

New Issue: Kansas Development Finance Authority

MOODY'S ASSIGNS A1 RATING TO THE KANSAS ATHLETICS, INCORPORATED'S \$32.7 MILLION ATHLETIC FACILITIES REVENUE BONDS SERIES 2008C; OUTLOOK IS STABLE

UNIVERSITY OF KANSAS & AFFILIATED FOUNDATIONS WILL HAVE APPROXIMATELY \$256 MILLION OF PRO-FORMA RATED DEBT, INCLUDING CURRENT OFFERING

Kansas Development Finance Authority
Higher Education
KS

Moody's Rating

ISSUE	RATING
Athletic Facilities Revenue Bonds, Series 2008C	A1
Sale Amount	\$32,685,000
Expected Sale Date	07/09/08
Rating Description	Public University Revenue

Moody's Outlook Stable

Opinion

NEW YORK, Jul 2, 2008 -- Moody's has assigned an A1 rating to Kansas Athletics, Incorporated's (formerly known as the University of Kansas Athletic Corporation) \$32.7 million of Athletic Facilities Revenue Bonds, Series 2008C. The bonds will be issued through the Kansas Development Finance Authority. Kansas Athletics is a not for profit corporation that operates the intercollegiate athletic program for the University of Kansas on the varsity level.

At this time, Moody's has also affirmed the University of Kansas and related foundation's other debt ratings, including the Aa2 issuer rating on the University. The ratings and debt service coverage levels are detailed at the end of this report. The rating outlook is stable.

USE OF PROCEEDS: Series 2008C proceeds will be used for various capital improvements to athletic facilities, pay the costs of issuance, and fund a debt service reserve fund.

LEGAL SECURITY: The Series 2008C bonds are a general obligation of Kansas Athletics with a security interest in the Revenues of the Corporation. The Bonds are further secured by a debt service reserve fund that will be funded by bond proceeds.

INTEREST RATE DERIVATIVES: None

STRENGTHS - KANSAS ATHLETICS

* Strong connection between the Kansas Athletics and the University of Kansas (Issuer level rating of Aa2). Kansas Athletics operates the intercollegiate athletic program for the University of Kansas on the varsity level and is presented as a blended component unit in the University's financial statements.

* Healthy fundraising of the Corporation, with average annual gift revenue of nearly \$23 million over the past three years. Gift revenue supports capital improvements as well as endowment growth for athletic programs of the University.

* Good coverage of debt service requirements from pledged revenues, with net pledged revenues in 2008 of \$14.2 million (based on preliminary unaudited information) providing over 4 times coverage of maximum debt service requirements. Net pledged revenues are projected to provide 1.7 times coverage of maximum annual debt service going forward.

CHALLENGES - KANSAS ATHLETICS

* Potential volatility of pledged revenues, with annual operating revenue largely dependent on the success and popularity of the men's basketball and football teams.

* Concentrated donor base, with nearly 50% of contributions receivable from two donors in fiscal 2007. In addition, these donors also represent nearly one-quarter of the Kansas Athletics contributions and grants for FY 2007.

STRONG CONNECTION BETWEEN KANSAS ATHLETICS AND THE UNIVERSITY OF KANSAS:

Kansas Athletics, Incorporated (formerly known as the University of Kansas Athletic Corporation) is a not for profit corporation that operates the intercollegiate athletics program for the University of Kansas on the varsity level. Moody's approach to rating Kansas Athletics' (KA) credit quality includes an assessment of KA's own financial position as well as its relationship with the University of Kansas (issuer rating of Aa2). Because of the close relationship of the two organizations, KA's credit rating would likely be impacted by any changes to the University's own credit quality. KA's Athletics Board of Directors is made up entirely of employees and a student of the University, including the Director of Intercollegiate Athletics and the Chief Business and Financial Planning Officer, ensuring close coordination of University and KA initiatives and priorities. In addition, the University and KA have covenanted that no men's intercollegiate basketball or football games may take place in the county if there is an event of default by KA. This provision enhances the University's and donor interest in supporting KA should the Corporation experience an unexpected revenue shortfall.

HEALTHY FUNDRAISING AND GROWING RESOURCES OF THE CORPORATION:

Kansas Athletics has continued to successfully fundraise for both capital projects and endowment. Annual philanthropic support has averaged nearly \$23 million over the past three years. However, we note that the Corporation has a concentrated donor base, with nearly 50% of contributions receivable from two donors in fiscal 2007. In addition, these donors also represent nearly one-quarter of the Kansas Athletics contributions and grants for FY 2007.

In FY 2007, the Corporation maintained a permanently restricted endowment of more than \$34 million invested with the Kansas University Endowment Association. The Corporation's permanently restricted endowment has increased by 28% since fiscal 2005. The amounts on deposit with the Endowment Association represent restricted contributions to be used for athletic scholarships and support for sport activity expenses.

HEALTHY DEBT SERVICE COVERAGE FROM PLEDGED REVENUES:

The pledged revenues of the Corporation are expected to continue generating healthy debt service coverage given successful fundraising, and strong demand for the athletic events of the University of Kansas. The Corporation's primary revenue sources include ticket sales (\$16.5 million), conference revenue and contracts (\$14 million), and unrestricted gifts (\$10.7 million). The University of Kansas is a member of the prestigious Big 12 Conference which has one of the most comprehensive regional and national television agreements in the country, including television packages with three stations. Although athletics revenues have the potential to be volatile, rising and falling somewhat with the success of a particular season, Kansas Athletics has consistently generated sufficient revenues to support operating expenses and debt service. Net pledged revenues are expected to provide over 4 times coverage of maximum annual debt service (MADS) based on preliminary unaudited fiscal 2008 data and are projected to provide 1.7 times coverage of pro-forma MADS over the life of the bonds.

STRENGTHS - UNIVERSITY OF KANSAS

* Sound market position as the State of Kansas' (Aa1 issuer rating) flagship public university, with fall 2007 enrollment of 26,749 full-time equivalent students (FTEs) across undergraduate, graduate and professional programs, and a solid research base, with nearly \$180 million in research expenses in FY 2007.

* Historically moderate balance sheet leverage profile, with modest use of debt funding and manageable future borrowing plans. Total financial resources of \$1.6 billion provide a strong cushion to pro-forma debt of \$317.2 million (including the current borrowing and an additional \$34 million of debt likely to be issued within a year), providing 5 times coverage based on fiscal 2007.

* Healthy financial resource growth (\$1.6 billion of total financial resources in FY 2007, an increase of 14% over the prior year), stemming from solid philanthropic support, improved investment returns in recent years, and favorable operating performance.

* Favorable operating performance and management of various pledged revenue streams expected to continue. Annual operating performance has averaged 2.2% over the past three years, as calculated by Moody's.

CHALLENGES - UNIVERSITY OF KANSAS

- * Potential slowed growth of pledged revenue as the University implements 4-year guaranteed tuition pricing and sets other fee schedules combined with flat enrollment projections will require careful management of debt service coverage levels.
- * Flat demographic projections for the number of high school graduates expected in the state over the next decade potentially pressuring the University's recruitment and retention efforts, with nearly 70% of student enrollment from Kansas.
- * Slowing growth of federal research budget increases competitive pressure for sponsored research activities at a time when the University is seeking to grow its research activities.

MARKET POSITION/COMPETITIVE STRATEGY: STRONG MARKET POSITION AS FLAGSHIP PUBLIC UNIVERSITY SERVING STUDENTS AT THREE CAMPUSES

The University of Kansas' (KU) strong student market position is derived from its role as the state's flagship public university, broad array of undergraduate and graduate programs, growing research programs, and favorable mix of in-state and out-of state students. With total enrollment of over 26,749 full-time equivalent students, KU is the largest of the six public universities governed by the State of Kansas Board of Regents. In addition to the Lawrence campus, the University has medical center campuses in Kansas City and Wichita, and offers graduate programs in Kansas City at the Regents Center. KU graduate and professional programs include a School of Medicine, Pharmacy, Law, and Business.

Despite flat demographic projections for the number of high school graduates in the State, Moody's believes the University of Kansas' position as the flagship public institution will continue to lead to steady enrollment and stable demand. In fall 2007, Kansas residents represented nearly 70% of KU's enrollment. KU primarily competes with other public institutions of higher education including Kansas State University, University of Missouri, University of Colorado, University of Oklahoma, Iowa State University, and the University of Texas.

Despite some moderate weakening of KU's incoming freshman selectivity and yield rates, the University maintains solid demand measures. In fall 2007, KU accepted 78% of applicants with a yield rate on accepted students of 50.5%. The University's guaranteed tuition plan (discussed in the next section) combined with enhanced recruiting efforts will likely contribute to continued solid demand.

The University's research operations are significant, with approximately \$179 million of research expenditures in FY 2007, up 13% from fiscal 2005. KU's externally funded research activities reached over \$207 million in 2007, funded primarily from grants and contracts from the federal government. Grants and contracts account for 21% of the University's operating revenue. Funding historically has been somewhat concentrated with the National Institutes of Health accounting for almost 40 percent of sponsored project expenditures. Other federal support was received from the Departments of Education (17%), Health and Human Services (11%), and the NSF (12%). The slowed growth of the federal research budget has increased competitive pressure for sponsored research activities at a time when the University is seeking to grow its research activities.

OPERATING PERFORMANCE: POSITIVE OPERATING PERFORMANCE AND DIVERSIFIED REVENUE BASE

We expect that the University will continue to generate balanced to favorable operating margins and effectively manage pledged revenue sources to provide sufficient debt service coverage. During the past three years, the University's operating surplus averaged 2.2%, and cash flow on a consolidated basis covered annual debt service an average of 3.4 times. The University's revenue base is diversified, with 31.1% from student charges, 26.4% from state funding, 21% from grants and contracts, 10.5% from patient care revenue, and 10.9% from other sources. Based on projected fiscal 2008 data, we anticipate another operating surplus for FY 2008.

In the fall 2007, the University implemented its 4-Year Tuition Compact for all incoming freshmen. The Tuition Compact sets a fixed tuition rate for all incoming freshman for four years. The goal of the program is to allow students and their families the ability to budget for the next four years, as well as provide an incentive for students to complete their bachelor degree within four years. In addition to the Tuition Compact, the University has created two-year guaranteed housing rates and is posting schedules for fee increases. From a bondholder's perspective, limited increases in tuition, fee, and housing revenues will slow the growth of revenue pledged to bondholders directly. With the University's strong overall performance, growing reserves, and healthy pledged revenue coverage this is currently not a credit concern.

Although the University sustained significant cuts in state operating appropriations earlier in the decade, it received a 4.3% increase in operating appropriations in FY 2008 and expects a 3% increase in FY 2009. Sustained state operating support is a positive credit factor, particularly with slower growth of student generated revenue associated with the University's Tuition Compact. Moody's currently maintains an issuer level rating of Aa1 with a stable outlook for the State of Kansas. Kansas has experienced positive economic

trends recently, reflecting the stabilizing of the State's aerospace manufacturing industry, growth in oil and gas, and favorable agriculture conditions. Health in these sectors combined with strong financial management has allowed Kansas to significantly improve its fund balance levels in fiscal years 2005 through 2007. These strengths are offset by increased debt burdens (primarily funding the State's pension obligation and transportation capital projects), slow population growth, and budgetary pressure from increased funding requirements. For more information on the State of Kansas, see Moody's rating report dated February 27, 2008.

The current financing is backed by the gross revenues of Kansas Athletics, which generated nearly \$14.2 million in net revenues available for debt service during FY 2008. Revenues are projected to return to approximately \$6 million, which would cushion maximum annual debt service by 1.7 times.

The University's other revenue pledges have generally performed well. However, the childcare revenue pledge (Series 1999C) and the Edwards Campus revenue pledge (Series 1997C and 2002K) remain thin compared to the debt service coverage covenants of 1.18 and 1.0 times, respectively. While coverage levels remains thin, both revenue pledges have demonstrated modest improvement in recent years. While Moody's believes the revenue pledge maintains fundamental strength, the University will need to continue to manage fee structures to maintain coverage requirements. If coverage were to fall below covenant levels, the ratings or outlooks could be pressured. For more information on the University's coverage levels on each revenue pledge, please see the Debt Service Coverage section below.

BALANCE SHEET POSITION: MODEST DEBT LEVELS WITH MANAGEABLE NEAR-TERM BORROWING PLANS

The University has relatively low leverage stemming from its historically limited use of debt. Pro-forma debt of \$317.2 million includes debt of component units and affiliated foundations as of June 30, 2008 combined with the current issue and an additional \$34 million of debt likely to be issued within one year. In FY 2007, expendable financial resources of the University and its component units (combined with the Kansas University Endowment Association) of \$1.1 billion covered pro-forma debt by 5 times, a strong cushion compared to similarly rated institutions.

The current borrowing will finance capital improvements to athletic facilities. Near-term borrowing plans incorporated into pro-forma calculations include the renovation of student housing (\$5 million), construction of a parking garage at the Medical Center (\$9 million), \$20 million for an academic building for the Pharmacy school (\$20 million). Management does not have definite borrowing plans beyond the projects listed above. Moody's believes that given the other strong credit fundamentals of the University, as well as the historically low debt position, KU can comfortably absorb these additional borrowing plans at its current rating level.

The financial resources of the University, its component units, and the Endowment Association, have experienced healthy growth, increasing an average of 10% annually over the past five years. The Kansas University Endowment Association serves as the fundraising and fund management foundation for the University. Balance sheet growth has been bolstered by improved investment returns in recent years and solid philanthropic support. While the University is not currently in a campaign, KU and its component units continue to fundraise for strategic investments.

The primary endowment pool is well diversified across asset classes and managers, with an overall allocation of 80 percent equities and 20 percent fixed income. Within the equity portion the investments are further diversified across Domestic Equity (24.5%), International Equity (22.5%), Fixed Income (20%), Commodities and other alternative asset classes (13%), Emerging Markets (7.5%), Hedge Funds (7.5%), and Private Equity (5.0%). The endowment experienced an investment return of 2.4% fiscal year to date through May 31, 2008.

Outlook

The stable outlook for Kansas Athletics, Incorporated is based on expectations of continued healthy philanthropic support, maintenance of a healthy relationship with the University of Kansas, and the stable outlook for the University's own issuer rating. Changes to the University's rating or outlook could impact the rating and outlook for Kansas Athletics.

The stable outlook for the University of Kansas is based on expectations of ongoing balanced operating performance and prudent management of various pledged revenue streams, fundraising success, and moderate additional borrowing.

What Could Change the Rating - UP

Kansas Athletics- Improved credit quality of the University of Kansas coupled with significant growth of financial resources through fundraising and favorable operations and improved coverage of debt service from pledged revenues

University of Kansas- Significant growth of the University's financial resource base through fundraising and positive operations, increased revenue diversity through further growth in research and philanthropic activities coupled with limited additional debt.

What Could Change the Rating - DOWN

Kansas Athletics- Material change in the relationship between the Corporation and the University of Kansas; deterioration of the University of Kansas' credit rating or outlook; deterioration of debt service coverage from pledged revenues

University of Kansas- Failure to generate at least balanced operations, and extensive borrowing beyond current expectations.

KEY INDICATORS (Fall 2007 enrollment; Fiscal 2007 Financial Information)

Total Enrollment: 26,749 full-time equivalent students

Total Pro-Forma Direct Debt: \$317.2 million (including \$34 million of debt to be issued within a year)

Expendable Financial Resources to Pro Forma Debt: 3.6 times

Total Financial Resources to Pro Forma Debt: 5.0 times

Expendable Financial Resources to Operations: 1.1 times

Three-Year Average Operating Margin: 2.2%

Percent of Revenue from State Appropriations: 26.4%

State of Kansas Issuer Rating: Aa1, stable outlook

DEBT SERVICE COVERAGE (based on preliminary unaudited fiscal 2008 data):

Mandatory Student Fee Bonds

-Series 2001 T-2- backed by the collection of Student Union Renovation Fees generated 1.4 times coverage in fiscal 2008 compared to a covenant of 1.15 times.

-Series 2007E- backed by the collection of the Student Recreation and Fitness Center Fee, various program fees charged in connection with the use of the Recreation Center, and payments made by Kansas Athletics produced 2.4 times coverage relative to a covenant of 1.15 times.

Housing Bonds

-Series D 1998, 2002A-1, 2005E-a (Templin Hall), 2005E-1 (Hashinger Hall)- backed by the revenues of the Housing System (including dining system revenue), consisting of over 5,200 beds/units in residence halls and apartment buildings generated 2.24 times coverage relative to a 1.15 covenant.

Parking System Bonds

-Series D 1999, 2001 G-4, and 2006 B- backed by the revenues of the parking system, with over 14,000 parking spaces generated 2.5 times coverage in fiscal 2008 compared to a covenant of 1.15 times

Athletic Corporation Bonds

-Series 2004K and 2008C- backed by the revenues of Kansas Athletics, Inc., with pledged revenues expected to generate 4.14 times coverage of maximum annual debt service requirements in fiscal 2008.

Research Corporation Bonds

-Series 2003C and 2005B- backed by revenue of the University of Kansas Center for Research, with net pledged revenues expected to generate 1.4 times coverage of annual debt service requirements in fiscal 2008.

Medical Center Research Bonds

-Series 1999B and 2001T- backed by sponsored research revenues received by the Medical Center which generated 23.74 times coverage of annual debt service requirements in fiscal 2008.

Edwards (Satellite) Campus Bonds

-Series C 1997 and 2002K- backed by the collection of mandatory student fees for the University of Kansas Edwards Campus and rental fees generated 1.13 times coverage in fiscal 2008 relative to a 1.1 times covenant.

Childcare Center Bonds

-Series C 1999- backed by the Gross Revenues derived from operation of the Facility and the collection of the Student Fees produced 1.18 times coverage in fiscal 2008 compared to the 1.0 times covenant.

RATED DEBT:

Issuer Rating: Aa2

Mandatory Student Fee Bonds

-Series 2001T-2 and 2002A-2: Aa3; insured by Ambac (Ambac's current financial strength rating is Aa3 with a negative outlook)

-Series 2007E: insured by XL Capital (XL Capital's current financial strength rating is B2 with a negative outlook)

Housing Bonds:

-Series 1998D: Aa3; insured by MBIA (MBIA's current financial strength rating is A2 with a negative outlook)

-2002A-1 and 2005E-1: Aa3; insured by Ambac (Ambac's current financial strength rating is Aa3 with a negative outlook)

Parking Bonds:

-Series 1999D and 2001G-4: Aa3

-Series 2006B: Aa3; insured by XL Capital (XL Capital's current financial strength rating is B2 with a negative outlook)

Athletic Corporation Bonds

-2004K and 2008C: A1

Research Corporation Bonds

-Series 2005B: A1; insured by MBIA (MBIA's current financial strength rating is A2 with a negative outlook)

-Series 2003C: Ambac insured (Ambac's current financial strength rating is Aa3 with a negative outlook)

Medical Center Research Bonds

-1999B and 2001T-1: A1

Edwards (Satellite) Campus Bonds

-Series 1997C and 2002K: A1

Child Care Center Bonds:

-Series 1999C: A2; insured by Ambac (Ambac's current financial strength rating is Aa3 with a negative

outlook)

Kansas State Board of Regents Bonds:

- Series 2001U: A1 (pooled rating based on the Series 2001T-1 and 2001T-2 bonds)

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