,201
Noncurrent liabilities			
Unrestricted	3,639,867	3,551,465	88,402
Total liabilities	<u>4,942,992</u>	<u>5,128,370</u>	<u>(185,378)</u>
Deferred inflows of resources	<u>228,454</u>	<u>494,953</u>	<u>(266,499)</u>
Net position			
Invested in capital assets	598,633	483,871	114,762
Restricted	3,839,457	2,654,381	1,185,076
Unrestricted	9,620,617	9,537,247	83,370
Total net position	<u>14,058,707</u>	<u>12,675,499</u>	<u>1,383,208</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 19,230,153</u>	<u>\$ 18,298,822</u>	<u>\$ 931,331</u>

**KANSAS HOUSING RESOURCES CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

Total assets, liabilities, and net position: Restricted current assets increased \$319,022 due primarily to a \$1.0 million net *increase* in MIH program funds (\$2.0 allocation received less \$1.0 million 2016 program payments) and \$653,000 net *decrease* in KGS weatherization program funds for 2016 weatherization program payments.

Unrestricted current assets increased \$316,741 due primarily to increased cash and investment balances from Section 8 Contract Administration and Housing Assistance Payments (Section 8 HAP) and Rental Development fees for services program activity.

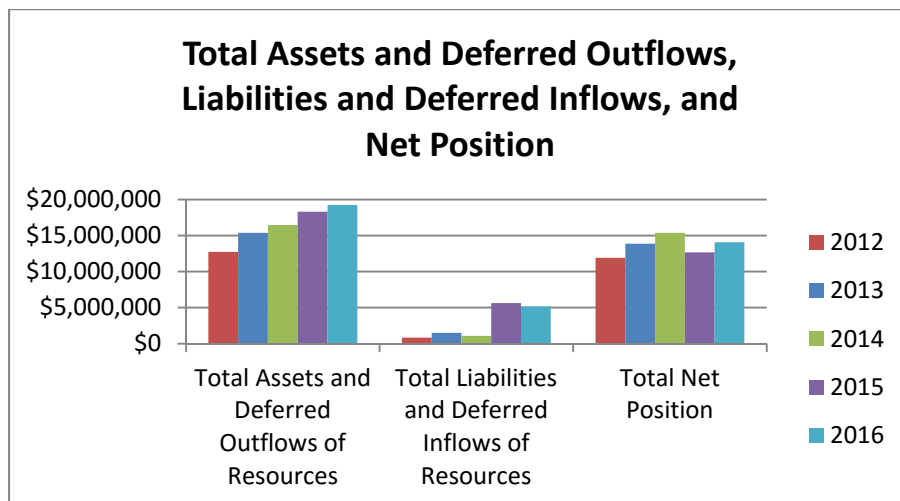
Restricted noncurrent assets increased \$250,071 due primarily to \$300,000 of Federal HOME loan proceeds paid during the year, which increased HOME program loans receivable.

Restricted current liabilities decreased \$615,981 due primarily to decreased restricted unearned revenue related to the KGS donation. In 2015 KHRC received a KGS one-time \$1.2 million donation for KHRC weatherization partner agencies to provide weatherization services. KGS' donation is recognized as revenue as eligibility requirements are met.

Restricted net position increased \$1,185,076 due primarily to a \$1.0 million net increase in MIH program funds (\$2.0 million allocation received less \$1.0 million 2016 program payments).

Total net position increased by \$1,383,208 or 10.9 percent from 2015 to 2016 due primarily to a \$1.0 million net increase in MIH program funds and increased cash and investment balances from fees for services program activity.

KHRC Operations and State Housing Trust Fund (Combined)



**KANSAS HOUSING RESOURCES CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

Statements of Revenues, Expenses, and Changes in Net Position

The following table presents condensed statements of revenues, expenses, and changes in net position for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease) 2016 vs. 2015</u>
Revenues			
Operating revenues			
Fees for services	\$ 3,864,195	\$ 3,665,684	\$ 198,511
Grant administration/grant income	1,529,141	1,551,931	(22,790)
Recognized match income	2,195,966	2,646,630	(450,664)
Contributions and donations	711,659	326,499	385,160
Other income	283,409	251,029	32,380
Federal program revenues	74,292,918	74,648,124	(355,206)
Federal loan proceeds	300,000	-	300,000
State program revenues	2,000,000	2,000,000	-
Investment income	155,115	125,154	29,961
	<u>85,332,403</u>	<u>85,215,051</u>	<u>117,352</u>
Total revenues			
Expenses			
Operating expenses			
Salaries, general and administrative	5,077,272	4,441,145	636,127
Provision for loan losses, net of recoveries	77,823	185,504	(107,681)
Program expenses	1,270,914	389,222	881,692
Recognized match expense	2,195,966	2,646,630	(450,664)
Federal program expenses	74,292,918	74,648,124	(355,206)
State program expenses	1,034,302	2,007,211	(972,909)
	<u>83,949,195</u>	<u>84,317,836</u>	<u>(368,641)</u>
Total expenses			
Transfers in	1,680,738	34,191	1,646,547
Transfers out	<u>(1,680,738)</u>	<u>(34,191)</u>	<u>(1,646,547)</u>
Excess of revenues over expenses	1,383,208	897,215	485,993
Total net position, beginning of year	<u>12,675,499</u>	<u>11,778,284</u>	<u>897,215</u>
Total net position, end of year	<u>\$ 14,058,707</u>	<u>\$ 12,675,499</u>	<u>\$ 1,383,208</u>

**KANSAS HOUSING RESOURCES CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

Revenues, Expenses, and Changes in Net Position: The majority of KHRC's revenue is from Federal and State program revenues, fees for services, grant administration/grant income, and recognized match income, which produce 98.8 percent of KHRC's revenues.

Recognized match income and recognized match expense decreased \$450,664 due primarily to reduced Emergency Solutions Grant (ESG) draws subject to match.

Contributions and donations income increased \$385,160 due to eligible expenses incurred on the one-time \$1.2 million KGS donation for KHRC weatherization partner agencies to provide weatherization services.

Federal program revenues and expenses decreased by \$355,206 due to decreased traditional Federal program pass-thru payments and other financial assistance (i.e., reduced Section 8 HAP contract payments of \$232,000 and traditional federal program pass-thru payments of \$124,000). Federal program revenues and expenses represent subsidy (pass-through) proceeds and other financial assistance received or to be received by KHRC and transferred to or spent on behalf of secondary recipients. Federal program revenues equal Federal program expenses resulting in a zero net effect on KHRC's financial statements.

Federal loan proceeds increased \$300,000 due to a \$300,000 Federal HOME program loan issued during the year.

Salaries, general and administrative expenses increased \$636,127 due primarily to the following: (1) \$246,000 net increase in payroll expenses for (a) one-time PTO conversion cost (\$375,000), (b) new Kansas Housing Conference (KHC) expense presentation (\$86,000), (c) other postemployment health care benefit (OPEB) expense reduction with the upcoming OPEB retiree plan change effective December 31, 2016 (\$188,000), and (d) reduced health care costs associated with staff changes during the year (\$27,000); (2) \$12,000 increased printing expenses for KHC, (3) \$68,000 increased travel expenses to conduct Section 8 HAP MOR's, new KHC expense presentation, and increased federal program monitoring, (4) \$56,000 increased other fees/services for the new KHC expense presentation, (5) \$13,000 increased office and data processing supplies for the new KHC expense presentation, (6) \$75,000 increased meeting and venue expenses primarily for the new KHC expense presentation, and (7) \$127,000 increased expensed furniture and equipment for a large routine computer replacement cycle, new and improved conference room media technology, and updated conference room and office furniture.

Program expenses increased \$881,692 due primarily to increased program payments for the following: KGS weatherization program (\$386,000 net increase) and new KAMP/ERP program (\$565,000).

Receipt of State program funds (State program revenues) represent subsidy (pass-through) grant proceeds received by KHRC and transferred to or spent on behalf of secondary recipients. However, unlike Federal funds which are drawn and recorded as Federal program revenue and Federal program expense when the Federal program requirements are met (spent) by secondary recipients, State program funds are recognized as revenue upon *receipt* from the State and recognized as expense when *transferred to or spent* on behalf of secondary recipients in accordance with GASB Statements No. 24 and 33 (Note 1). Since State funding is

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016

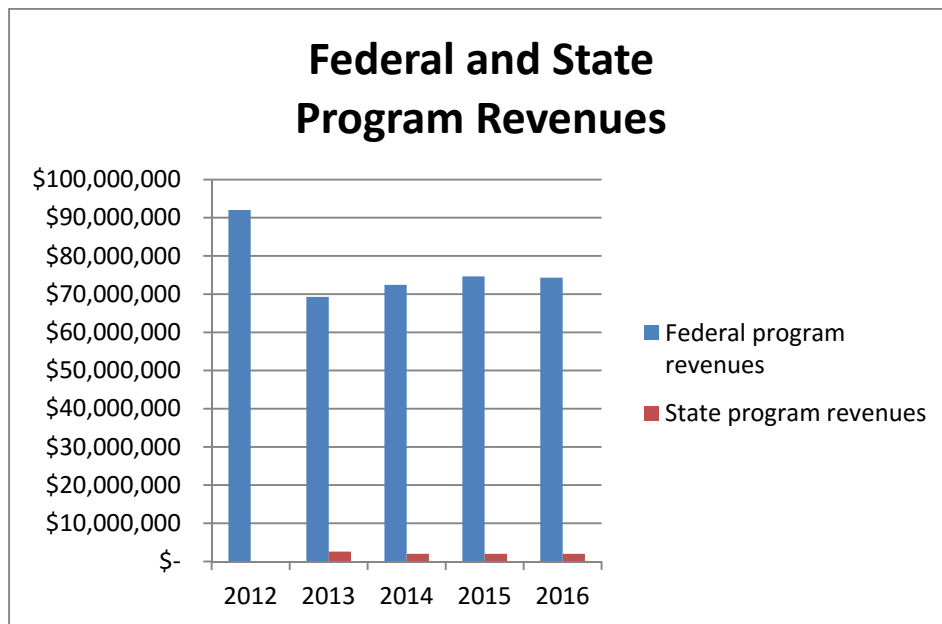
generally received in one lump sum at the beginning of a fiscal year and spent over multiple fiscal years, timing differences result. For example, in 2013, \$2.0 million was received and \$380,000 was spent for the MIH program in its first program year, while in 2016, \$2.0 million was received and \$1.0 million was spent for MIH program years 2013-2016. State program expenses decreased \$972,909 due to decreased MIH spending for multiple open grant years (2013-2016). The balance of the 2013-2016 MIH funds will be spent in subsequent periods.

Transfers in and Transfers out increased \$1,646,547 due primarily to KHRC transferring \$1.6 million from KHRC Operations to the SHTF to fund the new IDA and KAMP/ERP programs.

In 2015, KHRC adopted Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, which resulted in a \$3.6 million prior period adjustment as of July 1, 2014 and reduction in KHRC's net position.

KHRC's net position increased \$1,383,208 or 10.9 percent, from 2015 to 2016 due primarily to a net increase in MIH program funds (\$1.0 million).

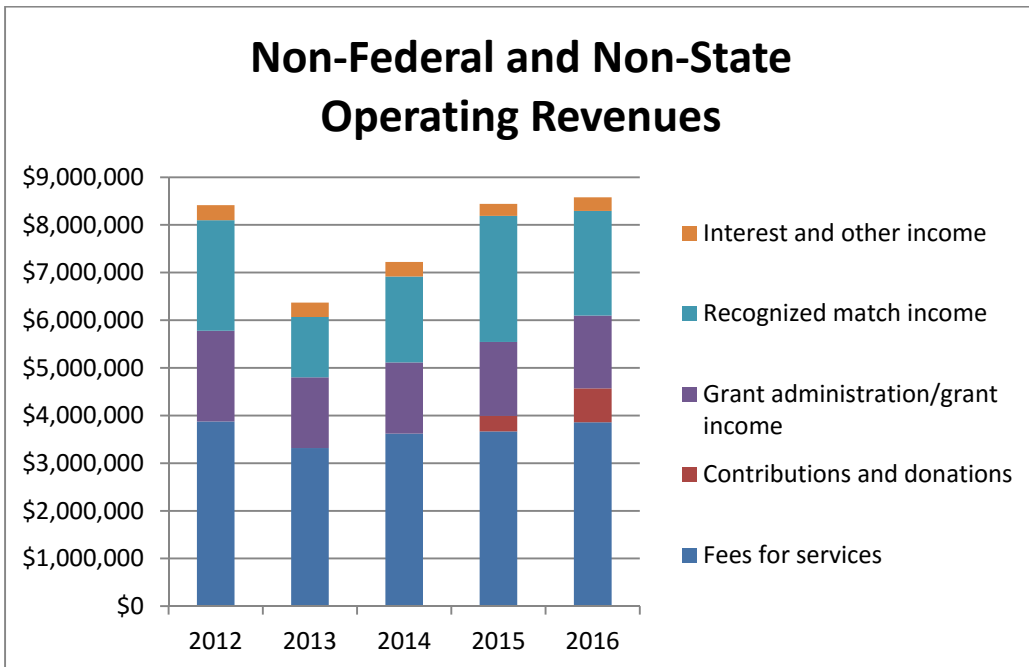
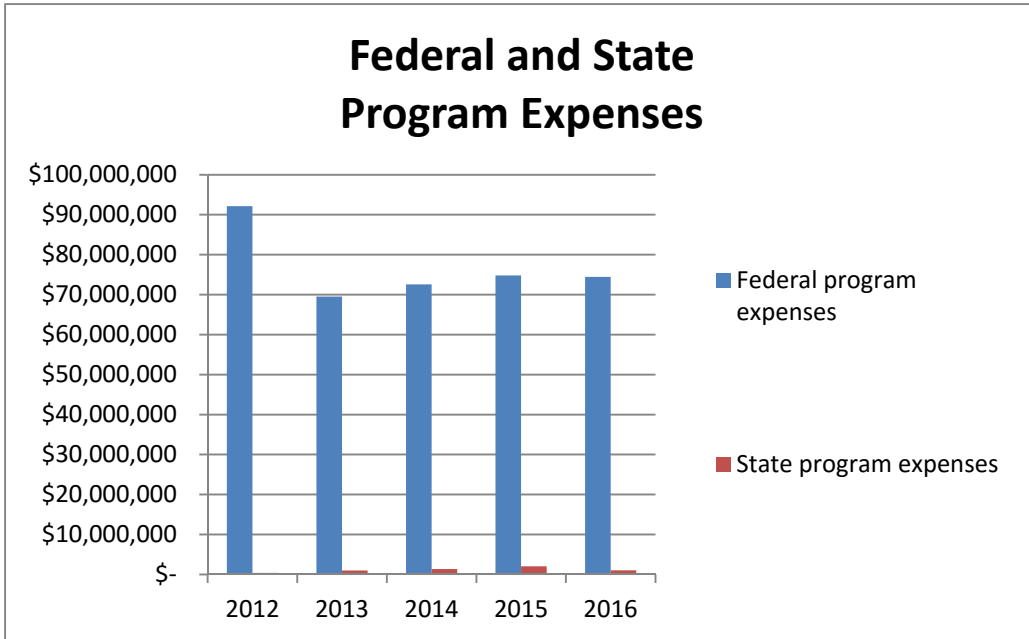
KHRC Operations and State Housing Trust Fund (Combined)



**KANSAS HOUSING RESOURCES CORPORATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

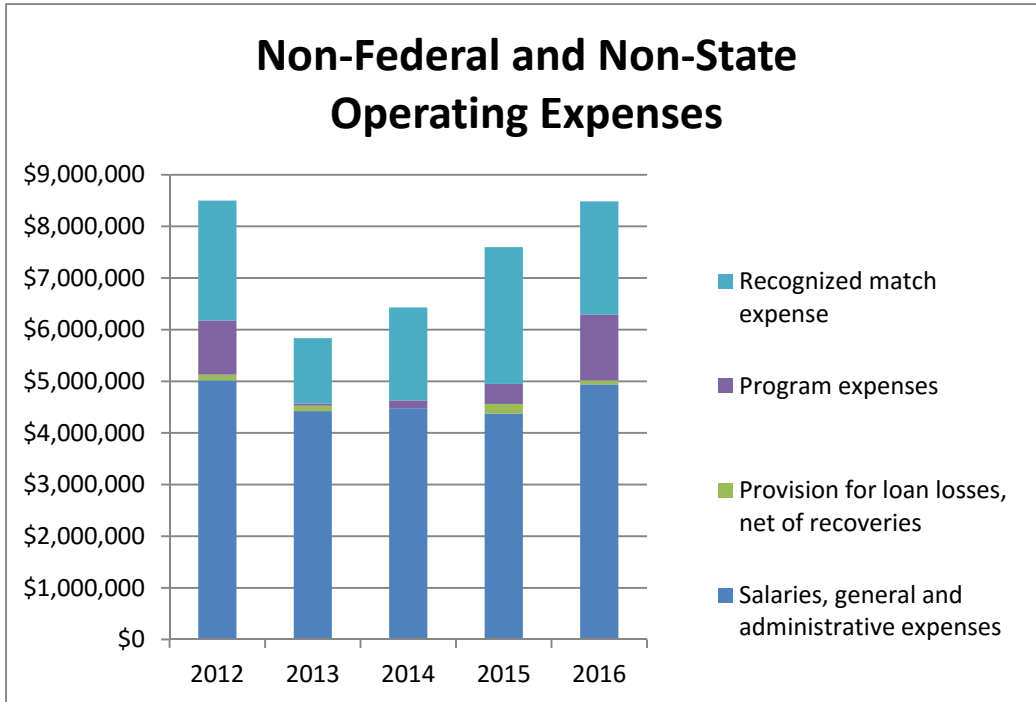
Year Ended June 30, 2016



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2016



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, Chief Financial Officer, at Kansas Housing Resources Corporation, 611 Kansas Avenue, Suite 300, Topeka, Kansas 66603-3803, or visit our website at www.kshousingcorp.org.

BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET

June 30, 2016
(with Summarized Comparative Information for June 30, 2015)

	2016			2015
	KHRC Operations	State Housing Trust Fund	Total	Total
Current assets				
Cash and cash equivalents				
Restricted	\$ 12,294	\$ 3,269,031	\$ 3,281,325	\$ 2,337,546
Unrestricted	807,420	-	807,420	1,101,079
Total cash and cash equivalents	819,714	3,269,031	4,088,745	3,438,625
Investments				
Restricted	-	220,592	220,592	925,436
Unrestricted	9,083,947	1,937,558	11,021,505	10,399,626
Total investments	9,083,947	2,158,150	11,242,097	11,325,062
Accounts receivable				
Restricted	71,801	-	71,801	-
Unrestricted	1,008,162	658	1,008,820	1,014,010
Total accounts receivable	1,079,963	658	1,080,621	1,014,010
Prepays	90,833	45,620	136,453	126,886
Program loans accrued interest receivable				
Restricted	4,510	-	4,510	4,496
Unrestricted	2,331	5,264	7,595	8,706
Program loans receivable				
Restricted	42,319	-	42,319	34,047
Unrestricted	16,634	81,647	98,281	113,026
Total current assets	11,140,251	5,560,370	16,700,621	16,064,858
Noncurrent assets				
Security deposit	12,635	-	12,635	12,635
Program loans accrued interest receivable	-	9,697	9,697	7,896
Program loans receivable				
Restricted	529,752	-	529,752	279,681
Unrestricted	402,690	727,876	1,130,566	1,220,650
Capital assets				
Furniture and equipment	1,226,275	-	1,226,275	1,192,120
Asset in progress	123,100	-	123,100	116,050
Vehicles	52,776	-	52,776	72,950
Leasehold improvements	244,146	-	244,146	61,187
Less accumulated depreciation	(1,047,664)	-	(1,047,664)	(958,436)
Net capital assets	598,633	-	598,633	483,871
Total noncurrent assets	1,543,710	737,573	2,281,283	2,004,733
Total assets	12,683,961	6,297,943	18,981,904	18,069,591
Deferred outflows of resources				
Deferred outflows - pension	248,249	-	248,249	229,231
Total deferred outflows of resources	248,249	-	248,249	229,231
Total assets and deferred outflows of resources	\$ 12,932,210	\$ 6,297,943	\$ 19,230,153	\$ 18,298,822

	2016			2015
	KHRC Operations	State Housing Trust Fund	Total	Total
Current liabilities				
Accounts payable	\$ 74,071	\$ 6,222	\$ 80,293	\$ 51,156
Accrued salaries and wages	146,929	14,673	161,602	176,940
Compensated absences	620,778	2,584	623,362	206,583
Housing conference liability	-	-	-	51,578
Unearned revenue	37,649	89,376	127,025	163,824
Current liabilities payable from restricted assets:				
Unearned revenue	-	220,592	220,592	873,501
Grants/refunds payable	84,095	6,156	90,251	53,323
Total current liabilities	963,522	339,603	1,303,125	1,576,905
Noncurrent liabilities				
Net OPEB obligation	440	-	440	188,000
Net pension liability	3,639,427	-	3,639,427	3,363,465
Total noncurrent liabilities	3,639,867	-	3,639,867	3,551,465
Total liabilities	4,603,389	339,603	4,942,992	5,128,370
Deferred inflows of resources				
Deferred inflows - pension	228,454	-	228,454	494,953
Total deferred inflows of resources	228,454	-	228,454	494,953
Net position				
Invested in capital assets	598,633	-	598,633	483,871
Restricted	576,581	3,262,876	3,839,457	2,654,381
Unrestricted	6,925,153	2,695,464	9,620,617	9,537,247
Total net position	8,100,367	5,958,340	14,058,707	12,675,499
Total liabilities, deferred inflows of resources and net position	\$ 12,932,210	\$ 6,297,943	\$ 19,230,153	\$ 18,298,822

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 REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2016
(with Summarized Comparative Information for the year ended June 30, 2015)

	2016			2015
	KHRC Operations	State Housing Trust Fund	Total	Total
Operating revenues:				
Fees for services	\$ 3,743,117	\$ 121,078	\$ 3,864,195	\$ 3,665,684
Grant administration/grant income	1,529,141	-	1,529,141	1,551,931
Recognized match income	2,195,966	-	2,195,966	2,646,630
Contributions and donations	-	711,659	711,659	326,499
Program loan and other interest	111,249	83,872	195,121	209,762
Other income	16,165	72,123	88,288	41,267
Federal program revenues	74,292,918	-	74,292,918	74,648,124
Federal loan proceeds	300,000	-	300,000	-
State program revenues	-	2,000,000	2,000,000	2,000,000
Total operating revenues	<u>82,188,556</u>	<u>2,988,732</u>	<u>85,177,288</u>	<u>85,089,897</u>
Operating expenses:				
Salaries and related payroll expenses	3,137,002	189,847	3,326,849	3,080,484
Communication	46,883	1,665	48,548	51,698
Printing and advertising	23,413	11,921	35,334	15,472
Rents and parking fees	245,146	20,630	265,776	255,686
Repairs and maintenance	13,668	928	14,596	10,744
Travel	199,608	23,051	222,659	153,025
Legal fees	2,566	8	2,574	3,280
Audit fees	26,570	3,003	29,573	28,561
Inspections	17,815	-	17,815	15,151
Dues and subscriptions	34,086	3,565	37,651	25,196
Insurance	32,673	739	33,412	32,478
Data processing and data services	368,257	2,547	370,804	336,478
Other fees/services	53,634	141,505	195,139	218,485
Office and data processing supplies	38,485	13,341	51,826	37,640
Meeting and venue expenses	8,255	70,117	78,372	-
Expensed furniture and equipment	155,131	2,414	157,545	30,308
Provision for loan losses, net of recoveries	62,905	14,918	77,823	185,504
Depreciation	109,402	-	109,402	81,149
Program expenses	17,500	1,253,414	1,270,914	389,222
Recognized match expense	2,195,966	-	2,195,966	2,646,630
Federal program expenses	74,292,918	-	74,292,918	74,648,124
Program income grant expenses	79,397	-	79,397	65,310
State program expenses	-	1,034,302	1,034,302	2,007,211
Total operating expenses	<u>81,161,280</u>	<u>2,787,915</u>	<u>83,949,195</u>	<u>84,317,836</u>
Operating income (loss)	1,027,276	200,817	1,228,093	772,061
Nonoperating revenues and expenses:				
Investment income	118,173	36,942	155,115	125,154
Total nonoperating revenues	<u>118,173</u>	<u>36,942</u>	<u>155,115</u>	<u>125,154</u>
Transfers in	26,470	1,654,268	1,680,738	34,191
Transfers out	<u>(1,654,268)</u>	<u>(26,470)</u>	<u>(1,680,738)</u>	<u>(34,191)</u>
Excess (deficiency) of revenues over (under) expenses	(482,349)	1,865,557	1,383,208	897,215
Net position, beginning of year	<u>8,582,716</u>	<u>4,092,783</u>	<u>12,675,499</u>	<u>11,778,284</u>
Net position, end of year	<u>\$ 8,100,367</u>	<u>\$ 5,958,340</u>	<u>\$ 14,058,707</u>	<u>\$ 12,675,499</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

Year Ended June 30, 2016
(with Summarized Comparative Information for the year ended June 30, 2015)

	2016			2015
	KHRC Operations	State Housing Trust Fund	Total	Total
Cash flows from operating activities:				
Cash received from others	\$ 79,715,166	\$ 3,035,762	\$ 82,750,928	\$ 82,973,372
Cash paid to others	(78,705,939)	(3,408,785)	(82,114,724)	(80,879,353)
Net cash from operating activities	<u>1,009,227</u>	<u>(373,023)</u>	<u>636,204</u>	<u>2,094,019</u>
Cash flows from noncapital and related financing activities:				
Transfers in from other funds	26,470	1,654,268	1,680,738	34,191
Transfers out to other funds	(1,654,268)	(26,470)	(1,680,738)	(34,191)
Net cash from noncapital and related financing activities	<u>(1,627,798)</u>	<u>1,627,798</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Purchase of property and equipment	(224,164)	-	(224,164)	(416,818)
Net cash from capital and related financing activities	<u>(224,164)</u>	<u>-</u>	<u>(224,164)</u>	<u>(416,818)</u>
Cash flows from investing activities:				
Proceeds from sales and maturities of investments	2,771,607	680,606	3,452,213	2,508,725
Purchase of investments	(2,343,614)	(1,007,514)	(3,351,128)	(4,401,677)
Investment income	100,053	36,942	136,995	89,839
Net cash from investing activities	<u>528,046</u>	<u>(289,966)</u>	<u>238,080</u>	<u>(1,803,113)</u>
Net change in cash	(314,689)	964,809	650,120	(125,912)
Cash and cash equivalents at beginning of year	1,134,403	2,304,222	3,438,625	3,564,537
Cash and cash equivalents at end of year	<u>\$ 819,714</u>	<u>\$ 3,269,031</u>	<u>\$ 4,088,745</u>	<u>\$ 3,438,625</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ 1,027,276	\$ 200,817	\$ 1,228,093	\$ 772,061
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation	109,402	-	109,402	81,149
Provision for loan losses, net of recoveries	62,905	14,918	77,823	185,504
Changes in assets, deferred outflows, liabilities and deferred inflows:				
Accounts receivable	(65,953)	(658)	(66,611)	(16,569)
Interest receivable	(62,720)	(40,188)	(102,908)	(150,545)
Prepays	22,553	(32,120)	(9,567)	(93,418)
Program loans receivable	(234,211)	105,078	(129,133)	605,133
Deferred outflows - pension	(19,018)	-	(19,018)	8,112
Accounts payable	29,879	(742)	29,137	(16,302)
Employee payroll liabilities	(3,107)	-	(3,107)	1,825
Accrued salaries and wages	(18,969)	6,738	(12,231)	(23,626)
Restricted unearned revenue	-	(652,909)	(652,909)	873,501
Grants payable	50,772	(13,844)	36,928	(279,320)
Unrestricted unearned revenue	(126,175)	89,376	(36,799)	151,698
Compensated absences	414,690	2,089	416,779	(7,011)
Net OPEB obligation	(187,560)	-	(187,560)	18,000
Net pension liability	275,962	-	275,962	(477,987)
Housing conference liability	-	(51,578)	(51,578)	(33,139)
Deferred inflows - pension	(266,499)	-	(266,499)	494,953
Net cash from operating activities	<u>\$ 1,009,227</u>	<u>\$ (373,023)</u>	<u>\$ 636,204</u>	<u>\$ 2,094,019</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 and borrowing 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 its Board of Directors, appointed by the Governor of Kansas, 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* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34*.

**KANSAS HOUSING RESOURCES CORPORATION
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NOTES TO THE FINANCIAL STATEMENTS

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 KHRC's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Basis of Accounting

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.

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

KHRC administers grants and Federal and State assistance programs, representing "pass-through" financial assistance, on behalf of secondary recipients. In accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, KHRC recognizes financial activity related to pass-through grants and financial assistance as revenues and expenses of KHRC.

Grants and other financial assistance received from Federal and State governments and other third parties are recognized as operating revenue as the related expenditures are incurred in accordance with GASB No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

KHRC Operations

KHRC defines *KHRC Operations* as fees for services, Federal 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. The Statute allows KHRC, as the administrator of this fund, to maintain and invest funds outside of the State Treasury and to apply for and receive grants, gifts, and donations.

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NOTES TO THE FINANCIAL STATEMENTS

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 generally do not include federal grant administration/grant income or other activities that have the characteristics of an exchange transaction.

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.

Related Parties

KHRC reimbursed K DFA for shared board-related expenses incurred during the year. In addition, KHRC purchases goods, supplies, and services from State agencies or entities and utilizes State contracts for administrative purposes.

Programs

The following is a brief description of significant programs financed by Federal, State and SHTF-funded grants or agreements over which KHRC exercises fiscal and administrative control with Supplementary Information program references in parentheses:

- Rental Development Program (Rental Development) – The Rental Development Program is designed to secure private equity capital for the development of affordable rental housing through tax incentives (i.e., tax credits) rather than direct subsidies. Enacted in the Tax Reform Act of 1986, the Tax Credit 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 Tax Credit historically provides as much as 75-80 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 fees and fees for services from developers and owners who participate in the Rental Development (Tax Credit) program.
- Rental Compliance Program (Rental Compliance) – The Rental Compliance Program exists to service and oversee project performance for developments that received an allocation of Housing Tax Credits, Private Activity Bonds, and/or HOME Rental Housing Development, Tax Credit Assistance Program and Credit Exchange Program dollars. The program is responsible for the development, implementation and maintenance of policy, procedures and processes, and provides enhanced asset management features and monitoring oversight to help ensure initial and ongoing project viability for the term of the contractual agreement. The program is also involved in budget analyses, reserve draws, leasing and marketing, monthly and annual reporting, project stabilization, project monitoring through onsite reviews, training and technical assistance, conflict resolution, tenant complaints and other areas as necessary to ensure compliance with Federal and State laws. On the preservation side, Rental Compliance works with owners to: limit and/or mitigate risk; address overleveraged properties and options other than foreclosure; maximize utility cost savings through green building and energy efficient

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NOTES TO THE FINANCIAL STATEMENTS

technologies; comply with fair housing, 504, and ADA requirements; accomplish project stabilization for distressed properties; provide outreach and education with other Affordable Housing Programs and local units of government; deliver technical assistance that aids KHRC partners in the exploration and evaluation of other programs, resources, and opportunities that may be available to meet ongoing preservation needs; and minimize the number of properties opting out of programs by offering incentives to remain in the programs. KHRC receives fees from owners for annual compliance monitoring, asset management, and other miscellaneous fees for services.

- KHRC Corporate (KHRC Corporate) – Activity includes miscellaneous fees for services (e.g., manufactured housing license fees), KHRC Operations-funded program loan interest, and other miscellaneous corporate revenues and expenses.

Federal Programs:

- Section 8 Contract Administration and Housing Assistance Payments Program (Section 8 - HAP) – 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 basic administrative fees for services from HUD to administer the program. See Note 18 for additional information on the status of KHRC's Section 8 Contract with HUD.
- HOME Investment Partnership Program (HOME) – HOME is funded through HUD and was created by Congress as part of the National Affordable Housing Act of 1990. 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 funds and required matching funds to carry out program activities related to down payment assistance, rental housing development, and tenant based rental assistance. KHRC is reimbursed for eligible costs associated with administration of the program.
- Weatherization Assistance Program (DOE-WAP) – DOE-WAP is a long-term formula grant program funded by the U.S. Department of Energy (DOE). 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 air leakage reduction, incidental repairs, health and safety measures, furnace and cooling system repair/replacement, insulation, and replacement of inefficient refrigerators. KHRC receives partial reimbursement of eligible costs associated with administration of the program.
- Low-Income Energy Assistance Program (LIEAP – WAP) – KHRC receives and administers up to 15 percent of a portion of the State of Kansas' LIEAP grant, a block grant program, 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.

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NOTES TO THE FINANCIAL STATEMENTS

- Community Services Block Grant (CSBG) – CSBG is a formula grant funded by HHS and enables local CSBG entities 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 Solutions Grant 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 homeless 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.

State Housing Trust Fund Programs:

- General State Housing Trust Fund (General SHTF) – Activity includes miscellaneous revenues, program loan interest income, funding for the housing locator www.kshousingsearch.org website, and other miscellaneous expenses incurred as the housing administrator for the State of Kansas.
- Moderate Income Housing Program (MIH) – The MIH Program funded by the State of Kansas provides \$2.0 million per year for fiscal years 2013 through 2019 for loans and grants to cities or counties for infrastructure or housing development in rural areas. KHRC receives no funding or reimbursement from the State for costs to administer the program.
- Kansas Housing Conference (KHC) – The KHC is a state-wide annual conference for elected officials, housing and community development leaders, business professionals, developers, and other stakeholders dedicated to creating innovative housing solutions for all Kansans. KHC activity represents revenues and expenses associated with the annual conference, which is held at various locations throughout the state.
- Kansas Gas Service Weatherization Program (KGS-WAP) – The Kansas Gas Service Program provides weatherization services to Kansas Gas Service (KGS) customers over a two-year period (August 20, 2014 through August 20, 2016). Funding was provided by agreement between KHRC and KGS-WAP for a one-time \$1.2 million donation to be used as follows: \$60,000 for KHRC administrative costs and \$1,140,000 for KHRC weatherization partner agencies to provide weatherization services. The revenues and expenses are recognized over multiple fiscal years as eligible costs are incurred.

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NOTES TO THE FINANCIAL STATEMENTS

- Kansas Individual Development Account Program (IDA) – The IDA Program is a three-year savings and education program effective July 1, 2015, which awarded \$450,000 to a partner with an existing IDA program. The program assists clients who are saving for housing repairs/rehabilitation, which cannot be funded by Federal dollars, and matches client savings in a 2:1 ratio. Funding was provided by a \$450,000 transfer from KHRC Operations to the SHTF in 2016.
- Kansas Accessibility Modification and Emergency Repair Program (KAMP/ERP) – The KAMP/ERP program is a three-year program beginning in 2016 and provides awards to existing weatherization agencies to facilitate weatherization client repairs with a traditional grant rather than a savings and education program. KAMP/ERP repair funding allows Federally funded weatherization measures to move forward. Funding was provided by a \$1,150,000 transfer from KHRC Operations to the SHTF (\$1,050,000 for grants and \$100,000 for KHRC administrative costs) in 2016.

Cash and Cash Equivalents

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.

Restricted cash and cash equivalents include cash held under Federal, State, and private grant programs, valued at fair value. Various government programs or external agreements dictate how these restricted funds may be used.

Investments

Investments are reported at fair value. 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.

Fair Value of Financial Instruments

Effective June 30, 2016, KHRC implemented GASB 72, *Fair Value Measurement and Application*, which establishes a framework for measuring fair value that requires or permits fair value measurement and enhances disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value. The guidance requires three levels of fair value measurement based on the respective inputs.

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.

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Restricted accounts receivable includes: Federal program receivables for subsidy (pass-through) grant proceeds to be received or spent on behalf of secondary recipients. Various government programs or external agreements dictate how restricted receivable proceeds may be used.

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 consists of HOME loans funded by the HOME program or reported as HOME match contributions and TCAP loans. Since HOME match contributions are permanent contributions to the HOME program, subsequent repayment of the loans is restricted to a HOME project or to HOME-eligible housing. Subsequent repayment of the TCAP loans is restricted to TCAP rules and TCAP eligible 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 documents. 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 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.

Interest on Program Loans Receivable

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 with a useful life of more than one year 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 months to eight years for leasehold improvements, three to eight years for furniture and equipment, and five years for vehicles.

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Grants Payable

Grants payable represent amounts received or due for various Federal and State government program grant awards unpaid to grant recipients as of year-end.

Restricted grants payable include amounts to be paid from restricted assets such as from subsidy (pass-through) grant proceeds to be received or spent on behalf of secondary recipients.

Compensated Absences

KHRC converted traditional sick and vacation leave to a modern PTO system at the conclusion of fiscal 2016. Under terms of KHRC's Paid Time Off (PTO) policy, effective July 1, 2016, employees are granted leave for vacation, sickness, and other personal time under a single accrual. Employees accrue PTO leave at a rate based upon the number of years employed. Minimum usage requirements also apply. Upon retirement or termination, KHRC employees are generally paid for unused PTO leave and accrued compensatory time.

Restricted Unearned Revenue

In fiscal year 2015, funding was provided by an agreement between KHRC and KGS for a one-time \$1.2 million donation. As of June 30, 2016, KHRC had not met eligibility requirements and eligible expenses were not incurred for \$220,592 of this donation. This amount is recorded as a liability and will be recognized as revenue as eligibility requirements are met and eligible expenses are incurred.

Unrestricted Unearned Revenue

Unearned revenue represents Rental Development fees for services received, but not earned (e.g., for allocation fees received, since the owner/developer's allocation request and supporting documentation have not been submitted, the fees are unearned), and Kansas Housing Conference registration fees received, but not earned (fees are recognized when the conference is held).

Pensions

For the year ended June 30, 2015, KHRC implemented the provisions of GASB No. 68, *Accounting and Financial Reporting for Pensions* and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERS), and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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Net Position

Net position is classified as follows:

Invested in capital assets – represent KHRC’s net 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.

Deferred Outflows of Resources/Deferred Inflows of Resources

The separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. KHRC’s deferred outflows – pension is the only item that qualifies for reporting in this category.

The separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. KHRC’s deferred inflows – pension is the only item that qualifies for reporting in this category.

See Note 9 for more information on these deferred resources.

Revenues and Expenses

Revenues are classified as operating or non-operating 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) fees for services, and b) grant administration/grant income. Operating revenues also include interest income on program loans, Federal and State program revenues associated with grant administration, contributions and donations, and other miscellaneous administrative fees as part of KHRC’s principal ongoing operations.

Non-operating 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, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*.

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Expenses are classified as operating or non-operating 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) insurance; and d) depreciation expense related to capital assets. Operating expenses also include Federal, State, and private program expenses associated with Federal and State grant administration and donated program funding administration.

Non-operating 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. Accordingly, under Section 115 (1) of the Internal Revenue Code, 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, 2016 consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
Cash		
Financial institution	\$ 825,869	\$ 825,869
Kansas State Treasurer	3,262,876	3,262,876
Certificates of deposit	5,085,149	5,085,149
U.S. Agency securities	6,144,379	6,156,948
Total	<u>\$ 15,318,273</u>	<u>\$ 15,330,842</u>

A summary of investments and maturities as of June 30, 2016 consisted of the following:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Investment Maturities (In Years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
U.S. Agency securities	\$ 6,156,948	\$ -	\$ 6,156,948
Certificates of deposit	5,085,149	1,165,714	3,919,435
Total	<u>\$ 11,242,097</u>	<u>\$ 1,165,714</u>	<u>\$ 10,076,383</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 in 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

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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, 2016, KHRC's investments were rated AA+ 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, 2016 are held by the investment's counterparty. The deposits held with a financial institution and the Kansas State Treasurer were fully collateralized at June 30, 2016.

Concentration of Credit Risk. KHRC's investments are diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities. The maximum percentage of portfolio by investment type ranges from 100% for U.S. Treasury securities, U.S. Government Instrumentality Obligations and the State of Kansas Pooled Money Investment Board to 15% for bankers' acceptances and commercial paper. All of KHRC's investments, except for certificates of deposit (45.2%), are in U.S. Government Instrumentality Obligations, which include investments in the Federal National Mortgage Association (28.7%), Freddie Mac (8.2%), Federal Farm Credit Bank (4.5%), and the Federal Home Loan Bank (13.4%) as of June 30, 2016.

Risks and Uncertainties. KHRC 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 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 statement of financial position.

NOTE 3 – FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction. There is a fair value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

The following describes three levels of inputs that may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

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Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

KHRC’s U.S. Agency securities (Note 2) are valued on a recurring basis as follows:

		Investments at Fair Value	
		Level 1	Level 2
Investments by fair value level			
U.S. Agency securities	\$ 6,156,948	\$ 2,210,903	\$ 3,946,045
Investments measured at cost			
Certificates of deposit	5,085,149		
Total investments	\$ 11,242,097		

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016 consisted of the following:

Rental Compliance monitoring fees receivable, net (various property owners)	\$ 453,039
HUD Section 8 fees receivable	342,582
Rental Development (tax credit) fees receivable, (various developers and owners)	9,035
Federal grant administration/grant receivable	131,673
Other receivables, net	144,292
Total accounts receivable	\$ 1,080,621

KHRC is responsible for the administration, allocation, and compliance of the Rental Development (tax credit) Program for the State of Kansas. Rental Development fees are recognized as revenue as projects progress through the tax credit application process from initial application to final allocation, while Rental Compliance monitoring fees are generally due for all placed-in-service properties no later than March 15th following the first year of credit. The allowance for uncollectibles and related provision for bad debts represent an estimate of compliance monitoring fees that will not be paid due to owners opting out of the program or

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leaving the program due to foreclosure. Rental Compliance monitoring fees receivable are shown net of allowance for uncollectible fees of \$10,000 at June 30, 2016.

Since compliance monitoring reports and related fees are reported on a calendar year basis, the Rental Compliance monitoring fees receivable generally represents an estimate of compliance monitoring fees due for the period January 2016 through June 2016 for 2016.

Amounts billed to and collected from government agencies are subject to adjustment as a result of government audits. Thus, HUD Section 8 fees receivable are subject to adjustment. HUD performed a remote limited Annual Compliance Reviews in November 2015 and did not identify any adjustments as a result of this review.

The Federal program receivable represents subsidy (pass-through) grant proceeds to be received and spent on behalf of secondary recipients. The Federal grant administration/grant receivable represents reimbursable eligible costs incurred in association with administration of various Federal programs.

NOTE 5 – PROGRAM LOANS RECEIVABLE

Program loans receivable as of June 30, 2016 consisted of the following:

	Program Loans Receivable	Allowance for Program Loans Receivable Losses	Net Program Loans Receivable
HOME loans, bearing interest at 1.0%-5.02%, collateralized by mortgages (KHRC Operations)	\$ 3,147,072	\$ 2,575,000	\$ 572,072
TCAP Loans, non-interest bearing, collateralized by mortgages (KHRC Operations)	4,581,248	4,581,248	-
State Housing Trust Fund loans, bearing interest at 0%-5.1%, collateralized by mortgages (SHTF)	1,543,605	1,059,290	484,315
HUD Restructured loans, bearing interest at 1.0%, collateralized by mortgages (SHTF)	2,580,688	2,580,688	-
Financing Adjustment Factor loans, non-interest bearing, collateralized by mortgages (SHTF)	242,397	242,397	-
Disaster loans, bearing interest at 0%-5%, collateralized by mortgages (SHTF)	2,628,200	2,628,200	-
Kansas Energy Efficiency Program loans, non-interest bearing, collateralized by mortgages (SHTF)	255,208	-	255,208
Moderate Income Housing loans, non-interest bearing, collateralized by mortgages (SHTF)	70,000	-	70,000
Other KHRC Operations loans, bearing interest at 0%-4%, collateralized by mortgages (KHRC Operations)	419,323	-	419,323
Total program loans receivable	<u>\$ 15,467,741</u>	<u>\$ 13,666,823</u>	<u>\$ 1,800,918</u>

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Program loans accrued interest receivable as of June 30, 2016, consisted of the following:

	Program Loans Accrued Interest Receivable	Allowance for Program Loans Receivable Losses	Net Program Loans Accrued Interest Balance
HOME loans (KHRC Operations)	\$ 638,673	\$ 634,163	\$ 4,510
State Housing Trust Fund loans (SHTF)	383,717	368,756	14,961
HUD Restructured loans (SHTF)	120,765	120,765	-
Disaster loans (SHTF)	115,195	115,195	-
Other KHRC Operations loans (KHRC Operations)	2,331	-	2,331
Total program loans accrued interest receivable	<u>\$ 1,260,681</u>	<u>\$ 1,238,879</u>	<u>\$ 21,802</u>

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

KHRC OPERATIONS

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 the following: a percentage of annual excess cash flow (e.g., 25%) when the debt coverage ratio reaches or exceeds 1.25, or on an amortized schedule. First mortgages on tax credit 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 2017-2049. HOME loans are restricted to a HOME project or to HOME eligible housing.

TCAP loans provided gap funding for Tax Credit projects, which but for this funding would likely not be developed in the current market. The TCAP loans were funded under ARRA through HUD. Loan repayment is based on a balloon payment due sixteen years after the commencement of the compliance period as defined by Internal Revenue Code Section 42. All loans are secured by a mortgage and mature in 2027. TCAP loans are restricted to TCAP rules and eligible uses.

Other KHRC Operations loans provide loans for housing programs and services, which include programs for the repair, rehabilitation, and improvement of existing residential housing, and new construction loans. Other KHRC Operations loans are funded by KHRC Operations. Loans are secured by a mortgage or other agreement and mature between 2026 and 2030.

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STATE HOUSING TRUST FUND

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. Loan repayment is generally based on a percentage of excess cash flow (e.g., 25%) when the debt coverage ratio reaches or exceeds 1.25 or on an amortized schedule. All loans are secured by mortgages, which are generally subordinated to the first mortgage and due through 2032.

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 between 2034 and 2037.

Financing Adjustment Factor (FAF) loans were 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 available to KHRC for loans and grants. These funds were 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 75 percent of surplus cash per HUD definition. Most of the properties that received FAF loans were Section 8 FHA-insured with 40-year first mortgages expiring between 2021 and 2035. Subsequent repayment of FAF loans is unrestricted.

Disaster loans provided 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 15 or 20-year balloon payment with maturity dates between 2023 and 2028. Subsequent repayment of Disaster loans is unrestricted.

Kansas Energy Efficiency Program (KEEP) loans provided 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 in 2007. Loans mature through 2024 and repayment is made on a monthly basis. Subsequent repayment of KEEP loans is unrestricted.

Moderate Income Housing (MIH) loans provided an interest free loan to help a city/county develop housing and infrastructure in a rural area. The MIH loan was funded by discretionary SHTF resources. Loan repayment is based on a 10-year balloon payment with a 2021 maturity date. Subsequent repayment of the SHTF-funded MIH loan is unrestricted.

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A summary of the allowance for program loans receivable losses activity for the period ending June 30, 2016 is as follows:

	Allowance for Program Loans Receivable Losses		
	Program Loans Receivable	Program Loans Accrued Interest Receivable	Total
Ending balance June 30, 2015	\$ 13,691,204	\$ 1,136,674	\$ 14,827,878
Provision for loan losses, net of recoveries	(24,381)	102,205	77,824
Loans written off	-	-	-
Ending balance June 30, 2016	\$ 13,666,823	\$ 1,238,879	\$ 14,905,702

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 is as follows:

Category	Beginning Balance	Increase	Decrease	Ending Balance
Furniture and equipment	\$ 1,192,120	\$ 34,155	\$ -	\$ 1,226,275
Assets in progress	116,050	7,050	-	123,100
Vehicles	72,950	-	(20,174)	52,776
Leasehold improvements	61,187	182,959	-	244,146
 Total capital assets	1,442,307	224,164	(20,174)	1,646,297
 Furniture and equipment	(824,299)	(105,590)	-	(929,889)
Vehicles	(72,950)	-	20,174	(52,776)
Leasehold improvements	(61,187)	(3,812)	-	(64,999)
Total accumulated depreciation	(958,436)	(109,402)	20,174	(1,047,664)
 Net capital assets	\$ 483,871	\$ 114,762	\$ -	\$ 598,633

NOTE 7 – HOME MATCH CARRYFORWARD

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 subject to match. Each Federal fiscal year, KHRC must make eligible

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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.

At June 30, 2016, KHRC had received excess match contributions of \$13,154,542, which may be carried forward and applied to next year's obligation.

NOTE 8 – 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 Department of Health and Environment (KDHE). 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 KDHE's interpretation of the provisions of GASB Statement No. 45 (GASB No. 45). As the annual OPEB cost was provided and disclosed to each agency/entity, OPEB amounts noted below are for KHRC employees only. The plan changed during the year and the State subsidy expires December 31, 2016.

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). Effective January 1, 2017, employee contributions will be 100% of retiree premiums.

GASB No. 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 for the costs associated with this retirement benefit and provide funding for the expenditures on a pay-as-you-go basis through the KDHE. The State funds on a cash basis as benefits are paid. In 2016, active and retired plan members receiving benefits contributed \$0 to the plan, and KHRC contributed \$535 to the plan.

Annual OPEB Cost and Net OPEB Obligation. The State and KHRC's annual OPEB cost is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB 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 not to exceed 30 years. With the plan change in 2016, the ARC was set to the expected benefit payments for 2016. 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 with the plan change:

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Annual OPEB Cost for Fiscal 2016

Annual Required Contribution (ARC)	\$ 670
Interest on Net OPEB Obligation	7,238
Adjustment to the ARC	(194,933)
Annual OPEB Cost	\$ (187,025)

Employer Contributions for Fiscal 2016

Claims plus Admin Paid on Behalf of Retirees	\$ 1,712
Retiree Contributions	(1,177)
Net Employer Contributions	\$ 535

Net OPEB Obligation

Net Obligation at July 1, 2015	\$ 188,000
Annual OPEB Cost	(187,025)
Net Employer Contributions	(535)
Net Obligation at June 30, 2015	\$ 440

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
2014	\$ 22,000	\$ -	0%	\$ 170,000
2015	\$ 18,000	\$ -	0%	\$ 188,000
2016	\$ (187,025)	\$ 535	0%	\$ 440

Funded Status and Funding Progress. As of January 1, 2016, the most recent actuarial valuation date, the plan was not funded. The unfunded actuarial accrued liability for benefits (UAAL) was \$440. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2.4 million, and the ratio of the UAAL to the covered payroll was 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.

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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 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 January 1, 2016 actuarial valuation, the entry age normal, level dollar method was applied. The actuarial assumptions included a 3.85 percent investment rate of return, which is a blended rate of the expected long-term investment returns on the State's pooled funds and investments. Since the Plan is becoming employee-pay-all in 2017, the trend rates for Medical, Prescription Drug, and Administrative costs was assumed to be -100% in 2017 and 0% thereafter. As the subsidy ends December 31, 2016, the amortization is set equal to the benefit payments for the period.

NOTE 9 – EMPLOYEES RETIREMENT SYSTEM

General Information about the Pension Plan

Plan description: KHRC participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. KPERs' financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERs website at www.kpers.org or by writing to KPERs (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

Benefits provided. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee's combined age and years of credited service equal 85 "points".

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Member employees choose one of seven payment options for their monthly retirement benefits. At retirement, a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump-sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the

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State of Kansas. The retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

Contributions. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contributions rates. Effective January 1, 2015, KPERS has three benefit structures and contribution rates dependent on whether the employee is a Tier 1, Tier 2, or Tier 3 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009 and before January 1, 2015. Tier 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate at 6% of all Tier members. Member employees' contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate was 11.44% and 10.80% for the fiscal years ended June 30, 2016 and 2015, respectively. The statutory contribution rate for fiscal year 2016 was 10.91%. The statutory contribution rate for fiscal year 2015 was 11.27% from July 1, 2014 to December 31, 2014 and 8.65% from January 1, 2015 to June 30, 2015. Contributions to the pension plan from KHRC were \$248,249 for the year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, KHRC reported a liability of \$3,639,427 for its proportionate share of KPERS' collective net pension liability. The collective net pension liability was measured by KPERS as of June 30, 2015 and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of December 31, 2014, which was rolled forward to June 30, 2015. KHRC's proportion of the collective net pension liability was based on the ratio of KHRC's actual contributions to KPERS, relative to the total employer and non-employer contributions of the State/School subgroup within KPERS for the fiscal year ended June 30, 2015. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2015, KHRC's proportion was 0.05256%, which decreased by 0.00008% from its proportion measured as of June 30, 2014 of 0.05264%.

For the year ended June 30, 2016, KHRC recognized pension expense of \$238,695 which is recorded with salaries and related payroll expenses. At June 30, 2016, KHRC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 109,065
Net difference between projected and actual earnings on pension plan investments	-	94,812
Changes in assumptions	-	8,100
Changes in proportionate share	-	16,477
KHRC contributions subsequent to measurement date	248,249	-
Total	<u>\$ 248,249</u>	<u>\$ 228,454</u>

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The \$248,249 reported as deferred outflows of resources related to pensions resulting from KHRC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (deferred inflows):

Year ended June 30:		
2016	\$	(80,716)
2017		(80,716)
2018		(80,716)
2019		22,770
2020		(9,076)
Total	\$	<u>(228,454)</u>

Actuarial assumptions. The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Price inflation	3.00 percent
Wage inflation	4.00 percent
Salary increases, including wage increases	4.00 to 16.00 percent, including inflation
Long-term rate of return net of investment expense, and including price inflation	8.00 percent

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study conducted for the three-year period beginning December 31, 2012.

Changes in actuarial assumptions from the December 31, 2013 valuation include a change in the maximum salary increase from 12.50% to 16.00%.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage

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and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47%	6.30%
Fixed income	13	0.80
Yield driven	8	4.20
Real return	11	1.70
Real estate	11	5.40
Alternatives	8	9.40
Short-term investments	2	(.50)
Total	<u>100%</u>	

Discount rate. The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the contractually required rate and that contributions from KHRC will be made at the contractually required rate. State/School employers do not necessarily contribute the full actuarial determined rate. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' Board of Trustees for this group may not increase by more than the statutory cap. The expected KPERS employer contribution was modeled for future years, assuming all actuarial assumptions are met in the future. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of KHRC's proportionate share of the collective net pension liability to changes in the discount rate. The following presents KHRC's proportionate share of the collective net pension liability calculated using the discount rate of 8.00%, as well as what KHRC's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
KHRC's proportionate share of the collective net pension liability	\$ 4,685,097	\$ 3,639,427	\$ 2,751,269

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS' financial report.

Subsequent events. Under the budgetary allotment process for the State of Kansas, the Kansas governor has authority to reduce or defer the approved budget for purposes of balancing the budget. For the State's fiscal year ending June 30, 2016, approximately \$99 million in State funded employer contributions to the state/School group were deferred. It is unknown at this time whether this reduction will have a significant effect on KHRC's proportionate share of the KPERS' collective net pension liability, or an effect on any actuarial assumptions used by KPERS to calculate the collective net pension liability.

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During the 2015 state legislative session, Senate Bill 228 was passed authorizing the issuance of one or more series of revenue bonds to provide deposits to KPERS in a total amount not to exceed \$1 billion. The purpose of such bond issuance would be for financing a portion of the unfunded actuarial pension liability of KPERS, which would also have an effect on the collective net pension liability. On August 20, 2015, the State issued \$1,005,180,000 of bonds in accordance with this bill. The effect of this bond issuance on KHRC's proportionate share of the KPERS' collective net pension liability is unknown at this time.

NOTE 10 – 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, Great West Financial, 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 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 2016 fiscal year, 23 KHRC employees participated in the Plan.

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

NOTE 11 – LEASES

KHRC has an operating lease in two commercial buildings for office and parking garage space from May 1, 2014 through April 30, 2019.

Rent expense for office space for the year ended June 30, 2016 was \$227,173, and rent expense for parking space was \$21,050.

Rent expense for equipment and other operating leases for the year ended June 30, 2016 was \$17,174.

Future minimum lease payments due under the office, parking garage space, and equipment operating leases as of June 30, 2016 are as follows:

<u>Fiscal Year End</u>	
2017	\$ 264,572
2018	261,180
2019	221,608
Total future minimum lease payments	<u>\$ 747,360</u>

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NOTE 12 – RECOGNIZED MATCH INCOME AND EXPENSE

HOME Match Income and 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. The HOME program provides a 100% match reduction (draws are not subject to match) for funds expended in areas with an approved Presidential disaster declaration for up to two Federal fiscal years. 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. Excess HOME match may be carried forward to meet the next year’s obligation.

ESG Match Income and 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 by grant year may not be carried forward to meet the next year’s obligation.

HMIS Match Income and 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 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, 2016 is as follows:

Recognized match income - HOME	\$	721,702
Recognized match income - ESG		1,441,302
Recognized match income - HMIS		32,962
Total recognized match income		2,195,966
Recognized match expense - HOME		721,702
Recognized match expense - ESG		1,441,302
Recognized match expense - HMIS		32,962
Total recognized match expense		2,195,966
Net recognized match expense	\$	-

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

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 – INTERFUND TRANSFERS

A summary of interfund transfers by fund for the year ended June 30, 2016 is as follows:

	Transfers In	Transfers Out
KHRC Operations	\$ 26,470	\$ 1,654,268
State Housing Trust Fund	1,654,268	26,470
Total transfers	\$ 1,680,738	\$ 1,680,738

The interfund transfers include: a) a \$26,470 transfer from the SHTF to KHRC Operations to fund the Homeless Management Information Systems (HMIS) Program’s match requirement of 25 percent of program costs, and b) transfers from KHRC Operations to the SHTF totaling \$1,654,268 to fund the following new programs: \$1.6 million for the new IDA (\$450,000) and KAMP/ERP (\$1,150,000), \$13,125 for the www.kshousingsearch.com housing locator, and \$41,143 for the state-wide annual Kansas Housing Conference.

NOTE 14 – 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 also has commercial insurance coverage on personal property with a limit of \$998,917 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 \$1,000 deductible, 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 had a pollution liability insurance claims-made policy with a \$1,000,000 limit and a \$100,000 deductible that was effective November 16, 2009 to November 16, 2011 and has an extended reporting period until November 16, 2016. KHRC also has a fidelity bond insurance policy with a \$5,000,000 employee dishonesty/fidelity limit, and a \$1,000,000 limit for forgery or alteration, computer fraud, and other miscellaneous types of coverage, and a \$30,000 deductible. KHRC also participates in the State’s non-state employee health benefit plan. Insurance settlements have not exceeded insurance coverage for the fiscal year ending June 30, 2016.

NOTE 15 – 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.

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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 16 – JOINT POWERS AGREEMENTS

KHRC entered into a joint powers agreement with the State of Kansas' Department of Social and Rehabilitation Services (SRS) on January 16, 2008 and an amended agreement with the new Kansas Department for Children and Families (DCF) on October 1, 2014 for the period October 1, 2014 through September 30, 2015 with the option to renew by mutual written consent. The purpose of the agreements is to transfer 15 percent of a portion of SRS'/DCF's Low Income Energy Assistance (LIEAP) regular block grant to supplement KHRC's Department of Energy Weatherization Assistance Program (DOE WAP) funds. The agreements are subject to Federal funding availability.

NOTE 17 – FEDERAL GRANTS AUDIT UNDER OMB 2 CFR, Part 200, Subpart F – Audit Requirements

The U.S. Office of Management and Budget (OMB) 2 CFR, Part 200, Subpart F – Audit Requirements and Government Auditing Standards require audits of KHRC's expenditures of Federal awards, since KHRC's expenditures were \$750,000 or more in the fiscal year ended June 30, 2016. Such expenditures are included in the June 30, 2016 OMB 2 CFR, Part 200, Subpart F – Audit Requirements audit for the State of Kansas.

NOTE 18 – SUBSEQUENT EVENT

Annual Contributions Contract - KHRC entered into an amended Annual Contributions Contract (ACC) with HUD for project-based Section 8 contract administration on August 29, 2011. The agreement extended KHRC's contract from its original expiration date of October 1, 2011 to March 31, 2012 and provided HUD the option to extend the ACC for up to three additional and successive renewal terms of three calendar months each for the period April 1, 2012 through December 31, 2012. The amended agreement contained reduced tasks and correspondingly reduced fees for services. On August 15, 2012, the Government Accountability Office (GAO) sustained protests filed against HUD under the PBCA NOFA proposals, which were due in June 2012. On August 23, 2012 HUD provided notice it elected to extend the amended agreement through the third three-month renewal term (December 31, 2012). Although HUD had planned to announce NOFA awards on August 31, 2012, in light of GAO's decision, HUD wasn't prepared to make announcements, and at the time of the 2012 report HUD's next steps towards awarding the Annual Contributions Contract had not been determined. HUD subsequently extended the amended ACC for up to four additional and successive renewal terms of three calendar months each for the period January 1, 2013 through December 31, 2013. On August 7, 2013, HUD awarded new ACC contracts in 42 states, which included KHRC being awarded the Kansas contract. On August 27, 2013, the United States Court of Appeals granted the Plaintiff-Appellants' motion for a stay, pending appeal. On March 25, 2014, the United States Court of Appeals ruled against HUD and determined procurement contracts rather than PBCA NOFA proposals should have been issued. HUD subsequently extended the amended ACC for up to four additional and successive renewal terms of three calendar months each for the period January 1, 2014 through December 31, 2014. On April 20, 2015, the U.S. Supreme Court denied cert to review the Section 8 PBCA litigation, which allows the U.S. Court of

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NOTES TO THE FINANCIAL STATEMENTS

Appeals' ruling to stand and there is no further appeal. On May 21, 2015, HUD provided notice it elected to extend the agreement through two renewal terms of six months each for the periods July 1, 2015 through December 31, 2015, and January 1, 2016 through June 30, 2016. On May 21, 2016 HUD provided notice it elected to extend the agreement through the third, fourth, and fifth renewal terms of six months each for the periods July 1, 2016 through December 31, 2016, January 1, 2017 through June 30, 2017, and July 1, 2017 through December 31, 2017. At the time of this report, status of the procurement contracts had not been determined.

NOTE 19 – PENDING GOVERNMENTAL ACCOUNTING STANDARDS BOARD STATEMENT

At June 30, 2016, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by KHRC. KHRC's management has not yet determined the effect these statements will have on KHRC's financial statements. However, KHRC plans to implement them by the required dates. The statements which might impact KHRC are as follows:

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, and requires governments to report a liability on the face of the financial statements for the OPEB they provide. GASB Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements. The provisions of this statement are effective for financial statements for KHRC's fiscal year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses certain issues raised with respect to GASB Statements No. 67, No. 68, and No. 73. Specifically, GASB No. 82 addresses issues regarding: (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in the Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this statement are effective for KHRC's fiscal year ending June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

**KANSAS HOUSING RESOURCES CORPORATION
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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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)
6/30/14	\$0	\$157,000	\$157,000	0%	\$2,299,000	7%
6/30/15	\$0	\$154,000	\$154,000	0%	\$2,279,000	7%
6/30/16*	\$0	\$ 440	\$ 440	0%	\$2,355,618	0%

*The State OPEB plan subsidy expires December 31, 2016.

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

**Share of the Collective Net Pension Liability
Kansas Public Employees Retirement System
Last Three Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Measurement date	June 30, 2015	June 30, 2014	June 30, 2013
KHRC's proportion of the collective net pension liability	0.05256%	0.05264%	0.05288%
KHRC's proportionate share of the collective net pension liability	\$ 3,639,427	\$ 3,363,465	\$ 3,841,452
KHRC's covered-employee payroll	\$ 2,245,616	\$ 2,311,032	\$ 2,286,270
KHRC's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	162%	146%	168%
Plan fiduciary net position as a percentage of the total pension liability	64.95%	66.60%	59.94%

* GASB 68 requires presentation of ten years. As of June 30, 2016, only three years of information is available.

Note: Information on this schedule is measured as of the measurement date.

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SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

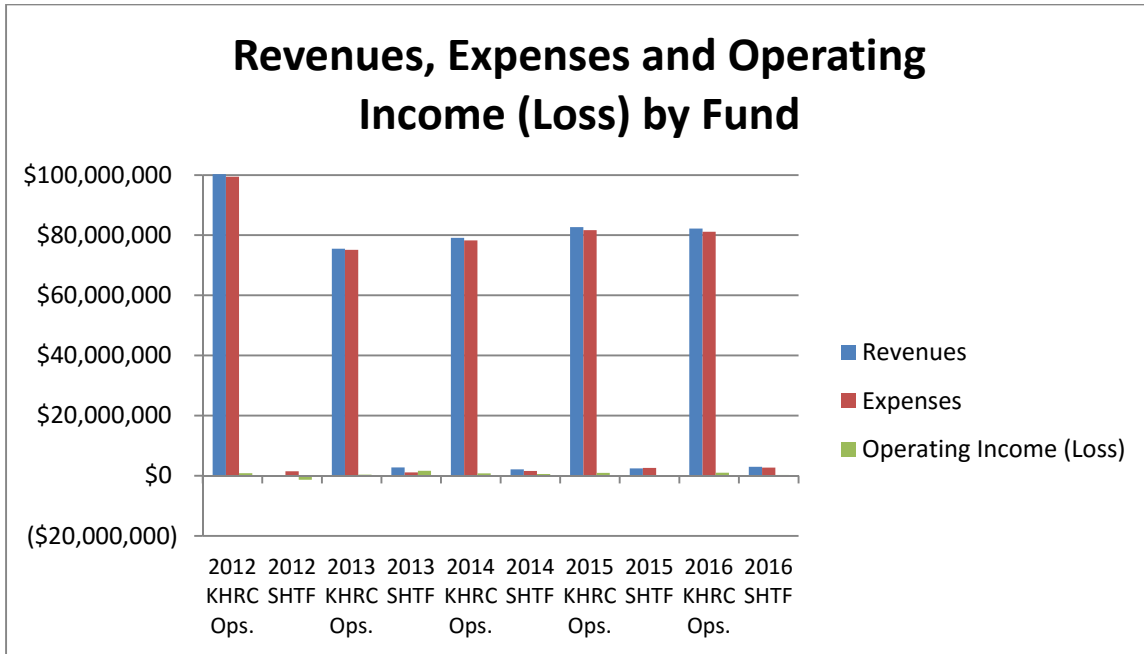
**Schedule of Pension Contributions
Kansas Public Employees Retirement System
Last Ten Fiscal Years**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 248,249	\$ 229,231	\$ 237,343	\$ 214,590	\$ 228,134	\$ 225,106	\$ 182,572	\$ 137,447	\$ 109,891	\$ 89,920
Contributions in relation to the contractually required contribution	<u>(248,249)</u>	<u>(229,231)</u>	<u>(237,343)</u>	<u>(214,590)</u>	<u>(228,134)</u>	<u>(225,106)</u>	<u>(182,572)</u>	<u>(137,447)</u>	<u>(109,891)</u>	<u>(89,920)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
KHRC's covered-employee payroll	\$ 2,275,432	\$ 2,245,616	\$ 2,311,032	\$ 2,286,270	\$ 2,601,300	\$ 2,755,272	\$ 2,411,782	\$ 1,971,969	\$ 1,725,130	\$ 1,558,393
Contributions as a percentage of covered-employee payroll	10.91%	10.21%	10.27%	9.39%	8.77%	8.17%	7.57%	6.97%	6.37%	5.77%

SUPPLEMENTARY INFORMATION

**KANSAS HOUSING RESOURCES CORPORATION
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Year Ended June 30, 2016



KHRC Operations

**Kansas Housing Resources Corporation
KHRC Operations Statement of Revenues and Expenses by Program, and Changes in Net Position
For the Year Ended June 30, 2016**

	Rental Development	Rental Compliance	Section 8 - HAP	HOME	DOE-WAP	LIEAP-WAP	CSBG	ESG	HMIS	KHRC Corporate	Eliminate KHRC Ops. Intrafund Transfers	Total
Operating Revenues:												
Fees for services	\$ 775,264	\$ 934,975	\$ 2,019,318	\$ 360	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,200	\$ -	\$ 3,743,117
Grant administration/grant income	-	-	-	470,950	258,228	234,620	489,780	26,537	49,026	-	-	1,529,141
Recognized match income	-	-	-	721,702	-	-	-	1,441,302	32,962	-	-	2,195,966
Program loan and other interest	-	-	-	106,737	-	-	-	-	-	4,512	-	111,249
Other income	-	-	3,783	10,827	-	-	-	-	-	1,555	-	16,165
Federal program revenues	-	-	55,559,678	5,610,714	1,834,390	4,981,477	4,697,027	1,514,638	94,994	-	-	74,292,918
Federal loan proceeds	-	-	-	300,000	-	-	-	-	-	-	-	300,000
Total Operating Revenues	775,264	934,975	57,582,779	7,221,290	2,092,618	5,216,097	5,186,807	2,982,477	176,982	19,267	-	82,188,556
Operating Expenses:												
Salaries and related payroll expenses	200,977	853,387	767,978	399,301	242,194	181,222	297,448	124,728	54,989	14,778	-	3,137,002
Communication	2,941	11,804	8,961	8,576	4,782	3,245	3,852	2,048	562	112	-	46,883
Printing and advertising	988	4,311	4,404	1,722	4,279	4,245	1,909	457	137	961	-	23,413
Rents and parking fees	14,626	72,824	58,677	33,085	16,862	13,458	21,205	9,714	3,868	827	-	245,146
Repairs and maintenance	775	4,121	2,968	1,646	1,070	829	1,374	464	136	285	-	13,668
Travel	22,561	49,364	45,061	13,543	20,415	10,214	17,226	9,187	4,998	7,039	-	199,608
Legal fees	5	87	72	2,186	5	5	5	5	5	191	-	2,566
Audit fees	1,478	2,917	9,128	3,018	1,852	1,840	2,011	1,854	1,490	982	-	26,570
Inspections	-	-	-	17,815	-	-	-	-	-	-	-	17,815
Dues and subscriptions	6,872	758	8,280	5,108	2,924	236	6,197	228	180	3,303	-	34,086
Insurance	1,398	6,955	11,505	2,782	5,347	1,326	2,315	812	233	-	-	32,673
Data processing and data services	23,274	98,264	217,369	9,003	5,091	4,488	7,494	2,519	755	-	-	368,257
Other fees/services	1,030	2,882	8,127	1,830	2,188	2,405	1,131	576	24,198	9,267	-	53,634
Office and data processing supplies	1,756	7,160	6,903	3,096	2,998	1,490	2,153	723	239	11,967	-	38,485
Meeting and venue expenses	252	588	425	298	1,407	502	389	128	20	4,246	-	8,255
Expensed furniture and equipment	4,291	33,626	20,513	8,916	5,339	4,059	7,122	2,876	944	67,445	-	155,131
Provision for loan losses, net of recoveries	-	-	-	62,905	-	-	-	-	-	-	-	62,905
Depreciation	14,568	61,592	12,532	5,100	3,048	2,425	4,244	1,508	428	3,957	-	109,402
Program expenses	-	-	-	-	-	-	-	-	-	17,500	-	17,500
Recognized match expense	-	-	-	721,702	-	-	-	1,441,302	32,962	-	-	2,195,966
Federal program expenses	-	-	55,559,678	5,610,714	1,834,390	4,981,477	4,697,027	1,514,638	94,994	-	-	74,292,918
Program income grant expense	-	-	-	79,397	-	-	-	-	-	-	-	79,397
Total Operating Expenses	297,792	1,210,640	56,742,581	6,991,743	2,154,191	5,213,466	5,073,102	3,113,767	221,138	142,860	-	81,161,280
Operating Income (Loss)	477,472	(275,665)	840,198	229,547	(61,573)	2,631	113,705	(131,290)	(44,156)	(123,593)	-	1,027,276
Non-Operating Revenues and Expenses:												
Investment Income	-	-	309	31	-	-	-	-	-	117,833	-	118,173
Total Non-Operating Revenues (Expenses)	-	-	309	31	-	-	-	-	-	117,833	-	118,173
Transfers In	-	-	-	-	57,089	-	47	124,357	60,443	-	(215,466)	26,470
Transfers Out	-	-	-	-	-	-	(131,716)	-	(23,899)	(1,714,119)	215,466	(1,654,268)
Excess (Deficiency) of Revenues Over (Under) Expenses	\$ 477,472	\$ (275,665)	\$ 840,507	\$ 229,578	\$ (4,484)	\$ 2,631	\$ (17,964)	\$ (6,933)	\$ (7,612)	\$ (1,719,879)	\$ -	\$ (482,349)

Please see Note 1, Programs, on pages 22-25 of the Notes to the Financial Statements for explanation of the above programs.

Net position, beginning of year	8,582,716
Net position, end of year	\$ 8,100,367

State Housing Trust Fund

Kansas Housing Resources Corporation
State Housing Trust Fund Statement of Revenues and Expenses by Program, and Changes in Net Position
For the Year Ended June 30, 2016

	General SHTF	KHC	IDA	KGS-WAP	MIH	KAMP/ERP	Eliminate SHTF Intrafund Transfers	Total
Operating Revenues:								
Fees for services	\$ -	\$ 121,078	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 121,078
Program loan and other Interest	83,872	-	-	-	-	-	-	83,872
Contributions and donations	-	58,750	-	652,909	-	-	-	711,659
Other income	72,123	-	-	-	-	-	-	72,123
State program revenues	-	-	-	-	2,000,000	-	-	2,000,000
Total Operating Revenues	155,995	179,828	-	652,909	2,000,000	-	-	2,988,732
Operating Expenses:								
Salaries and related payroll expenses	7,041	85,883	-	34,122	60,722	2,079	-	189,847
Communication	35	578	-	437	615	-	-	1,665
Printing and advertising	-	11,647	-	137	137	-	-	11,921
Rents and parking fees	407	13,210	-	2,095	4,918	-	-	20,630
Repairs and maintenance	-	168	-	611	149	-	-	928
Travel	276	17,262	237	730	4,504	42	-	23,051
Legal fees	2	-	-	3	3	-	-	8
Audit fees	495	220	-	1,057	1,231	-	-	3,003
Inspections	-	-	-	-	-	-	-	-
Dues and subscriptions	1,022	2,274	-	115	151	3	-	3,565
Insurance	-	272	-	233	234	-	-	739
Data processing and data services	-	931	-	755	861	-	-	2,547
Other fees/services	84,681	56,109	-	347	363	5	-	141,505
Office and data processing supplies	17	12,869	-	195	197	63	-	13,341
Meeting and venue expenses	-	70,073	-	12	32	-	-	70,117
Expensed furniture and equipment	56	839	-	759	760	-	-	2,414
Provision for loan losses, net of recoveries	14,918	-	-	-	-	-	-	14,918
Depreciation	-	-	-	-	-	-	-	-
Program expenses	-	-	35,914	652,909	-	564,591	-	1,253,414
State program expenses	-	-	-	-	1,034,302	-	-	1,034,302
Total Operating Expenses	108,950	272,335	36,151	694,517	1,109,179	566,783	-	2,787,915
Operating Income	47,045	(92,507)	(36,151)	(41,608)	890,821	(566,783)	-	200,817
Non-Operating Revenues and Expenses:								
Investment Income	23,987	-	-	-	12,955	-	-	36,942
Total Non-Operating Revenues	23,987	-	-	-	12,955	-	-	36,942
Transfers In	13,125	41,143	450,000	-	-	1,150,000	-	1,654,268
Transfers Out	(26,470)	-	-	-	-	-	-	(26,470)
Excess (Deficiency) of Revenues Over (Under) Expenses	\$ 57,687	\$ (51,364)	\$ 413,849	\$ (41,608)	\$ 903,776	\$ 583,217	-	\$ 1,865,557

Net position, beginning of year 4,092,783

Please see Note 1, Programs, on pages 22-25 of the Notes to the Financial Statements for explanation of the above programs.

Net position, end of year \$ 5,958,340

KHRC Operations

**Kansas Housing Resources Corporation
KHRC Operations Statement of Revenues and Expenses by Program, and Changes in Net Position
For the Year Ended June 30, 2015**

	Rental Development	Rental Compliance	Section 8 - HAP	HOME	DOE-WAP	LIEAP-WAP	CSBG	ESG	HMIS	KHRC Corporate	Eliminate KHRC Ops. Intrafund Transfers	Total
Operating Revenues:												
Fees for services	\$ 711,363	\$ 940,511	\$ 2,011,110	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,700	\$ -	\$ 3,665,684
Grant administration/grant income	-	-	-	485,759	256,777	268,563	373,596	111,592	55,644	-	-	1,551,931
Recognized match income	-	-	-	741,116	-	-	-	1,871,630	33,884	-	-	2,646,630
Program loan and other interest	-	-	-	107,163	-	-	-	-	-	17,306	-	124,469
Other income	-	533	3,182	10,255	8,235	30	-	-	-	515	-	22,750
Federal program revenues	-	-	55,791,373	4,787,840	1,696,914	5,266,782	5,110,199	1,904,413	90,603	-	-	74,648,124
Total Operating Revenues	711,363	941,044	57,805,665	6,132,133	1,961,926	5,535,375	5,483,795	3,887,635	180,131	20,521	-	82,659,588
Operating Expenses:												
Salaries and related payroll expenses	213,351	766,273	829,047	396,032	158,391	165,483	278,477	129,875	49,113	12,971	-	2,999,013
Communication	3,272	12,294	12,739	9,946	2,520	3,020	3,903	2,270	535	149	-	50,648
Printing and advertising	563	1,757	1,907	872	1,212	5,372	707	226	61	2,684	-	15,361
Rents and parking fees	15,550	66,998	76,083	35,161	9,937	14,998	19,259	8,695	3,149	904	-	250,734
Repairs and maintenance	567	2,444	2,491	1,113	977	1,558	763	314	86	-	-	10,313
Travel	16,430	46,522	18,141	14,003	10,751	6,208	13,163	11,350	4,111	3,942	-	144,621
Legal fees	34	281	147	2,284	149	35	228	39	28	13	-	3,238
Audit fees	1,418	2,488	9,100	3,524	1,939	1,680	2,021	2,007	1,427	829	-	26,433
Inspections	-	-	-	15,151	-	-	-	-	-	-	-	15,151
Dues and subscriptions	5,783	2,735	7,033	6,001	266	218	451	254	142	2,088	-	24,971
Insurance	1,393	5,721	12,912	2,786	5,013	1,270	1,987	805	214	-	-	32,101
Data processing and data services	13,877	72,716	226,506	8,043	2,053	2,846	5,542	2,760	648	120	-	335,111
Other fees/services	7,216	29,666	14,670	1,850	50,861	8,836	3,724	659	23,098	5,198	-	145,778
Office and data processing supplies	1,402	6,947	8,303	3,967	5,692	1,562	2,731	1,022	233	5,076	-	36,935
Expensed furniture and equipment	1,942	8,381	9,032	3,194	1,094	1,781	2,195	1,178	350	-	-	29,147
Provision for loan losses, net of recoveries	-	-	-	73,538	-	-	-	-	-	62,700	-	136,238
Depreciation	10,000	39,872	14,751	5,802	2,000	2,517	4,086	1,682	439	-	-	81,149
Program expenses	-	-	-	-	-	-	-	-	-	-	-	-
Recognized match expense	-	-	-	741,116	-	-	-	1,871,630	33,884	-	-	2,646,630
Federal program expenses	-	-	55,791,373	4,787,840	1,696,914	5,266,782	5,110,199	1,904,413	90,603	-	-	74,648,124
Program income grant expense	-	-	-	65,310	-	-	-	-	-	-	-	65,310
Total Operating Expenses	292,798	1,065,095	57,034,235	6,177,533	1,949,769	5,484,166	5,449,436	3,939,179	208,121	96,674	-	81,697,006
Operating Income (Loss)	418,565	(124,051)	771,430	(45,400)	12,157	51,209	34,359	(51,544)	(27,990)	(76,153)	-	962,582
Non-Operating Revenues and Expenses:												
Investment Income	-	-	54	18	-	-	-	-	-	100,293	-	100,365
Total Non-Operating Revenues (Expenses)	-	-	54	18	-	-	-	-	-	100,293	-	100,365
Transfers In	-	-	-	-	42,815	-	-	56,935	77,734	-	(143,293)	34,191
Transfers Out	-	-	-	-	-	-	(45,836)	(3,285)	(41,214)	(52,959)	143,293	-
Excess (Deficiency) of Revenues Over (Under) Expenses	\$ 418,565	\$ (124,051)	\$ 771,484	\$ (45,382)	\$ 54,972	\$ 51,209	\$ (11,477)	\$ 2,106	\$ 8,530	\$ (28,819)	\$ -	\$ 1,097,138

Please see Note 1, Programs, on pages 22-25 of the Notes to the Financial Statements for explanation of the above programs.

Net position, beginning of year	11,089,687
Prior period adjustment - pension	(3,604,109)
Net position, end of year	\$ 8,582,716

State Housing Trust Fund

**Kansas Housing Resources Corporation
State Housing Trust Fund Statement of Revenues and Expenses by Program, and Changes in Net Position
For the Year Ended June 30, 2015**

	General SHTF	IDA	KGS-WAP	MIH	<i>Eliminate SHTF Intrafund Transfers</i>	Total
Operating Revenues:						
Program loan and other interest	\$ 85,293	\$ -	\$ -	\$ -	\$ -	\$ 85,293
Contributions and donations	-	-	326,499	-	-	326,499
Other income	18,517	-	-	-	-	18,517
State program revenues	-	-	-	2,000,000	-	2,000,000
Total Operating Revenues	103,810	-	326,499	2,000,000	-	2,430,309
Operating Expenses:						
Salaries and related payroll expenses	7,232	-	6,585	67,654	-	81,471
Communication	62	-	101	887	-	1,050
Printing and advertising	-	-	10	101	-	111
Rents and parking fees	560	-	208	4,184	-	4,952
Repairs and maintenance	-	-	285	146	-	431
Travel	263	-	61	8,080	-	8,404
Legal fees	13	-	-	29	-	42
Audit fees	709	-	-	1,419	-	2,128
Dues and subscriptions	55	-	7	163	-	225
Insurance	-	-	55	322	-	377
Data processing and data services	80	-	121	1,166	-	1,367
Other fees/services	72,235	-	24	448	-	72,707
Office and data processing supplies	20	-	48	637	-	705
Expensed furniture and equipment	3	-	2	1,156	-	1,161
Provision for loan losses, net of recoveries	49,266	-	-	-	-	49,266
Program expenses	112,724	10,000	266,498	-	-	389,222
State program expenses	-	-	-	2,007,211	-	2,007,211
Total Operating Expenses	243,222	10,000	274,005	2,093,603	-	2,620,830
Operating Income	(139,412)	(10,000)	52,494	(93,603)	-	(190,521)
Non-Operating Revenues and Expenses:						
Investment Income	20,406	-	-	4,383	-	24,789
Total Non-Operating Revenues	20,406	-	-	4,383	-	24,789
Transfers In	-	-	-	-	-	-
Transfers Out	(34,191)	-	-	-	-	(34,191)
Excess (Deficiency) of Revenues Over (Under) Expenses	\$ (153,197)	\$ (10,000)	\$ 52,494	\$ (89,220)	\$ -	\$ (199,923)

Please see Note 1, Programs, on pages 22-25 of the Notes to the Financial Statements for explanation of the above programs.

Net position, beginning of year	4,292,706
Net position, end of year	\$ 4,092,783

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*

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

We have audited, in accordance with the 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, the financial statements of each major fund of Kansas Housing Resources Corporation (KHRC) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise KHRC's basic financial statements, and have issued our report thereon dated September 23, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KHRC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the KHRC's internal control.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the KHRC's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

September 23, 2016
Wichita, Kansas