

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

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

AND

INDEPENDENT AUDITOR'S REPORT



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

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**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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**FINANCIAL STATEMENTS**

Years Ended June 30, 2018 and 2017

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Kansas Development Finance Authority (KDFA), a component unit of the State of Kansas, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise KDFA's basic financial statements as listed in 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 an opinion 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 opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KDFA as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 10 to the financial statements, in 2018 KDFA adopted Government Accounting Standards Board Statement No. 75 *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and 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 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise KDFA's basic financial statements. The accompanying supplementary information 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 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2018 on our consideration of KDFA'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 solely 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 effectiveness of KDFA's 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 KDFA's internal control over financial reporting and compliance.

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

September 24, 2018  
Wichita, KS

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Years Ended June 30, 2018 and 2017

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

**FINANCIAL HIGHLIGHTS**

- KDFA's total net position decreased by \$796,163 from the previous year.
- During the year, KDFA's expenses exceeded revenues by \$738,470. KDFA had expenses of \$1,886,510 compared to \$1,892,888 in 2017, and revenues of \$1,148,040 and \$1,518,421 for those same years.
- Revenues received but not earned (unearned revenues) decreased by \$275,862 to \$3,139,428 during fiscal 2018.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

**FINANCIAL ANALYSIS OF KDFA AS A WHOLE**

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

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

Years Ended June 30, 2018 and 2017

|   | In Thousands of Dollars |                 |                 | Increase (Decrease) |                 |
|---|-------------------------|-----------------|-----------------|---------------------|-----------------|
|   | 2018                    | 2017            | 2016            | 2018                | 2017            |
|   |                         |                 |                 | vs.<br>2017         | vs.<br>2016     |
| Current and other assets                | \$ 12,336               | \$ 13,171       | \$ 13,826       | \$ (835)            | \$ (655)        |
| Capital assets                          | 479                     | 581             | 670             | (102)               | (89)            |
| <b>Total assets</b>                     | <u>12,815</u>           | <u>13,752</u>   | <u>14,496</u>   | <u>(937)</u>        | <u>(744)</u>    |
| Deferred outflows - pension             | 305                     | 357             | 211             | (52)                | 146             |
| Deferred outflows - OPEB                | 20                      | --              | --              | 20                  | --              |
| <b>Total deferred outflows</b>          | <u>325</u>              | <u>357</u>      | <u>211</u>      | <u>(32)</u>         | <u>146</u>      |
| Long-term liabilities                   | 4,109                   | 4,313           | 4,479           | (204)               | (166)           |
| Other liabilities                       | 843                     | 826             | 862             | 17                  | (36)            |
| <b>Total liabilities</b>                | <u>4,952</u>            | <u>5,139</u>    | <u>5,341</u>    | <u>(187)</u>        | <u>(202)</u>    |
| Deferred inflows - pension              | 108                     | 94              | 115             | 14                  | (21)            |
| <b>Total deferred inflows</b>           | <u>108</u>              | <u>94</u>       | <u>115</u>      | <u>14</u>           | <u>(21)</u>     |
| <b>Total net position</b>               | <u>\$ 8,080</u>         | <u>\$ 8,876</u> | <u>\$ 9,251</u> | <u>\$ (796)</u>     | <u>\$ (375)</u> |
| Operating revenues                      | \$ 1,148                | \$ 1,314        | \$ 1,781        | \$ (166)            | \$ (467)        |
| Non-operating revenues                  | --                      | 204             | 319             | (204)               | (115)           |
| <b>Total revenues</b>                   | <u>1,148</u>            | <u>1,518</u>    | <u>2,100</u>    | <u>(370)</u>        | <u>(582)</u>    |
| Operating expenses                      | 1,859                   | 1,893           | 1,799           | (34)                | 94              |
| Non-operating expenses                  | 28                      | --              | --              | 28                  | --              |
| <b>Total expenses</b>                   | <u>1,887</u>            | <u>1,893</u>    | <u>1,799</u>    | <u>(6)</u>          | <u>94</u>       |
| <b>Excess of revenues over expenses</b> | <u>(739)</u>            | <u>(375)</u>    | <u>301</u>      | <u>(364)</u>        | <u>(676)</u>    |
| <b>Prior period adjustment</b>          | <u>(58)</u>             | <u>--</u>       | <u>--</u>       | <u>(58)</u>         | <u>--</u>       |
| <b>Change in net position</b>           | <u>\$ (797)</u>         | <u>\$ (375)</u> | <u>\$ 301</u>   | <u>\$ (422)</u>     | <u>\$ (676)</u> |

**Total assets, deferred outflows, liabilities, deferred inflows, and net position:** Overall, the significant balance sheet accounts such as cash, investments, and unearned revenues fluctuate depending on the number and dollar amount of bond issuances completed each year. In fiscal 2018 and 2017, approximately \$112,525,000 and \$247,208,500 were issued in bonds each year, respectively.

**Change in net position:** The majority of KDFA's revenue comes from issuance fees and annual fees, which produce over 97% of KDFA's operating revenues. The amount of revenues from KDFA's issuance fee decreased to \$338,087 in 2018 from \$469,915 in 2017. Additionally, the amount of revenues from KDFA's annual fee decreased to \$781,494 in 2018 from \$822,598 in 2017.

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

Years Ended June 30, 2018 and 2017

Overall operating expenses decreased by \$34,223 as a result of increases and decreases to various expenditures. The amount recorded in professional services expense decreased by \$46,788, which is mainly due to low issuance activity resulting in reducing the need for outside consulting and legal expenses.

The prior period adjustment recorded during fiscal year 2018 was to restate beginning net position as of July 1, 2017 for the adoption of GASB 75: *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets: Capital assets include furniture, office and computer equipment, and building improvements. Improvements are depreciated over the ten-year life of the lease. Furniture and equipment are depreciated over a three to five year time frame. For additional information on capital assets, see Note 4.

Long-term Debt: See financial highlights above for discussion of unearned revenues. For additional information on debt, see Notes 5, 6, 7 and supplementary information.

**ECONOMIC FACTORS**

Forecasting through the next 12 months, KDFA continues to see a favorable tax-exempt debt interest rate environment, and well rated bonds should continue to price attractively. The Federal Reserve continues to signal a willingness to increase rates, but low inflation, modest GDP growth and other indications still support a cautious and gradual approach. As the Federal Reserve has been gradually increasing rates, slightly higher rates have been seen mostly on the short end of the curve, and longer term rates have continued to remain relatively low.

While the State of Kansas is experiencing stronger revenue inflows as a result of recent changes in tax policy, the State is still working to bring revenues and expenditures into structural alignment. As a consequence of years of fiscal challenges, the legislature in recent years has not authorized much in the way of new debt issuance for state agencies or the Regents Institutions. Should the State's fiscal position continue to improve, the State may again be willing to initiate some capital improvements.

On the private activity side, KDFA has seen a significant increase in private activity bond issuance for affordable multifamily housing, and is currently working on three multifamily transactions, and anticipates receiving additional applications prior to the end of the calendar year. As the economy continues to improve, we would anticipate continued private activity issuance.

**CONTACTING KDFA'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of KDFA's finances and to demonstrate KDFA's accountability for funds received. If you have questions about this report or need additional information, contact KDFA at 534 S. Kansas Avenue, Suite 800, Topeka, KS 66603.

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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BALANCE SHEETS

June 30, 2018 and 2017

**ASSETS AND DEFERRED OUTFLOWS**

|   | 2018          | 2017          |
|---|---------------|---------------|
| <b>CURRENT ASSETS</b>   |               |               |
| Cash and cash equivalents   | \$ 229,043    | \$ 193,585    |
| Investments   | 8,861,579     | 9,432,311     |
| Investments, restricted   | 3,139,428     | 3,415,290     |
| Accounts receivable   | 24,757        | 32,747        |
| Prepaid expenses  | 81,286        | 96,886        |
| Investment in direct financing leases, current portion                    | 345,000       | 695,000       |
| Total current assets  | 12,681,093    | 13,865,819    |
| <b>INVESTMENTS IN DIRECT FINANCING LEASES,<br/>NET OF CURRENT PORTION</b> |               |               |
|   | 1,135,000     | 1,480,000     |
| <b>CAPITAL ASSETS</b>   |               |               |
| Furniture and equipment   | 325,481       | 321,574       |
| Building improvements   | 585,984       | 585,984       |
| Less accumulated depreciation and amortization                            | (432,435)     | (326,946)     |
| Net capital assets  | 479,030       | 580,612       |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                     |               |               |
| Deferred outflows - pension   | 305,136       | 357,189       |
| Deferred outflows - OPEB  | 20,227        | --            |
| Total deferred outflows of resources                                      | 325,363       | 357,189       |
| Total assets and deferred outflows of resources                           | \$ 14,620,486 | \$ 16,283,620 |

**LIABILITIES, DEFERRED INFLOWS AND NET POSITION**

|   | <u>2018</u>   | <u>2017</u>   |
|---|---------------|---------------|
| <b>CURRENT LIABILITIES</b>  |               |               |
| Accrued salaries and related benefits                             | \$ 438,716    | \$ 399,576    |
| Accounts payable  | 36,372        | 20,281        |
| Unearned revenue - current portion                                | 367,902       | 406,339       |
| Lease revenue bonds payable, current portion                      | 345,000       | 695,000       |
|   | <hr/>         | <hr/>         |
| Total current liabilities   | 1,187,990     | 1,521,196     |
|   | <hr/>         | <hr/>         |
| <b>LONG-TERM LIABILITIES</b>                                      |               |               |
| Unearned revenue  | 2,771,526     | 3,008,951     |
| Lease revenue bonds payable                                       | 1,135,000     | 1,480,000     |
| Total OPEB liability  | 65,190        | --            |
| Net pension liability   | 1,272,837     | 1,303,753     |
|   | <hr/>         | <hr/>         |
| Total long-term liabilities                                       | 5,244,553     | 5,792,704     |
|   | <hr/>         | <hr/>         |
| Total liabilities   | 6,432,543     | 7,313,900     |
|   | <hr/>         | <hr/>         |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                              |               |               |
| Deferred inflows - pension  | 108,038       | 93,652        |
|   | <hr/>         | <hr/>         |
| <b>NET POSITION</b>   |               |               |
| Invested in capital assets  | 479,030       | 580,612       |
| Unrestricted  | 7,600,875     | 8,295,456     |
|   | <hr/>         | <hr/>         |
|   | 8,079,905     | 8,876,068     |
|   | <hr/>         | <hr/>         |
| Total liabilities, deferred inflows of resources and net position | \$ 14,620,486 | \$ 16,283,620 |
|   | <hr/> <hr/>   | <hr/> <hr/>   |

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

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

STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION

Years Ended June 30, 2018 and 2017

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| Operating revenues:                                       |                     |                     |
| Issuance fees   | \$ 338,087          | \$ 469,915          |
| Annual fees   | 781,494             | 822,598             |
| Application fees  | 6,100               | 5,400               |
| Miscellaneous revenue                                     | 22,359              | 16,528              |
| <b>Total operating revenues</b>                           | <b>1,148,040</b>    | <b>1,314,441</b>    |
| Operating expenses:                                       |                     |                     |
| Salaries and related payroll expense                      | 1,026,652           | 1,016,845           |
| Pension expense   | 144,324             | 139,165             |
| OPEB expense  | 7,497               | (545)               |
| Telecommunications  | 13,422              | 13,839              |
| Maintenance agreements and repairs                        | 26,843              | 28,722              |
| Publication fees and advertising                          | 4,636               | 3,132               |
| Rents   | 89,186              | 88,805              |
| Insurance   | 53,855              | 53,124              |
| Travel  | 861                 | 323                 |
| Continuing education expenses                             | 20,539              | 25,614              |
| Professional services                                     | 309,693             | 356,481             |
| Memberships and subscriptions                             | 13,905              | 13,861              |
| Professional and office supplies                          | 25,286              | 19,928              |
| Depreciation and amortization                             | 105,489             | 111,149             |
| Arbitrage calculation expenses                            | --                  | 5,750               |
| Miscellaneous   | 16,477              | 16,695              |
| <b>Total operating expenses</b>                           | <b>1,858,665</b>    | <b>1,892,888</b>    |
| <b>Operating loss</b>                                     | <b>(710,625)</b>    | <b>(578,447)</b>    |
| Non-operating revenues:                                   |                     |                     |
| Investment income   | 226,889             | 207,444             |
| Net change in fair value of investments                   | (254,734)           | (197,443)           |
| Non-employer pension contributions                        | --                  | 193,979             |
| <b>Total non-operating revenues (expenses)</b>            | <b>(27,845)</b>     | <b>203,980</b>      |
| Excess of revenues over expenses (expenses over revenues) | <b>(738,470)</b>    | <b>(374,467)</b>    |
| Net position, beginning of year                           | <b>8,876,068</b>    | <b>9,250,535</b>    |
| Prior period adjustment                                   | <b>(57,693)</b>     | --                  |
| Net position, end of year                                 | <b>\$ 8,079,905</b> | <b>\$ 8,876,068</b> |

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

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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**STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2018 and 2017

|   | 2018                | 2017                |
|---|---------------------|---------------------|
| Cash flows from operating activities:   |                     |                     |
| Cash received from others   | \$ 1,156,030        | \$ 1,311,455        |
| Cash paid to others   | (1,935,414)         | (2,165,983)         |
| <b>Net cash flow from operating activities</b>                                      | <b>(779,384)</b>    | <b>(854,528)</b>    |
| Cash flows from capital and related financing activities:                           |                     |                     |
| Purchases of capital assets   | (3,907)             | (23,552)            |
| Proceeds from sale of capital assets  | --                  | 1,050               |
| <b>Net cash flow from capital and related financing activities</b>                  | <b>(3,907)</b>      | <b>(22,502)</b>     |
| Cash flows from investing activities:   |                     |                     |
| Proceeds from sale and maturities of investments                                    | 818,050             | 731,269             |
| Purchase of investments   | 28,544              | (8,757)             |
| Interest and dividends on investments   | (27,845)            | 10,001              |
| Non-employer pension contribution   | --                  | 193,979             |
| <b>Net cash flow from investing activities</b>                                      | <b>818,749</b>      | <b>926,492</b>      |
| <b>Net change in cash and cash equivalents</b>                                      | <b>35,458</b>       | <b>49,462</b>       |
| Cash and cash equivalents, beginning of year  | 193,585             | 144,123             |
| <b>Cash and cash equivalents, end of year</b>                                       | <b>\$ 229,043</b>   | <b>\$ 193,585</b>   |
| Reconciliation of operating income to net cash flow from operating activities:      |                     |                     |
| Operating loss  | \$ (710,625)        | \$ (578,447)        |
| Adjustments to reconcile operating loss to net cash flow from operating activities: |                     |                     |
| Depreciation and amortization   | 105,489             | 111,149             |
| Loss on sale of capital assets  | --                  | 608                 |
| Change in assets, deferred outflows, liabilities and deferred inflows:              |                     |                     |
| (Increase) decrease in:   |                     |                     |
| Accounts receivable   | 7,990               | (2,986)             |
| Prepaid expenses  | 15,600              | (14,863)            |
| Deferred outflows - pension   | 31,826              | (145,919)           |
| Accrued salaries and related benefits   | 39,140              | 5,185               |
| Accounts payable  | 16,091              | (19,521)            |
| Unearned revenue  | (275,862)           | (206,377)           |
| Total OPEB liability  | 7,497               | (545)               |
| Net pension liability   | (30,916)            | 18,660              |
| Deferred inflows - pension  | 14,386              | (21,472)            |
| <b>Net cash flow from operating activities</b>                                      | <b>\$ (779,384)</b> | <b>\$ (854,528)</b> |

**Non-Cash Transactions**

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

|  | 2018       | 2017       |
|--|------------|------------|
| Principal payments and redemptions made on lease revenue bonds | \$ 695,000 | \$ 655,000 |
| Interest revenue on lease revenue bonds                        | \$ 91,385  | \$ 123,898 |
| Interest expense on lease revenue bonds                        | \$ 91,385  | \$ 123,898 |

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

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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**NOTES TO FINANCIAL STATEMENTS**

**1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity - Kansas Development Finance Authority (KDFA) was established by Chapter 57, 1987 Session Laws of Kansas. Its enabling statutes are found in K.S.A. 74-8901 et seq., as amended and supplemented. KDFA is a public body politic and corporate, constituting an independent instrumentality of the State of Kansas (State). KDFA was created to enhance the ability of the State to finance capital improvements and improve access to long-term financing for State agencies, political subdivisions, public and private organizations, and businesses.

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

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

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

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

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

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

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

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

As of June 30, 2018 and 2017, investments consist of funds invested in the Kansas Municipal Investment Pool (KMIP) and Vanguard investment account. The KMIP is an external investment pool not SEC (Securities and Exchange Commission) registered, which is regulated by the State. The investment in the KMIP is valued at cost. The Vanguard investment account is valued at fair value.

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.

Cash Held for Others - K DFA has a Custodial Agreement with UMB Bank, N.A. for UMB Bank, N.A. to act as a depository for wire transfers of good faith deposits (Deposits) which may be a requirement in the Notice of Bond Sale. UMB Bank, N.A. holds the Deposits until notified by K DFA of the successful bidder. Deposits submitted by unsuccessful bidders will not be accepted or shall be returned in the same manner received. If a bid is accepted, and the successful bidder complies with all terms and conditions of the Notice of Bond Sale, UMB Bank, N.A. transfers the Deposit to K DFA one day before the bond closing date and the amount is deducted from the purchase price. No interest on the Deposit is paid by K DFA. There were no amounts recorded as cash held for others as of June 30, 2018 or 2017.

Accounts Receivable - K DFA uses the reserve method of accounting for bad debts. Under this method, all uncollectible accounts are charged to the allowance account, and bad debt expense is determined by adjusting the balance in the allowance account to a reserve considered reasonable by management.

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

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NOTES TO FINANCIAL STATEMENTS

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

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

Income Taxes - KDFA is exempt from all federal, state, and local income, sales, and property taxes.

Net Position - Net position of KDFA is classified in two components. The investment in capital assets consists only of capital assets because there is no outstanding debt related to the acquisition of those assets. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets net position.

Deferred Inflows of Resources/Deferred Outflows of Resources - In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This 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. KDFA has two items that qualify for reporting in this category. They are the deferred outflows for pensions and OPEB. See Note 8 and 10, respectively, for more information on these deferred outflows.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This 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. KDFA has one item that qualifies for reporting in this category. It is the deferred inflows for pensions. See Note 8 for more information on this deferred inflow.

Compensated Absences - Under terms of KDFA's Paid Time Off (PTO) policy, KDFA employees are granted leave for vacation, sickness and other personal time under a single accrual. PTO leave is earned in varying amounts dependent on tenure and employment status. Employees are paid for the PTO they have accrued at employment end. Compensated absences are included in the accrued salaries and related benefits on the balance sheet.

Pensions - The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of employee service and the Kansas Public Employees Retirement System's (KPERs) fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, KPERs' administrative expenses, current year benefit changes, and other changes in KPERs' fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

For purposes of measuring the collective net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about

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NOTES TO FINANCIAL STATEMENTS

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

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. For this purpose, 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.

Operating Revenues and Expenses - The principal revenues of KDFA are issuance and annual fee revenues received from borrowers. KDFA also recognizes operating revenue from application fees and other revenues earned related to the operation of KDFA, and operating expenses for administrative expenses. All other revenues and expenses are reported as non-operating revenues and expenses.

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

**2. CASH AND INVESTMENTS**

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

As of June 30, 2018 and 2017, KDFA has \$60,375 and \$163,425, respectively invested in the State of Kansas Municipal Investment Pool. As of June 30, 2018 and 2017, KDFA has \$11,940,632 and \$12,684,176, respectively invested in Vanguard short-term index funds.

*Custodial Credit Risk.* Custodial credit risk is the risk that, in the event of the failure of the counterparty, KDFA will not be able to recover the value of its deposits or investments that are in the possession of an outside party. The bank balances of KDFA's deposits at June 30, 2018 and 2017 totaled \$226,236 and \$622,109, respectively. UMB Bank will pledge collateral to a Federal Reserve account for bank balances in excess of the Federal Deposit Insurance Corporation (FDIC) limit, as well as by the standard coverage of the FDIC.

*Credit Risk.* KDFA's policy limits investments to those allowed by state statute, and further to those with one of the top two ratings from Standard & Poor's or Moody's Investor Services, depending on the type of investment. As of June 30, 2018 and 2017, KDFA was invested in the Kansas Municipal Investment Pool. As of June 30, 2018, the pool's underlying securities

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NOTES TO FINANCIAL STATEMENTS

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

have ratings from A1 to AA+. The Vanguard Short Term Bond Index Fund's (Fund) underlying securities are U.S. government, high quality (investment-grade) corporate, and investment-grade international dollar-denominated bonds. The Fund's underlying securities have an average rating of Aa.

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

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

KDFA had the following investments, excluding certificates of deposit, with the noted investment maturities:

| Investment Type                     | June 30, 2018        | June 30, 2018         |              | Fair Value Hierarchy |
|-------------------------------------|----------------------|-----------------------|--------------|----------------------|
|                                     |                      | Investment Maturities |              |                      |
|                                     |                      | (In Years)            |              |                      |
|                                     |                      | Less than 1           | 1-5          |                      |
| KMIP                                | \$ 60,375            | \$ 60,375             | \$ --        | N/A                  |
| Vanguard short-term bond index fund | 11,940,632           | 11,940,632            | --           | Level 1              |
| Total                               | <u>\$ 12,001,007</u> | <u>\$ 12,001,007</u>  | <u>\$ --</u> |                      |

  

| Investment Type                     | June 30, 2017        | June 30, 2017         |              | Fair Value Hierarchy |
|-------------------------------------|----------------------|-----------------------|--------------|----------------------|
|                                     |                      | Investment Maturities |              |                      |
|                                     |                      | (In Years)            |              |                      |
|                                     |                      | Less than 1           | 1-5          |                      |
| KMIP                                | \$ 163,425           | \$ 163,425            | \$ --        | N/A                  |
| Vanguard short-term bond index fund | 12,684,176           | 12,684,176            | --           | Level 1              |
| Total                               | <u>\$ 12,847,601</u> | <u>\$ 12,847,601</u>  | <u>\$ --</u> |                      |

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

*Fair value measurements.* Following is a description of the valuation methodologies used for assets measured at fair value in the table above.

An investment's categorization within the valuation 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

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NOTES TO FINANCIAL STATEMENTS

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

valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

The Vanguard short-term bond index fund investment is valued at Level 1 using quoted prices in active markets for identical assets.

**3. INVESTMENT IN DIRECT FINANCING LEASES**

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

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

|   | 2018         | 2017         |
|---|--------------|--------------|
| Total minimum lease payments to be received | \$ 1,646,936 | \$ 2,433,321 |
| Less: unearned income                       | (166,936)    | (258,321)    |
| Net investment in direct financing leases   | \$ 1,480,000 | \$ 2,175,000 |

The future minimum lease payments to be received by KDFA under the direct financing leases mirrors the payments to be made by KDFA under the lease revenue bonds payable as explained in Note 5.

**4. CAPITAL ASSETS**

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

|  | June 30,<br>2017<br>Balance | Increases    | Transfers<br>and<br>Decreases | June 30,<br>2018<br>Balance |
|--|-----------------------------|--------------|-------------------------------|-----------------------------|
| Furniture and equipment                | \$ 321,574                  | \$ 3,907     | \$ --                         | \$ 325,481                  |
| Building improvements                  | 585,984                     | --           | --                            | 585,984                     |
| Total capital assets being depreciated | 907,558                     | 3,907        | \$ --                         | 911,465                     |
| Less accumulated depreciation:         |                             |              |                               |                             |
| Furniture and equipment                | (204,858)                   | (47,322)     | --                            | (252,180)                   |
| Building improvements                  | (122,088)                   | (58,167)     | --                            | (180,255)                   |
| Total accumulated depreciation         | (326,946)                   | (105,489)    | --                            | (432,435)                   |
| Total capital assets, net              | \$ 580,612                  | \$ (101,582) | \$ --                         | \$ 479,030                  |

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NOTES TO FINANCIAL STATEMENTS

**4. CAPITAL ASSETS (CONTINUED)**

|  | June 30,<br>2016<br>Balance | Increases          | Transfers<br>and<br>Decreases | June 30,<br>2017<br>Balance |
|--|-----------------------------|--------------------|-------------------------------|-----------------------------|
| Furniture and equipment                | \$ 349,080                  | \$ 21,630          | \$ (49,136)                   | \$ 321,574                  |
| Building improvements                  | 584,062                     | 1,922              | --                            | 585,984                     |
| Total capital assets being depreciated | <u>933,142</u>              | <u>23,552</u>      | <u>(49,136)</u>               | <u>907,558</u>              |
| Less accumulated depreciation:         |                             |                    |                               |                             |
| Furniture and equipment                | (199,313)                   | (53,024)           | 47,479                        | (204,858)                   |
| Building improvements                  | (63,962)                    | (58,126)           | --                            | (122,088)                   |
| Total accumulated depreciation         | <u>(263,275)</u>            | <u>(111,150)</u>   | <u>47,479</u>                 | <u>(326,946)</u>            |
| Total capital assets, net              | <u>\$ 669,867</u>           | <u>\$ (87,598)</u> | <u>\$ (1,657)</u>             | <u>\$ 580,612</u>           |

**5. LEASE REVENUE BONDS PAYABLE**

Lease revenue bonds are limited obligations of KDFFA, payable solely from revenues, rents, and receipts or subject to annual State appropriations. They do not represent general obligations of the State, or any political subdivision thereof, or of KDFFA. KDFFA records lease revenue bonds payable and investment in direct financing leases for all revenue bonds issued and outstanding which are secured by a capital lease agreement. Activity for the years ended June 30, 2018 and 2017 included additions (issuances) of \$0 and \$0 and reductions (principal payments or redemptions) of \$695,000 and \$655,000, respectively.

Lease revenue bonds payable are as follows at June 30, 2018 and June 30, 2017:

|  | <u>2018</u> | <u>2017</u>  |
|--|-------------|--------------|
| Series 2001W-1 - State of Kansas Department of Human Resources Project, \$1,720,000 Lease Revenue Bonds dated November 1, 2001, with aggregate amounts due annually from \$25,000 to \$130,000, due October 1, 2001 through October 1, 2021, at interest rates ranging from 3.00% to 5.00%. (This bond issue was included in the Pooled Bond issue, Series 2001W). | \$ 490,000  | \$ 600,000   |
| Series 2002H - State of Kansas Department of Human Resources, Acquisition & Renovation Project, and \$3,765,000 Lease Revenue Bonds dated August 15, 2002, with aggregate amounts due annually from \$140,000 to \$270,000, due May 1, 2003 through May 1, 2022, at interest rates ranging from 2.50% to 4.70%.  | \$ 990,000  | \$ 1,215,000 |

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NOTES TO FINANCIAL STATEMENTS

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

Series 2002N-2 - State of Kansas Highway Patrol, Fleet Operations Project, and \$3,955,000 Lease Revenue Bonds dated December 1, 2002, with aggregate amounts due annually from \$200,000 to \$360,000, due October 1, 2003 through October 1, 2017, at interest rates ranging from 3.00% to 5.25%.

|  |                 |               |
|--|-----------------|---------------|
|  | \$           -- | \$    360,000 |
|  | 1,480,000       | 2,175,000     |
| Less current portion due within one year | 345,000         | 695,000       |
|  | \$ 1,135,000    | \$ 1,480,000  |

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

|      | Principal    | Interest   |
|------|--------------|------------|
| 2019 | \$ 345,000   | \$ 66,635  |
| 2020 | 360,000      | 50,640     |
| 2021 | 375,000      | 33,743     |
| 2022 | 400,000      | 15,918     |
|      | \$ 1,480,000 | \$ 166,936 |

**6. KDFA SPECIAL OBLIGATION BONDS**

Unlike lease revenue bonds for which KDFA has recorded lease revenue bonds payable and an investment in direct financing leases, the bond obligations and notes and bonds with original maturities of one year or less, contain no capital lease provisions under which KDFA acts as lessor. These bond obligations have various revenue streams that are pledged for repayment of principal and interest. These bonds are special limited obligations of KDFA, neither the principal of, redemption premium, if any, nor interest on these bonds constitutes a general obligation or indebtedness of, nor is the payment thereof guaranteed by KDFA or the State. Accordingly, special obligation bonds are not included in KDFA's balance sheet. The amounts of special obligation bonds outstanding as of June 30, 2018 and 2017 were \$3,314,819,847 and \$3,452,724,305, respectively.

**7. PRIVATE ACTIVITY BONDS**

Unlike lease revenue bonds for which KDFA has recorded lease revenue bonds payable and an investment in direct financing leases, the private activity bonds are special limited obligations of KDFA and are made payable solely from a pledge of the applicable trust estate that is comprised of a particular designated revenue stream of the borrower. Accordingly, such private activity bonds are not included on KDFA's balance sheet. The amounts of private activity bonds outstanding as of June 30, 2018 and 2017 were \$1,355,740,169 and \$1,485,492,199, respectively.

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

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

From the inception of the program through June 30, 2018, the Beginning Farmer Loan Program had issued \$96,799,071 in bonds.

**8. EMPLOYEES RETIREMENT SYSTEM**

General Information about the Pension Plan

*Plan description:* KDFA 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 <http://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 chose 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 State of Kansas.

The 2012 Legislature made changes affecting new hires, current member employees and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 years with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

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**8. EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

For all pension coverage groups, 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. KPERS has multiple benefit structures and contribution rates depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 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 covered salary for KPERS 1, KPERS 2 and KPERS 3 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 for KPERS 1, KPERS 2 and KPERS 3 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 and the statutory contribution rate was 9.62% and 12.01%, respectively, for the fiscal year ended June 30, 2018 and 10.77% and 10.81%, respectively, for the fiscal year ended June 30, 2017. Contributions to the pension plan from KDFA were \$102,252 and \$93,917 for the years ended June 30, 2018 and 2017, respectively.

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. During June 30, 2018 and June 30, 2017, KDFA recorded \$0 and \$193,979, respectively, in nonemployer contribution revenue for their proportionate share of this deposit.

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

Net pension liability activity for the years ended June 30 was as follows:

|                       | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|-----------------------|----------------------|----------------------|
| Net pension liability | \$ 1,272,837         | \$ 1,303,753         |
| Measurement date      | June 30, 2017        | June 30, 2016        |
| Valuation date        | December 31, 2016    | December 31, 2015    |
| Proportion            | 0.019%               | 0.019%               |
| Change in proportion  | 0.000%               | 0.001%               |

The collective net pension liability is measured by KPERS each June 30, and the total pension liability used to calculate the collective net pension liability is determined by an actuarial valuation as of each December 31, rolled forward to June 30. KDFA's proportion of the

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NOTES TO FINANCIAL STATEMENTS

**8. EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

collective net pension liability was based on the ratio of KDFA's actual contributions to KPERS, relative to the total employer and nonemployer contributions of the State/School Subgroup within KPERS for the fiscal years ended June 30, 2017 and 2016. The contributions used exclude contributions made for prior service, excess benefits and irregular payments.

For the years ended June 30, 2018 and 2017, KDFA recognized pension expense of \$144,324 and \$139,165, respectively. At June 30, 2018 and 2017, KDFA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | June 30, 2018                     |                                  | June 30, 2017                     |                                  |
|--|-----------------------------------|----------------------------------|-----------------------------------|----------------------------------|
|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
| Difference between expected and actual experience                                | \$ -                              | \$ 63,301                        | \$ --                             | \$ 61,553                        |
| Net difference between projected and actual earnings on pension plan investments | 27,298                            | -                                | 117,756                           | --                               |
| Changes in proportionate share   | 108,938                           | 43,052                           | 145,516                           | 29,742                           |
| Changes in assumptions   | 60,099                            | 1,685                            | --                                | 2,357                            |
| KDFA contributions subsequent to measurement date                                | 108,801                           | -                                | 93,917                            | --                               |
| Total  | <u>\$ 305,136</u>                 | <u>\$ 108,038</u>                | <u>\$ 357,189</u>                 | <u>\$ 93,652</u>                 |

The \$108,801 reported as deferred outflows of resources related to pensions resulting from KDFA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as increases (decreases) to pension expense as follows:

**Year ended June 30:**

|      |                  |
|------|------------------|
| 2019 | \$ 10,413        |
| 2020 | 49,408           |
| 2021 | 38,685           |
| 2022 | (11,818)         |
| 2023 | 1,609            |
|      | <u>\$ 88,297</u> |

*Actuarial assumptions.* The total pension liability for KPERS in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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NOTES TO FINANCIAL STATEMENTS

**8. EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

|  |                                      |
|--|--------------------------------------|
| Price inflation  | 2.75%                                |
| Wage inflation   | 3.50%                                |
| Salary increases, including wage increases   | 3.50% to 12.00%, including inflation |
| Long-term rate of return, net of investment expense, and including price inflation | 7.75%                                |

Mortality rates were based on the RP 2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study conducted for the three year period beginning January 1, 2013.

The actuarial assumptions changes adopted by the Pension Plan for all groups based on the experience study were as follows:

- Price inflation assumption lowered from 3.00 percent to 2.75 percent
- Investment return assumption was lowered from 8.00 percent to 7.75 percent
- General wage growth assumption was lowered from 4.00 percent to 3.5 percent
- Payroll growth assumption was lowered from 4.00 percent to 3.00 percent

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 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, 2017 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%                      | 6.80%   |
| Fixed income           | 13                       | 1.25  |
| Yield driven           | 8                        | 6.55  |
| Real return            | 11                       | 1.71  |
| Real estate            | 11                       | 5.05  |
| Alternatives           | 8                        | 9.85  |
| Short-term investments | 2                        | (0.25)  |
| Total                  | <u>100%</u>              |   |

*Discount rate.* The discount rate used by KPERS to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that

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NOTES TO FINANCIAL STATEMENTS

**8. EMPLOYEES RETIREMENT SYSTEM (CONTINUED)**

contributions from plan members will be made at the contractually required rate. The 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 statutory cap for the State fiscal year 2018 was 1.2%. The State/School employers are currently contributing the full actuarial contribution rate. The expected KPERS employer actuarial contribution rate was modeled for future years, assuming all actuarial assumptions are met in the future years. 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 K DFA's proportionate share of the collective net pension liability to changes in the discount rate.* The following presents K DFA's proportionate share of the collective net pension liability calculated using the discount rate of 7.75% and 8.00% for fiscal 2018 and 2017, respectively, as well as what K DFA'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 (6.75% and 7.00%) or 1-percentage-point higher (8.75% and 9.00%) than the current rate:

|               | <b>1% Decrease</b>    | <b>Current</b>        | <b>1% Increase</b>    |
|---------------|-----------------------|-----------------------|-----------------------|
|               | <b>(2017 - 7.00%)</b> | <b>(2017 - 8.00%)</b> | <b>(2017 - 9.00%)</b> |
|               | <b>(2018 - 6.75%)</b> | <b>(2018 - 7.75%)</b> | <b>(2018 - 8.75%)</b> |
| June 30, 2018 | \$ 1,696,982          | \$ 1,272,837          | \$ 914,946            |
| June 30, 2017 | \$ 1,695,287          | \$ 1,303,753          | \$ 971,168            |

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

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

**9. DEFERRED COMPENSATION PLAN**

As a component unit of the State of Kansas, K DFA participates in the State's Deferred Compensation Plan (Plan), a voluntary defined contribution retirement plan, as authorized by Internal Revenue Services (IRS) Code Section 457. Salary reduction agreements are made with eligible employees whereby prescribed amounts are withheld from the employee's pay and remitted to the Trustee, Great West Financial, which invests the withholdings in allowable investments in accordance with the investment instructions of the employees. These monies are not available to employees until termination or retirement from employment, death, or unforeseeable emergency. Any classified or unclassified employees, except those employed

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

NOTES TO FINANCIAL STATEMENTS

**9. DEFERRED COMPENSATION PLAN (CONTINUED)**

on an emergency, temporary, or intermittent basis, are eligible on their first day of employment to participate in the Plan. During fiscal year 2018, seven employees of KDFA participated in the Plan.

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

**10. OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS**

For the year ended June 30, 2018, KDFA implemented the provisions of GASB 75, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*.

**KPERS Death and Disability OPEB Plan**

*Plan Description.* KDFA participates in an agent multiple-employer defined benefit other post-employment benefit (OPEB) plan which is administered by KPERS. The Plan provides long-term disability benefits and life insurance benefit for disabled members to KPERS members, as provided by K.S.A. 74-04927. The plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. Because the trust's assets are used to pay employee benefits other than OPEB, no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. There is no stand-alone financial report for the plan.

*Benefits provided.* Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60% (prior to January 1, 2006, 66 2/3%) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver premium provision.

*Long-term disability benefit:* Monthly benefit is 60% of the member's monthly compensation, with a minimum of \$100 and maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65<sup>th</sup> birthday or retirement date, whichever occurs first. If the disability occurs after age 60, benefits are payable while disability continues, for a period of 5 years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the term of the disability or 24 months per lifetime, whichever is less. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of living increase.

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

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

Group life waiver of premium benefit: Upon the death of an employee who is receiving monthly disability benefits, the plan will pay a lump-sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of the member's previous 12 months of compensation at the time of the last date on payroll. If the member has been disabled for 5 or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual life insurance plan.

*Employees covered by benefit terms.* At June 30, 2018, the following employees were covered by the benefit terms:

|  |    |
|--|----|
| Inactive employees or beneficiaries currently receiving benefit payments | 1  |
| Active employees   | 9  |
|  | 10 |
|  | 10 |

Total OPEB Liability

KDFA's total OPEB liability of \$65,190 was measured as of June 30, 2017, and was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017.

*Actuarial assumptions and other inputs.* The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all period included in the measurement, unless otherwise noted:

|                                       |  |
|---------------------------------------|--|
| Price inflation                       | 2.75%  |
| Payroll growth                        | 3.00%  |
| Salary increases, including inflation | 3.50 to 10%, including price inflation       |
| Discount rate                         | 3.58%  |
| Healthcare cost trend rates           | Not applicable for the coverage in this plan |
| Retiree share of benefit cost         | Not applicable for the coverage in this plan |

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Mortality rates were based on the RP-2014 mortality tables, as appropriate, with adjustment for mortality improvements based on Scale MP-2017.

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

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

The actuarial assumptions used in the June 30, 2017 valuation were based on actuarial experience study for the period July 1, 2014 – June 30, 2016. Other demographic assumptions are set to be consistent with the actuarial assumptions reflected in the December 31, 2016 KPERS pension valuation.

Changes in the Total OPEB Liability

|   | <b>Total OPEB<br/>Liability</b> |
|---|---------------------------------|
| <b>Balance at fiscal year-end 6/30/17</b> | <b>\$ 77,920</b>                |
| <b>Changes for the year:</b>              |                                 |
| Service cost                              | 5,408                           |
| Interest                                  | 2,089                           |
| Benefit payments                          | (20,227)                        |
| <b>Net changes</b>                        | <b>(12,730)</b>                 |
| <b>Balance at fiscal year-end 6/30/18</b> | <b>\$ 65,190</b>                |

*Changes of assumptions.* Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate increased from 2.85% on June 30, 2016 to 3.58% on June 30, 2017.

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of KDFA, as well as what KDFA's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current discount rate:

|                      | <b>1% Decrease<br/>(2.58%)</b> | <b>Current<br/>Discount Rate<br/>(3.58%)</b> | <b>1% Increase<br/>(4.58%)</b> |
|----------------------|--------------------------------|--|--------------------------------|
| Total OPEB liability | \$ 65,139                      | \$ 65,190                                    | \$ 64,996                      |

*Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.* The healthcare trend rates do not affect the liabilities related to the long-term disability benefits sponsored by KPERS. Therefore, there is no sensitivity to a change in healthcare trend rates.

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, KDFA recognized OPEB expense of \$7,497. At June 30, 2018, KDFA reported deferred outflows of resources related to OPEB for benefit payments subsequent to the measurement date of \$20,227.

The deferred outflow of resources related to the benefit payments subsequent to the measurement date totaling \$20,227 consist of payments made to KPERS for benefits and administrative costs, and will be recognized as a reduction in the total OPEB liability during the year ended June 30, 2019.

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

NOTES TO FINANCIAL STATEMENTS

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

*Prior period adjustment.* The implementation of GASB 75 resulted in a \$77,920 increase to the total OPEB liability, \$20,227 increase to deferred outflows of resources and a \$57,693 decrease to net position as of July 1, 2017.

**11. LEASES**

KDFA has an operating lease ending in May 2025 for its office space and parking spaces. The combined rent expense for the years ended June 30, 2018 and 2017 was \$84,824 and \$84,443, respectively.

In 2016, KDFA entered into a new equipment lease ending in April 2020. Equipment expense for the years ended June 30, 2018 and 2017 was \$4,362 and \$4,362, respectively.

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

|            |                   |
|------------|-------------------|
| 2019       | \$ 81,223         |
| 2020       | 80,697            |
| 2021       | 83,395            |
| 2022       | 83,395            |
| 2023       | 83,395            |
| Thereafter | 159,840           |
|            | <u>\$ 571,945</u> |

**12. RISK MANAGEMENT**

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

KDFA has commercial insurance coverage related to miscellaneous professional liability with a limit of liability of \$10,000,000 and retention of \$200,000 deductible. KDFA also has commercial insurance coverage on personal property with a limit of \$1,000,000 and \$1,000 deductible, which includes coverage on electronic data processing equipment, media, and data. This policy also provides general liability coverage with a \$2,000,000 per occurrence / \$4,000,000 aggregate limit. In addition, there is a Public Officials and Employees Liability Insurance Policy with an aggregate limit of \$2,000,000 and a deductible of \$1,000. Insurance settlements have not exceeded insurance coverage for the past three fiscal years. In addition, KDFA purchased public official surety bonds for an additional coverage of \$1,250,000. KDFA also participates as a Non-State group in the State's employee health benefit plan.

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
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NOTES TO FINANCIAL STATEMENTS

**13. PENDING GASB PRONOUNCEMENTS**

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and a corresponding deferred outflow of resources for AROs when the liability is incurred and reasonable estimable. This statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for estimating the liability and the estimated remaining useful life of the associated tangible capital asset. The provisions of this statement are effective for financial statements for KDFA's fiscal year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities*, improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when demands for resources has been made or when no further action, approval or condition is required to be taken or met by the beneficiary to release the assets. The provisions of this statement are effective for financial statements for KDFA's fiscal year ending June 30, 2020.

GASB Statement No. 87, *Leases*, improves accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Provisions of this statement are effective for financial statements for KDFA's fiscal year ending June 30, 2021.

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, improves information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Provisions of this statement are effective for financial statements for KDFA's fiscal year ending June 30, 2019.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. It also simplifies the accounting for interest cost incurred before the end of a construction period. Provisions of this statement are effective for financial statements for KDFA's fiscal year ending June 30, 2020.

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

NOTES TO FINANCIAL STATEMENTS

**14. ARBITRAGE REBATES HELD FOR STATE AGENCIES**

The investments of the proceeds of bonds issued by KDFA are subject to certain restrictions under the Internal Revenue Code, which could result in a liability for arbitrage rebate. When it becomes apparent that bonds will likely incur a material liability for arbitrage rebate, the State agencies for which the bonds were issued are required to transfer funds for the estimated rebate liability into a rebate account. Any balance remaining in these accounts after the final rebate amount has been paid to the IRS is transferred in accordance with the bond resolution or indenture. As of June 30, 2018 and 2017, the balance in these State agency restricted rebate accounts was \$295,255 and \$312,949, respectively. As issuer of the bonds, KDFA is legally responsible for payment of any arbitrage rebate. However, the likelihood is not probable that KDFA will need to fund the liability; therefore, this restricted cash and the corresponding liability is not reflected on the balance sheet.

**15. SUBSEQUENT EVENTS**

KDFA has issued two special obligation bonds subsequent to June 30, 2018:

| Name                             | Principal<br>Amount | Series           | Type  | Issued     |
|----------------------------------|---------------------|------------------|---|------------|
| Village Shalom Project           | \$ 60,585,000       | 2018A &<br>2018B | Private Activity<br>Revenue Bond                        | 07/16/2018 |
| Turtle Hill Townhomes<br>Project | \$ 4,000,000        | 2018D            | Private Activity<br>Multifamily Housing<br>Revenue Bond | 09/13/2018 |

REQUIRED SUPPLEMENTARY INFORMATION

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

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2018

Schedule of Changes in  
Total OPEB Liability

Last Fiscal Year\*

| Measurement Date                          | <u>2018</u><br>June 30, 2017 |
|---|------------------------------|
| <b>Total OPEB liability</b>               |                              |
| Service cost                              | \$ 5,409                     |
| Interest                                  | 2,088                        |
| Benefit payments                          | <u>(20,227)</u>              |
| <b>Net change in total OPEB liability</b> | <u>(12,730)</u>              |
| <b>Total OPEB liability - beginning</b>   | <u>77,920</u>                |
| <b>Total OPEB liability - ending</b>      | <u>\$ 65,190</u>             |
| <b>Covered-employee payroll</b>           | <u>\$ 868,803</u>            |

|   |       |
|---|-------|
| <b>Total OPEB liability as a percentage<br/>of covered-employee payroll</b> | 7.50% |
|---|-------|

\*GASB 75 requires presentation of ten years. As of June 30, 2018, only one year of information is available.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. There is no stand-alone financial report for the plan.

*Changes of assumptions.* Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate increased from 2.85% on June 30, 2016 to 3.58% on June 30, 2017.

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

**DEFINED BENEFIT PENSION PLANS**

**SHARE OF THE COLLECTIVE NET PENSION LIABILITY  
Kansas Public Employees Retirement System  
Last Five Years\***

|  | <u>2018</u>   | <u>2017</u>   | <u>2016</u>   | <u>2015</u>   | <u>2014</u>   |
|--|---------------|---------------|---------------|---------------|---------------|
| Measurement date   | June 30, 2017 | June 30, 2016 | June 30, 2015 | June 30, 2014 | June 30, 2013 |
| KDFA's proportion of the collective net pension liability  | 0.0189%       | 0.0194%       | 0.0186%       | 0.0166%       | 0.0174%       |
| KDFA's proportionate share of the collective net pension liability   | \$ 1,272,837  | \$ 1,303,753  | \$ 1,285,093  | \$ 1,058,007  | \$ 1,264,104  |
| KDFA's covered payroll   | \$ 868,803    | \$ 830,945    | \$ 795,550    | \$ 726,959    | \$ 753,634    |
| KDFA's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll | 147%          | 157%          | 162%          | 146%          | 168%          |
| Plan fiduciary net position as a percentage of the total pension liability   | 67.12%        | 65.10%        | 64.95%        | 66.60%        | 59.94%        |

\* GASB 68 requires presentation of ten years. As of June 30, 2018, only five years of information is available.

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

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

**DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**SCHEDULE OF KDFA'S CONTRIBUTIONS  
Kansas Public Employees Retirement System  
Last Ten Fiscal Years**

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|  | <u>2018</u>      | <u>2017</u>     | <u>2016</u>     | <u>2015</u>     | <u>2014</u>     | <u>2013</u>     | <u>2012</u>     | <u>2011</u>     | <u>2010</u>     | <u>2009</u>     |
|--|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Contractually required contribution                                  | \$ 102,252       | \$ 93,917       | \$ 90,657       | \$ 80,621       | \$ 74,659       | \$ 70,616       | \$ 67,148       | \$ 62,514       | \$ 55,797       | \$ 49,556       |
| Contributions in relation to the contractually required contribution | <u>(102,252)</u> | <u>(93,917)</u> | <u>(90,657)</u> | <u>(80,621)</u> | <u>(74,659)</u> | <u>(70,616)</u> | <u>(67,148)</u> | <u>(62,514)</u> | <u>(55,797)</u> | <u>(49,556)</u> |
| Contribution deficiency (excess)                                     | <u>\$ -</u>      | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>     | <u>\$ -</u>     |
| KDFA's covered-employee payroll <sup>^</sup>                         | \$ 851,388       | \$ 868,803      | \$ 830,945      | \$ 795,550      | \$ 726,959      | \$ 753,634      | \$ 765,661      | \$ 765,164      | \$ 737,081      | \$ 710,983      |
| Contributions as a percentage of covered-employee payroll            | 12.01%           | 10.81%          | 10.91%          | 10.13%          | 10.27%          | 9.37%           | 8.77%           | 8.17%           | 7.57%           | 6.97%           |

<sup>^</sup>Covered payroll is measured as of the fiscal year end, the most recent of which was June 30, 2018.

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

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

**DEFINED BENEFIT PENSION PLANS (CONTINUED)**

*Changes in benefit terms for KPERS.* Effective January 1, 2014, KPERS Tier 1 member's employee contribution rate increased to 5.0% and then on January 1, 2015, will increase to 6.0% with an increase in benefit multiplier to 1.85% for future years of service. For Tier 2 members retiring after July 1, 2012, the cost of living adjustments (COLA) is eliminated, but members will receive a 1.85% multiplier for all years of service.

January 1, 2015, the KPERS 3 cash balance plan became effective. Members enrolled in this plan are ones first employed in a KPERS covered position on or after January 1, 2015, or KPERS 1 or KPERS 2 members who left employment before vesting and returned to employment on or after January 1, 2015. The retirement benefit is an annuity based on the account balance at retirement.

For the state fiscal year 2017, the Legislature changed the working after retirement rules for members who retire on or after January 1, 2018. The key changes to the working after retirement rules were to lengthen the waiting period for KPERS members to return to work from 60 days to 180 days for members who retire before attaining age 62, remove the earnings limitation for all retirees and establish a single-employer contribution schedule for all retirees.

*Changes in assumptions for KPERS.* As a result of the experience study completed in November 2016, there were several changes made to the actuarial assumptions and methods since the prior valuation. The changes that impact all groups were effective December 31, 2016 and include:

- The price inflation assumption was lowered from 3.00% to 2.75%.
- The investment return assumption was lowered from 8.00% to 7.75%.
- The general wage growth assumption was lowered from 4.00% to 3.50%.
- The payroll growth assumption was lowered from 4.00% to 3.00%.

Changes from the November 2016 experience study that impacted individual groups are listed below:

**KPERS:**

- The post-retirement healthy mortality assumption was changed to the RP-2014 Mortality Table, with adjustments to better fit the observed experience for the various KPERS groups. The most recent mortality improvement scale, MP-2016, is used to anticipate future mortality improvements in the valuation process through the next experience study.
- The active member mortality assumption was modified to also be based on the RP-2014 Employee Mortality Table with adjustments.
- The retirement rates for the select period (when first eligible for unreduced benefits under Rule of 85) were increased, but all other retirement rates were decreased.
- Disability rates were decreased for all three groups.
- The termination of employment assumption was increased for all three groups.
- The interest crediting rate assumption for KPERS 3 members was lowered from 6.50% to 6.25%.

## SUPPLEMENTARY INFORMATION

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
A COMPONENT UNIT OF THE STATE OF KANSAS  
SPECIAL OBLIGATION BONDS  
Years Ended June 30, 2018 and 2017**

| Name  | Original<br>Principal<br>Amount | Series   | Type of Bonds                 | Balance at<br>6/30/2018 | Balance at<br>6/30/2017 |
|---|---------------------------------|----------|-------------------------------|-------------------------|-------------------------|
| Kansas Board of Regents – Emporia State University Student Recreation Facility Project                    | \$ 2,805,000                    | 2001B    | Revenue Bonds                 | \$ --                   | \$ 795,000              |
| Kansas Public Employees Retirement System   | 500,000,000                     | 2004C    | Revenue Bonds                 | 378,300,000             | 393,075,000             |
| Kansas Board of Regents – Scientific Research & Development Facilities Projects: Kansas State University  | 20,980,000                      | 2005D-1  | Revenue Bonds                 | 5,425,000               | 6,630,000               |
| Kansas Board of Regents – Scientific Research & Development Facilities Projects: Wichita State University | 9,180,000                       | 2005D-4  | Revenue Bonds                 | --                      | 870,000                 |
| Kansas Board of Regents – Emporia State University Towers Residential Complex Improvement Project         | 8,930,000                       | 2005F    | Revenue Bonds                 | --                      | 5,235,000               |
| Kansas Department of Administration – Comprehensive Transportation Program                                | 209,490,000                     | 2006A    | Revenue Bonds                 | --                      | 10,230,000              |
| Kansas Department of Administration – Capitol Restoration Phase V   | 27,505,000                      | 2007K-1  | Revenue Bonds                 | 2,730,000               | 4,005,000               |
| Kansas Adjutant General – Great Plains Joint Training Facility  | 9,170,000                       | 2007K-2A | Revenue Bonds                 | 910,000                 | 1,335,000               |
| Kansas Adjutant General – Armories Renovation Phase VI  | 3,170,000                       | 2007K-2B | Revenue Bonds                 | 315,000                 | 460,000                 |
| Kansas Department of Corrections – Correctional Infrastructure  | 19,610,000                      | 2007K-3  | Revenue Bonds                 | 1,945,000               | 2,855,000               |
| Kansas Board of Regents – Kansas State University Student Life Center Salina Campus                       | 1,600,000                       | 2008D    | Revenue Bonds                 | 1,600,000               | 1,600,000               |
| Kansas Department of Transportation – Communication System Lease Program                                  | 14,199,600                      | 2008G    | Revenue Bonds                 | 339,000                 | 568,200                 |
| Kansas Department of Administration – Capitol Restoration Phase VI  | 38,995,000                      | 2008L-1  | Revenue Bonds                 | 1,800,000               | 3,530,000               |
| Kansas Adjutant General – Refund BAN 2008-2, Army National Guard Armories Renovation Project Phase VII    | 3,195,000                       | 2008L-2  | Revenue Bonds                 | 150,000                 | 290,000                 |
| Kansas Department of Corrections – Refund BAN 2008-1, Prison Expansion Project                            | 1,075,000                       | 2008L-3  | Revenue Bonds                 | 125,000                 | 245,000                 |
| Kansas Board of Regents – University of Kansas School of Pharmacy   | 21,070,000                      | 2008L-4  | Revenue Bonds                 | 975,000                 | 1,910,000               |
| Kansas Department of Transportation – Revolving Loan Fund Program   | 30,950,000                      | 2009 TR  | Revolving Funds Revenue Bonds | --                      | 15,805,000              |
| Kansas Department of Administration – Refunding Revenue Bonds   | 3,825,000                       | 2009A    | Refunding Revenue Bonds       | 3,330,000               | 3,460,000               |

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
A COMPONENT UNIT OF THE STATE OF KANSAS  
SPECIAL OBLIGATION BONDS  
Years Ended June 30, 2018 and 2017**

| Name   | Original<br>Principal<br>Amount | Series        | Type of Bonds                                 | Balance at<br>6/30/2018 | Balance at<br>6/30/2017 |
|--|---------------------------------|---------------|---|-------------------------|-------------------------|
| Kansas Department of Administration – Taxable Refunding Revenue Bonds  | 515,000                         | 2009B         | Taxable Refunding Revenue Bonds               | 115,000                 | 225,000                 |
| Kansas Department of Commerce – Investments in Major Projects and Comprehensive Training (“IMPACT”) Program                            | 49,425,000                      | 2009F         | Revenue Bonds                                 | 7,085,000               | 13,895,000              |
| Kansas Board of Regents – Refund BAN 2008-3, Pittsburg State University Student Health Center Project                                  | 825,000                         | 2009G         | Revenue Bonds                                 | 380,000                 | 435,000                 |
| Kansas Board of Regents – Refunds BAN 2009-1, Pittsburg State University Housing System Improvement Project                            | 13,460,000                      | 2009H-2 (BAB) | Taxable Revenue Bonds - (Build America Bonds) | 11,730,000              | 12,185,000              |
| Kansas Board of Regents – Refunds BAN 2009-2, Pittsburg State University Parking System Project  | 3,880,000                       | 2009J-2 (BAB) | Taxable Revenue Bonds - (Build America Bonds) | 3,130,000               | 3,325,000               |
| Kansas Board of Regents – Kansas State University Child Care Facility Project  | 4,610,000                       | 2009K-1       | Revenue Bonds                                 | 4,610,000               | 4,610,000               |
| Kansas Board of Regents – Kansas State University Child Care Facility Project  | 1,530,000                       | 2009K-2       | Taxable Revenue Bonds                         | 795,000                 | 930,000                 |
| Kansas Department of Administration - Eisenhower Bldg. (Refunds 2002J); Capitol Restoration; Debt Restructure-SGF (Current Refundings) | 62,310,000                      | 2009M-1       | Revenue Bonds - Tax Exempt                    | 38,560,000              | 41,815,000              |
| Kansas Board of Regents - University of Kansas School of Pharmacy Tax Exempt   | 13,515,000                      | 2009M-1       | Revenue Bonds - Tax Exempt                    | 4,715,000               | 6,140,000               |
| Kansas Department of Wildlife & Parks - Office Space   | 730,000                         | 2009M-1       | Revenue Bonds - Tax Exempt                    | 240,000                 | 310,000                 |
| Kansas Department of Administration - Capitol Restoration  | 21,295,000                      | 2009M-2       | Taxable Revenue Bonds - (Build America Bonds) | 25,795,000              | 25,795,000              |
| Kansas Board of Regents - University of Kansas School of Pharmacy Tax Exempt   | 18,135,000                      | 2009M-2       | Taxable Revenue Bonds - (Build America Bonds) | 13,635,000              | 13,635,000              |
| Kansas Department of Wildlife & Parks - Office Space   | 930,000                         | 2009M-2       | Taxable Revenue Bonds - (Build America Bonds) | 930,000                 | 930,000                 |
| Kansas Department of Administration - General Fund Debt Restructure (Refundings)   | 10,050,000                      | 2009N         | Taxable Revenue Bonds                         | 7,025,000               | 7,835,000               |
| Kansas Board of Regents – University of Kansas Housing System Project  | 23,700,000                      | 2010A         | Revenue Bonds                                 | 16,755,000              | 17,920,000              |
| University of Kansas - Energy Conservation Program   | 21,650,000                      | 2010B         | Revenue Bonds                                 | 13,270,000              | 14,530,000              |
| Kansas Department of Commerce – IMPACT Program   | 52,755,000                      | 2010C         | Revenue Bonds                                 | 13,800,000              | 20,210,000              |

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
A COMPONENT UNIT OF THE STATE OF KANSAS  
SPECIAL OBLIGATION BONDS  
Years Ended June 30, 2018 and 2017**

| Name  | Original<br>Principal<br>Amount | Series              | Type of Bonds  | Balance at<br>6/30/2018 | Balance at<br>6/30/2017 |
|---|---------------------------------|---------------------|--|-------------------------|-------------------------|
| SRS - Larned State Hospital   | 29,090,000                      | 2010E-1.5           | Revenue Bonds  | 17,215,000              | 20,225,000              |
| Kansas Department of Administration. - SGF Debt Restructure<br>(Current) & Economic Refundings (Adv.)         | 30,540,000                      | 2010E-1.1-1.4       | Revenue Bonds - Tax Exempt                                       | 15,260,000              | 18,035,000              |
| Kansas Department of Administration. - National Bio-&Agro<br>Defense Facility Taxable (Build America Bonds)   | 24,530,000                      | 2010E-2             | Taxable Revenue Bonds (Build<br>America Bonds)                   | 22,590,000              | 24,110,000              |
| Kansas Department of Administration - NBADF & SGF<br>Restructuring. (Current Ref. 2004C)                      | 18,400,000                      | 2010F               | Taxable Revenue Bonds  | 8,820,000               | 9,285,000               |
| Kansas Board of Regents – Kansas State University Student<br>Recreation Complex Expansion Project             | 20,050,000                      | 2010G-2             | Taxable Revenue Bonds - (Build<br>America Bonds)                 | 18,990,000              | 19,525,000              |
| Emporia State University - Student Union Project  | 14,765,000                      | 2010J               | Revenue Bonds  | 9,955,000               | 10,605,000              |
| Kansas Board of Regents - University of Kansas Edwards Campus<br>(Refunds 2002K-Partial)                      | 3,615,000                       | 2010K-1             | Revenue Bonds  | 2,490,000               | 2,935,000               |
| Kansas Board of Regents - University of Kansas Medical Center<br>Parking Facilities                           | 7,190,000                       | 2010K-2             | Taxable Revenue Bonds - Taxable<br>(Build America Bonds)         | 6,380,000               | 6,655,000               |
| Kansas Board of Regents – University of Kansas Edwards Campus<br>Building No. 4                               | 14,865,000                      | 2010M-2             | Taxable Sales Tax Revenue Bonds<br>- (Build America Bonds)       | 12,225,000              | 13,560,000              |
| Kansas Department of Administration - Capitol Restoration, Phase<br>VIII                                      | 37,015,000                      | 2010 O-2            | Taxable Revenue Bonds - (Build<br>America Bonds)                 | 28,055,000              | 29,935,000              |
| State of Kansas Projects - Adj. General - Armories Renovations,<br>Phase VIII                                 | 2,930,000                       | 2010 O-2            | Taxable Revenue Bonds - (Build<br>America Bonds)                 | 2,220,000               | 2,370,000               |
| Kansas Board of Regents - University of Kansas Clinical Research<br>Center Project                            | 11,980,000                      | 2010P-2             | Taxable Sales Tax Revenue Bonds<br>- (Build America Bonds)       | 11,255,000              | 11,980,000              |
| Kansas Department of Health and Environment - Kansas<br>Revolving Funds (Drinking Water-Public Water Supply)  | 61,510,000                      | 2010 SRF-1          | Revolving Funds Revenue Bonds                                    | 36,815,000              | 41,960,000              |
| Kansas Department of Health and Environment - Kansas<br>Revolving Funds (Clean Water-Water Pollution Control) | 83,530,000                      | 2010 SRF-1          | Revolving Funds Revenue Bonds                                    | 56,540,000              | 63,830,000              |
| Kansas Department of Health and Environment - Kansas<br>Revolving Funds (Clean Water-Water Pollution Control) | 60,520,000                      | 2010 SRF-2<br>(BAB) | Taxable Revolving Funds Revenue<br>Bonds - (Build America Bonds) | 60,520,000              | 60,520,000              |
| Kansas State University Projects - Qualified Energy Conservation<br>Bonds (QECCB)                             | 17,815,000                      | 2010U-1             | Taxable Revenue Bonds -<br>(Qualified Energy Conservation        | 10,975,000              | 12,115,000              |
| Kansas State University Projects  | 7,365,000                       | 2010U-2             | Revenue Bonds  | 2,345,000               | 2,950,000               |

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
A COMPONENT UNIT OF THE STATE OF KANSAS  
SPECIAL OBLIGATION BONDS  
Years Ended June 30, 2018 and 2017**

| Name  | Original<br>Principal<br>Amount | Series          | Type of Bonds                 | Balance at<br>6/30/2018 | Balance at<br>6/30/2017 |
|---|---------------------------------|-----------------|-------------------------------|-------------------------|-------------------------|
| Kansas Department of Administration - Capitol Restoration, Phase IX                                       | 53,780,000                      | 2011B           | Revenue Bonds                 | 38,605,000              | 40,865,000              |
| University of Kansas - Housing System Project   | 13,450,000                      | 2011C           | Revenue Bonds                 | 10,720,000              | 11,135,000              |
| Pittsburg State University Projects   | 9,465,000                       | 2011D           | Revenue Bonds                 | 3,780,000               | 4,675,000               |
| Kansas Department of Health and Environment - Kansas Revolving Funds (Drinking Water-Public Water Supply) | 49,880,000                      | 2011 SRF (DW-2) | Revolving Funds Revenue Bonds | 49,880,000              | 49,880,000              |
| Kansas State University Projects  | 16,300,000                      | 2011G           | Revenue Bonds                 | 13,350,000              | 13,740,000              |
| Kansas Department of Commerce - IMPACT Program  | 109,135,000                     | 2011K           | Revenue Bonds                 | 89,155,000              | 95,050,000              |
| Wichita State University Projects - Rhatigan Student Center   | 21,730,000                      | 2012A-1         | Revenue Bonds                 | 12,425,000              | 14,170,000              |
| Wichita State University Projects - Refund 2002P Housing System Renov. Project                            | 5,880,000                       | 2012A-2         | Revenue Bonds                 | 2,255,000               | 2,930,000               |
| University of Kansas - Refund: 1999C; 2002A-2; & 2002K  | 7,370,000                       | 2012D-1         | Refunding Revenue Bonds       | 195,000                 | 385,000                 |
| University of Kansas Medical Center - Refund: 2003C-2; & 2003J-1  | 41,830,000                      | 2012D-2         | Refunding Revenue Bonds       | 37,325,000              | 39,615,000              |
| Kansas State University - Energy Conservation (General Pledge)  | 17,205,000                      | 2012F           | Revenue Bonds                 | 13,950,000              | 14,645,000              |
| Kansas State University - Refund: 2003C-1 University Research & Development                               | 23,510,000                      | 2012H-1         | Refunding Revenue Bonds       | 22,755,000              | 22,850,000              |
| Kansas State University - Refund: 2003J-1 Energy Conservation   | 12,460,000                      | 2012H-2         | Refunding Revenue Bonds       | 7,685,000               | 8,940,000               |
| Kansas Department of Administration - Capital Restoration   | 10,840,000                      | 2013A           | Revenue Bonds                 | 8,900,000               | 9,295,000               |
| Kansas Department of Administration - NBAF  | 41,795,000                      | 2013A           | Revenue Bonds                 | 34,365,000              | 35,895,000              |
| Kansas State Fair (Ref 2004A-2)   | 6,225,000                       | 2013A           | Revenue Bonds                 | 4,315,000               | 4,925,000               |
| Kansas Department of Administration - Capital Restoration (Ref 2004G-1)                                   | 11,770,000                      | 2013A           | Revenue Bonds                 | 7,585,000               | 8,660,000               |
| Kansas Department of Wildlife & Parks - Wildlife and Parks  | 1,255,000                       | 2013A           | Revenue Bonds                 | 1,035,000               | 1,080,000               |
| Kansas Department of Corrections - JJA (Ref 2001D)  | 23,370,000                      | 2013B           | Refunding Revenue Bonds       | 7,385,000               | 10,840,000              |
| Kansas Department of Aging and Disability Services - KDADS (Ref 2004A-1)                                  | 17,185,000                      | 2013B           | Refunding Revenue Bonds       | 11,435,000              | 13,355,000              |
| University of Kansas - Engineering Project  | 74,370,000                      | 2013G-1         | Revenue Bonds                 | 68,365,000              | 70,465,000              |
| University of Kansas - Refunding Project  | 2,965,000                       | 2013G-2         | Revenue Bonds                 | 675,000                 | 1,305,000               |
| Pittsburg State University Projects - Refund BAN 2012-3 Housing System Project                            | 33,490,000                      | 2014A-1         | Revenue Bonds                 | 30,000,000              | 31,210,000              |

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
A COMPONENT UNIT OF THE STATE OF KANSAS  
SPECIAL OBLIGATION BONDS  
Years Ended June 30, 2018 and 2017**

| Name  | Original<br>Principal<br>Amount | Series  | Type of Bonds           | Balance at<br>6/30/2018 | Balance at<br>6/30/2017 |
|---|---------------------------------|---------|-------------------------|-------------------------|-------------------------|
| Pittsburg State University Projects - Refund 2003A-1 and Refund 2004D                   | 1,685,000                       | 2014A-2 | Refunding Revenue Bonds | 950,000                 | 1,205,000               |
| University of Kansas Medical Center - Energy Conservation Project                       | 2,423,400                       | 2014B   | Revenue Bonds           | 489,439                 | 976,443                 |
| University of Kansas - 2005E-1 Refunding  | 55,310,000                      | 2014C   | Revenue Bonds           | 50,505,000              | 52,310,000              |
| University of Kansas Medical Center - 2005E-2 Refunding                                 | 1,345,000                       | 2014C   | Revenue Bonds           | 1,055,000               | 1,205,000               |
| Kansas State University - College of Engineering Project, Refund 2005A and Refund 2007A | 18,615,000                      | 2014D-1 | Revenue Bonds           | 14,730,000              | 15,730,000              |
| Kansas State University - Residence/Dining and 2005A & 2007A                            | 114,935,000                     | 2014D-2 | Revenue Bonds           | 107,255,000             | 110,480,000             |
| State of Kansas Projects - University of Kansas Medical Education Building              | 21,795,000                      | 2015A   | Revenue Bonds           | 21,020,000              | 21,795,000              |
| State of Kansas Projects - KWO John Redmond Reservoir                                   | 17,390,000                      | 2015A   | Revenue Bonds           | 14,830,000              | 15,715,000              |
| Kansas Department of Administration - 2005H Refunding                                   | 47,390,000                      | 2015A   | Revenue Bonds           | 39,820,000              | 43,780,000              |
| Kansas Department of Administration - 2006A Refunding                                   | 108,945,000                     | 2015A   | Revenue Bonds           | 108,945,000             | 108,945,000             |
| Kansas Department of Administration - 2006L Refunding                                   | 5,430,000                       | 2015A   | Revenue Bonds           | 4,865,000               | 5,430,000               |
| Kansas Department of Administration - 2007K Refunding                                   | 29,525,000                      | 2015A   | Revenue Bonds           | 29,525,000              | 29,525,000              |
| Kansas State University - Chill Plant   | 53,650,000                      | 2015B   | Revenue Bonds           | 48,320,000              | 50,185,000              |
| Kansas State University - 2005A Refunding   | 800,000                         | 2015B   | Revenue Bonds           | 710,000                 | 740,000                 |
| Kansas State University - 2007A Refunding   | 7,415,000                       | 2015B   | Revenue Bonds           | 6,725,000               | 6,735,000               |
| State of Kansas Project (NBAF) - \$203,585,000  | 203,585,000                     | 2015G   | Revenue Bonds           | 196,335,000             | 203,585,000             |
| State of Kansas--KPERs (Taxable) - \$1,005,180,000                                      | 1,005,180,000                   | 2015H   | Taxable Revenue Bonds   | 966,550,000             | 986,880,000             |
| PSU - 2005D-5 Refunding   | 1,500,000                       | 2015K   | Refunding Revenue Bonds | 1,006,069               | 1,253,785               |
| PSU - Refinance 2002 Lease purchase agreement   | 2,135,766                       | 2015M   | Refunding Revenue Bonds | 1,536,839               | 1,837,377               |
| KSU - Student Union   | 24,275,000                      | 2016A   | Revenue Bonds           | 22,530,000              | 23,445,000              |
| KSU - Seaton Hall   | 59,000,000                      | 2016A   | Revenue Bonds           | 55,585,000              | 57,395,000              |
| KSU - Refund 2007H  | 14,540,000                      | 2016A   | Revenue Bonds           | 13,495,000              | 14,045,000              |
| KUMC Parking #5   | 45,330,000                      | 2016C   | Revenue Bond            | 44,050,000              | 45,330,000              |
| FHSU - 2016B Project and Refunding 2005G and 20033-D-2                                  | 31,115,000                      | 2016B   | Revenue Bond            | 29,315,000              | 30,595,000              |
| State of Kansas Refundings (refunds 2007M & 2008L)                                      | 51,500,000                      | 2016H   | Refunding Revenue Bonds | 51,165,000              | 51,500,000              |

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
A COMPONENT UNIT OF THE STATE OF KANSAS  
SPECIAL OBLIGATION BONDS  
Years Ended June 30, 2018 and 2017**

| Name  | Original<br>Principal<br>Amount | Series         | Type of Bonds                 | Balance at<br>6/30/2018 | Balance at<br>6/30/2017 |
|---|---------------------------------|----------------|-------------------------------|-------------------------|-------------------------|
| Wichita State University - Parking Garage & 2003C Refunding | 9,245,000                       | 2016J          | Refunding Revenue Bonds       | 8,840,000               | 9,100,000               |
| KU Projects - 2006B Refunding                               | 5,505,000                       | 2017A          | Revenue Bonds                 | 3,060,000               | 4,280,000               |
| KU Projects - 2007E Refunding                               | 3,265,000                       | 2017A          | Revenue Bonds                 | 2,700,000               | 2,970,000               |
| KU Projects - Corbin Hall Renovation                        | 13,775,000                      | 2017A          | Revenue Bonds                 | 13,775,000              | 13,775,000              |
| KU Projects - EEEEC Building                                | 24,540,000                      | 2017A          | Revenue Bonds                 | 23,975,000              | 24,540,000              |
| KU Projects - Health Ed Building                            | 20,425,000                      | 2017A          | Revenue Bonds                 | 19,955,000              | 20,425,000              |
| K-State Energy Projects Salina                              | 2,883,500                       | 2017B          | Revenue Bonds                 | 2,883,500               | 2,883,500               |
| ESU Projects - New Money                                    | 31,375,000                      | 2017D (1)      | Revenue Bonds                 | 31,375,000              | --                      |
| ESU Projects - 2001B Refunding                              | 570,000                         | 2017D (2)      | Revenue Bonds                 | 405,000                 | --                      |
| ESU Projects - 2005F Refunding                              | 4,130,000                       | 2017D (3)      | Revenue Bonds                 | 4,035,000               | --                      |
| K-State Electrical Distribution Upgrades                    | 8,100,000                       | 2017E          | Revenue Bonds                 | 7,600,000               | --                      |
| KDHE Clean Water - State Match                              | 3,000,000                       | 2018SRF-1 (CW) | Revolving Funds Revenue Bonds | 3,000,000               | --                      |
| KDHE Drinking Water - State Match                           | 2,600,000                       | 2018SRF-1 (DW) | Revolving Funds Revenue Bonds | 2,600,000               | --                      |
|   |                                 |                |                               | <u>\$ 3,314,819,847</u> | <u>\$ 3,452,724,305</u> |

**KANSAS DEVELOPMENT FINANCE AUTHORITY**  
**A COMPONENT UNIT OF THE STATE OF KANSAS**  
**PRIVATE ACTIVITY BONDS**  
**Years Ended June 30, 2018 and 2017**

| Name  | Original Principal<br>Amount | Series    | Type of Bonds  | Balance at<br>6/30/2018 | Balance at<br>6/30/2017 |
|---|------------------------------|-----------|--|-------------------------|-------------------------|
| Metcalf 56 Apartments Project   | \$ 2,510,000                 | 1995J     | Multifamily Housing Refunding Revenue Bonds            | \$ 1,840,000            | \$ 1,900,000            |
| Trails of Garden City and Cottonwood of Liberal Projects  | 8,740,000                    | 1997P     | Multifamily Housing Revenue Bonds                      | 5,734,000               | 6,012,000               |
| Bluffs at Olathe Apartments Project   | 9,500,000                    | 1998X     | Multifamily Housing Revenue Bonds                      | 9,349,000               | 9,500,000               |
| Chesapeake Estates Apartments Project   | 21,500,000                   | 2000M     | Multifamily Housing Refunding Revenue Bonds            | --                      | 17,985,210              |
| Chimney Hills Apartments Project  | 9,575,000                    | 2000U-1   | Multifamily Housing Revenue Bonds                      | 9,096,000               | 9,264,000               |
| Chimney Hills Apartments Project  | 2,925,000                    | 2000U-3   | Subordinate Multifamily Housing Revenue Bonds          | 2,591,000               | 2,639,000               |
| Intercollegiate Athletic Council of Kansas State University   | 3,495,889                    | 2002E     | Athletic Facilities Capital Appreciation Revenue Bonds | 2,612,424               | 3,974,348               |
| Luther Place Apartments   | 7,193,000                    | 2003F     | Multifamily Housing Revenue Bonds                      | 5,009,485               | 5,172,024               |
| Woodland Village  | 8,160,000                    | 2003G     | Multifamily Housing Revenue Bonds                      | 7,038,515               | 7,166,064               |
| Springhill Apartments Project   | 9,285,000                    | 2004B     | Multifamily Housing Revenue Bonds - Variable           | 9,285,000               | 9,285,000               |
| Santa Fe Apartments   | 2,820,000                    | 2004L     | Multifamily Housing Revenue Bonds                      | 1,696,297               | 1,748,976               |
| Spirit AeroSystems, Inc. Project  | 80,000,000                   | 2005J     | Taxable Revenue Bonds                                  | 80,000,000              | 80,000,000              |
| University of Kansas Center for Research  | 17,085,000                   | 2006G     | Revenue Bonds  | --                      | 720,000                 |
| Olathe Good Samaritan Towers  | 6,100,000                    | 2006N     | Multifamily Housing Revenue Bonds                      | 5,273,915               | 5,374,509               |
| Northeast Renaissance Center Apartments   | 3,800,000                    | 2007B-2   | Multifamily Housing Revenue Bonds                      | 841,782                 | 851,010                 |
| Cleveland Chiropractic College  | 16,000,000                   | 2007D     | Education Facility Revenue Bonds                       | 9,674,557               | 10,274,557              |
| Boulevard Apartments  | 25,000,000                   | 2008B     | Multifamily Housing Revenue Bonds                      | 24,775,000              | 22,590,000              |
| Stormont-Vail HealthCare, Inc.  | 28,300,000                   | 2008F     | Healthcare Facilities Refunding Revenue Bonds          | --                      | --                      |
| Applewood Apartments  | 992,000                      | 2008J     | Multifamily Housing Refunding Revenue Bonds            | 992,000                 | 992,000                 |
| Adventist Health System/Sunbelt Obligated Group   | 330,390,000                  | 2009C-ADV | Hospital Revenue Bonds                                 | 119,980,000             | 255,960,000             |
| Adventist Health System/Sunbelt Obligated Group   | 100,000,000                  | 2009D-ADV | Hospital Revenue Bonds                                 | 11,060,000              | 12,100,000              |
| Wichita State University Intercollegiate Athletics Assoc., Inc. - Eck Stadium Improvements - Ph. V-A          | 1,715,000                    | 2009E     | Athletic Facilities Revenue Bonds                      | --                      | 316,000                 |
| Johnson County Education Research Triangle - K-State - Olathe Innovation Campus, Inc. Project                 | 15,225,000                   | 2009L-1   | Sales Tax Revenue Bonds                                | 15,225,000              | 15,225,000              |
| Johnson County Education Research Triangle - K-State - Olathe Innovation Campus, Inc. Project                 | 15,275,000                   | 2009L-2   | Taxable Sales Tax Revenue Bonds                        | 11,365,000              | 11,985,000              |
| University of Kansas Hospital Authority (KUHA)-Medical Office Building Project - University of Kansas, Tenant | 55,250,000                   | 2009O     | Lease Revenue Bonds                                    | 50,670,000              | 51,530,000              |
| Sisters of Charity of Leavenworth Health System (SCLHS)   | 197,895,000                  | 2010A-SCL | Health Facilities Refunding Revenue Bonds              | 20,045,000              | 20,945,000              |
| Adventist Health System/Sunbelt Obligated Group   | 25,000,000                   | 2010C-ADV | Hospital Revenue Bonds                                 | 19,000,000              | 20,000,000              |
| Siemens Energy, Inc.  | 5,300,000                    | 2010L     | Revenue Bonds  | 1,805,200               | 2,135,200               |

**KANSAS DEVELOPMENT FINANCE AUTHORITY  
A COMPONENT UNIT OF THE STATE OF KANSAS  
PRIVATE ACTIVITY BONDS  
Years Ended June 30, 2018 and 2017**

| Name  | Original Principal<br>Amount | Series      | Type of Bonds  | Balance at<br>6/30/2018 | Balance at<br>6/30/2017 |
|---|------------------------------|-------------|--|-------------------------|-------------------------|
| University of Kansas Medical Center Research Institute, Inc. Project              | 30,160,000                   | 2010N       | Revenue Bonds  | 13,590,000              | 16,140,000              |
| Learjet, Inc.   | 27,122,000                   | 2010R       | Revenue Bonds  | --                      | 2,271,000               |
| Lifespace Communities, Inc.   | 25,685,000                   | 2010S       | Revenue Bonds  | 25,685,000              | 25,685,000              |
| Stormont-Vail HealthCare, Inc.  | 57,905,000                   | 2011F       | Health Facilities Revenue Bonds                      | 45,340,000              | 47,465,000              |
| University of Kansas Hospital Authority (KUHA) - (KU Health System) Fixed Rate    | 100,000,000                  | 2011H       | Health Facilities Revenue Bonds                      | 95,035,000              | 97,580,000              |
| University of Kansas Hospital Authority (KUHA) - (KU Health System) Variable Rate | 25,000,000                   | 2011J       | Variable Rate Demand Health Facilities Revenue Bonds | 23,775,000              | 24,400,000              |
| Kansas State University Athletics, Inc. Project                                   | 23,640,000                   | 2012B-2     | Taxable Athletic Facilities Revenue Bonds            | 19,830,000              | 20,880,000              |
| University of Kansas Center for Research, Inc. Project                            | 14,075,000                   | 2012E-1     | Refunding Revenue Bonds                              | 14,075,000              | 14,075,000              |
| University of Kansas Center for Research, Inc. Project                            | 15,600,000                   | 2012E-2     | Taxable Refunding Revenue Bonds                      | 1,960,000               | 4,330,000               |
| Learjet, Inc.   | 6,057,000                    | 2012G       | Revenue Bonds  | --                      | 611,000                 |
| Adventist Health System   | 276,965,000                  | 2012A-ADV   | Hospital Revenue Refunding Bonds                     | 276,965,000             | 276,965,000             |
| Kansas State University Research Park Project                                     | 7,560,000                    | 2013D-1     | Revenue Bonds (Tax Exempt)                           | 7,560,000               | 7,560,000               |
| Kansas State University Research Park Project                                     | 1,475,000                    | 2013D-2     | Revenue Bonds (Taxable)                              | 470,000                 | 810,000                 |
| Village Shalom Obligated Group Project  | 12,155,000                   | 2013E       | Refunding Revenue Bonds                              | 8,742,858               | 9,457,291               |
| Wichita State University Union Corporation  | 55,555,000                   | 2013F-1     | Revenue Bonds (Tax Exempt)                           | 55,080,000              | 55,080,000              |
| Wichita State University Union Corporation  | 8,275,000                    | 2013F-2     | Revenue Bonds (Taxable)                              | 5,100,000               | 6,180,000               |
| Stormont-Vail HealthCare, Inc.  | 40,000,000                   | 2013J       | Health Facilities Revenue Bonds                      | 39,595,000              | 39,710,000              |
| University of Kansas Center for Research, Inc Project                             | 10,580,000                   | 2014E       | Revenue Bonds  | 9,350,000               | 10,195,000              |
| Kansas Athletics, Inc.  | 39,430,000                   | 2014F       | Refunding Revenue Bonds                              | 33,210,000              | 34,830,000              |
| Adventist Health System   | 30,000,000                   | 2014C-ADV   |  | 22,000,000              | 24,000,000              |
| Lifespace Communities, Inc. - Claridge Court Project                              | 5,485,000                    | 2014G       |  | 3,910,000               | 4,460,000               |
| Kansas State University Foundation Project  | 8,930,000                    | 2014M       |  | 6,205,500               | 7,087,000               |
| K-State Athletics, Incorporated Projects (refunds 2011A and 2012B)                | 48,110,000                   | 2016D       |  | 45,930,000              | 46,830,000              |
| YMCA of Greater Kansas City Projects  | 11,010,000                   | 2016E&F     | Various Projects                                     | 11,010,000              | 11,010,000              |
| Madison Street Apartments   | 7,600,000                    | 2016L       | Senior Housing Revenue Bonds                         | 7,600,000               | 7,600,000               |
| Stormont-Vail HealthCare, Inc.  | 102,220,000                  | 2016M,N,O   | Health Facilities Revenue Bonds                      | 97,355,000              | 102,220,000             |
| Village Shalom Project <sup>1</sup>   | 6,250,000                    | 2017C       | Revenue Bonds  | 6,250,000               | 2,416,010               |
| Adventist Health System / Sunbelt Obligated Group Project                         | 45,250,000                   | 2017C-ADV   | Hospital Revenue Bonds                               | 44,500,000              | --                      |
| Hillcrest Apartments, LP  | 6,100,000                    | 2017F-1 F-2 | Senior Housing Revenue Bonds                         | 3,340,961               | --                      |
| Nettleton Manor Apartments Project  | 7,325,000                    | 2018C-1     | Multi-family Revenue Bonds                           | 7,316,675               | --                      |
|   |                              |             |  | <u>\$ 1,355,740,169</u> | <u>\$ 1,485,492,199</u> |

<sup>1</sup>The principal balance at 6/30/17 of \$2,416,010 is the amount of principal advances from the Original Purchaser to the Bond Trustee as of 6/30/17. The full principal amount of \$6,250,000 shall be advanced by the Original Purchaser to the Bond Trustee on or before June 30, 2018.

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

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To the Board of Directors  
**Kansas Development Finance Authority**  
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 Kansas Development Finance Authority (KDFA) which comprise the balance sheet as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2018.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered KDFA'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KDFA's internal control. Accordingly, we do not express an opinion on the effectiveness of KDFA'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 over financial reporting 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 KDFA'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 on compliance and the results of that testing, and not to provide an opinion on the effectiveness of KDFA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KDFA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

September 24, 2018  
Wichita, Kansas