
**KANSAS WATER POLLUTION CONTROL
REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

**FINANCIAL STATEMENTS
JUNE 30, 2016 and 2015**

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)**

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INDEPENDENT AUDITORS' REPORT

Dr. Susan Mosier
Secretary of Kansas Department
Of Health and Environment
Topeka, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of the Kansas Water Pollution Control Fund (the Fund), an enterprise fund of the State of Kansas, as of and for the years ended June 30, 2016 and June 30, 2015, and the related notes to the financial statements, which collectively comprise the entity'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 auditors' 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2016 and June 30, 2015, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 – Organization and Summary of Accounting Policies, the basic financial statements of the Fund are intended to present the financial position, changes in financial position and cash flows of only that portion of the financial reporting entity of the Fund that is attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the State of Kansas as of June 30, 2016 and the changes in their financial position and their cash flows, where applicable, for the years then ended, in conformity with the accounting principles generally accepted in the United States of America. 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 on pages 3 - 7 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016, on our consideration of the Fund’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
September 15, 2016

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

MANAGEMENT'S DISCUSSION AND ANALYSIS For The Fiscal Years Ended June 30, 2016 and 2015

The Kansas Water Pollution Control Revolving Fund (the Fund) provides financial assistance to Kansas municipalities in the form of loans for the construction of publicly owned wastewater treatment facilities. The Fund is comprised of federal capitalization grants, proceeds of revenue bonds issued to provide required state-matching monies, proceeds of revenue bonds issued to leverage the program and recycled moneys.

In this twenty-seventh year of operations, the Fund continued to grow as shown below.

During the year ended June 30, 2016:

- ❑ The federal fiscal year (FFY) 2015 capitalization grant was amended during FY2016 decreasing the grant award by \$83,000. The amount available for administrative costs was reduced by \$3,320 and the amount available for loan project payments was reduced by \$79,680. The federal fiscal year 2016 capitalization grant in the amount of \$12,060,000 was awarded during FY2016. \$482,400 is available for administrative costs and \$11,577,600 is available for loan project payments.
- ❑ Federal capitalization grant dollars drawn down: \$11,045,759 for loan project payments and \$453,787 for administration expenses.
- ❑ Bonds issued - 2015SRF-1 State Match \$2,500,000
- ❑ Total available for loans - unexpended: \$69,858,115 - \$0 leveraged, \$9,131,265 federal for loans, \$59,973,933 program equity and \$752,917 general
- ❑ Total loan agreements: 463 loans totaling \$1,222,838,359 of which \$1,100,053,052 has been paid in project payments
- ❑ Loan agreements:
 - New loans \$48,501,086 (11 loans)
 - Loan amendments: 12 increase amendments totaling \$11,758,651 and
13 decrease amendments totaling \$7,719,415
- ❑ Disbursements for project costs: \$23,560,519
- ❑ Average monthly disbursements during FY2016: \$1,963,377
- ❑ Average monthly disbursements program-to-date: \$3,416,314
- ❑ Completed projects: 9 totaling \$31,758,639
- ❑ Total revenue bond debt service paid: \$40,797,229

The Fund is reported as an enterprise fund of the State of Kansas. As such, we prepare three basic financial statements, notes to the financial statements and required supplementary information including this Management's Discussion and Analysis (MD&A). The Statement of Net Position presents the assets, deferred outflows, liabilities and deferred inflows of the Fund. Assets consist of cash, interest receivables from loans and investments, investments of idle funds and reserve funds, and loan receivables. Liabilities include revenue bond interest, other accounts payable, arbitrage payable, and revenue bonds payable. Net position includes the federal capitalization grants earned for loan projects and the excess earnings of the Fund's operations since inception.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Position			
	2016	2015	2014
Current and other assets	\$ 144,419,594	\$ 121,551,506	\$ 132,233,219
Noncurrent assets	360,986,570	427,240,749	432,584,307
Total assets	505,406,164	548,792,255	564,817,526
Deferred outflows of resources	4,919,989	5,998,820	7,155,865
Long-term liabilities	154,656,119	187,648,189	219,629,501
Other liabilities	19,103,320	38,436,088	38,819,285
Total liabilities	173,759,439	226,084,277	258,448,786
Restricted net position	336,566,714	328,706,798	313,524,605
Total net position	\$ 336,566,714	\$ 328,706,798	\$ 313,524,605

The decrease in current assets for the year ended June 30, 2015 of \$10.7 million was due in part to a decrease in cash. Project payments this fiscal year were \$35.0 million. In addition, \$4.2 million of loan prepayments were received this fiscal year. There was a \$1.6 million increase in current loans receivable.

The decrease in total liabilities for the year ended June 30, 2015 of \$32.4 million was due mainly to bond debt outstanding decreasing because of bond debt service principal payments during the year of \$33.1 million. Bond interest payable also decreased \$0.3 million due to the decrease in bonds outstanding.

The increase in current assets for the year ended June 30, 2016 of \$22.9 million is due mainly to an increase in current cash and investments. Noncurrent debt service reserve cash of \$9.8 million was deallocated during the year and is now current cash. Additionally, there was an increase in current investments of \$13.1 million and a decrease in noncurrent investments of \$16.8 million. Project payments this fiscal year were \$23.6 million. In addition, \$21.4 million of loan prepayments were received this fiscal year. There was a \$1.8 million decrease in current loans receivable.

The decrease in total liabilities for the year ended June 30, 2016 of \$52.3 million is due mainly to bond debt outstanding decreasing because of bond debt service principal payments during the year of \$31.2 million and the defeasance of \$21.1 million in bonds. This was a cash defeasance with prepayment cash on hand of \$22.5 million used to fund the required escrow account. Bond interest payable also decreased \$0.5 million due to the decrease in bonds outstanding.

All net position of the program has been determined to be restricted net position in accordance with the conditions of the Water Pollution Control capitalization grants and bond covenants.

Prior to the SRF2010 bonds, all bonds issued for this Program are tax-exempt revenue bonds. The Series SRF2010-1 bonds additionally are tax exempt. The Series SRF2010-2 bonds are taxable Build America Bonds and the Series SRF2010-3 bonds are taxable bonds. As a requirement for issuance of tax-exempt bonds, the Internal Revenue Service requires issuers to calculate and remit the amount of earnings attributable to the bonds that are in excess of the cost of the debt. As of June 30, 2016 and 2015, there is no

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MANAGEMENT'S DISCUSSION AND ANALYSIS

rebate liability for the Series 2001, 2004, 2005 and 2010 bonds. The 2014 and 2015 bonds are taxable bonds and are not subject to arbitrage. The Fund's revenue bonds payable totaled \$157,255,000 and \$207,060,000 at June 30, 2016 and 2015, respectively. Please refer to the notes to the financial statements for more information on debt activity.

The Statements of Revenues, Expenses and Changes in Net Position provide information about the Fund resources and uses of those resources. These statements demonstrate that sufficient resources have been generated to cover expenses in fiscal year 2015. The increase in net position as of June 30, 2015 was \$15.2 million. The Fund operating revenues decreased by 9.2% due to a decrease in interest and service fees received on loans. The Fund operating expenses (excluding principal forgiveness expense) decreased by 26.6% due to an decrease in administration expenses. Principal forgiveness increased 37.9%. Nonoperating revenues, including capital contributions, decreased 29.7% due to a decrease in grant draws of \$7.4 million. Nonoperating expenses decreased by 15.1% due to a reduction in interest expense on bonds. The FFY2014 federal capitalization grant in the amount of \$12,656,000 was awarded July 7, 2014. The FFY2015 federal capitalization grant in the amount of \$12,674,000 was awarded June 23, 2015.

The Statements of Revenues, Expenses and Changes in Net Position demonstrate that sufficient resources have been generated to cover expenses in fiscal year 2016. The increase in net position as of June 30, 2016 was \$7.9 million. The Fund operating revenues decreased by 3.7% due to a decrease in interest and service fees received on loans. The Fund operating expenses (excluding principal forgiveness expense) increased by 14.8% due to an increase in administration expenses. Principal forgiveness increased 106.0%. Nonoperating revenues, including capital contributions, decreased 25.1% due to a decrease in grant draws of \$4.6 million. Nonoperating expenses decreased by 7.3% due to a reduction in interest expense on bonds. The FFY2016 federal capitalization grant in the amount of \$12,060,000 was awarded June 14, 2016.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues, Expenses and Changes in Net Position

	2016	2015	2014
Revenues:			
Operating revenues:			
Loans receivable	\$ 10,289,816	\$ 10,783,295	\$ 11,456,165
Grant revenue	449,912	411,825	474,150
Service fee revenue	1,001,536	1,049,491	1,544,429
Other revenue	56,122	0	0
Nonoperating revenues:			
Investment income:			
Bond reserve fund	532,149	549,753	570,437
Other invested funds	505,929	309,140	284,018
Other nonoperating revenue	1,031,043	1,028,825	1,021,060
Total Revenues	<u>13,866,507</u>	<u>14,132,329</u>	<u>15,350,259</u>
Expenses:			
Operating expenses:			
Program administration - federal	449,912	411,825	473,768
Program administration - other	897,282	761,470	1,125,310
Loan principal forgiveness	5,953,841	2,889,821	2,095,931
Nonoperating expenses:			
Bond issuance costs	17,220	18,613	25,130
Bond interest	9,734,095	10,506,104	12,366,085
Total Expenses	<u>17,052,350</u>	<u>14,587,833</u>	<u>16,086,224</u>
Decrease in net position before contributions	(3,185,843)	(455,504)	(735,965)
Capital contributions:			
Capitalization grants, net of recognized administrative grants	11,045,759	15,637,697	23,063,884
Change in net position	7,859,916	15,182,193	22,327,919
Total net position - beginning of year	328,706,798	313,524,605	291,196,686
Total net position - end of year	<u>\$ 336,566,714</u>	<u>\$ 328,706,798</u>	<u>\$ 313,524,605</u>

The Statements of Cash Flows are provided to identify the sources and the uses of cash during the fiscal year and to demonstrate that the Fund has sufficient cash to meet its obligations. The Fund experienced a decrease in cash during the year ended June 30, 2015 of \$16.8 million. The majority of this decrease was due to cash balances being invested and lower loan principal repayments. Additionally, \$3.2 million was due to the deallocation of bond reserve funds. The balance of the decrease is due to routine Program operations.

The Fund experienced an increase in cash during the year ended June 30, 2016 of \$2.4 million. Part of this increase is due to loan principal prepayments and the maturity of investments. The balance of the increase is due to routine Program operations.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Fund has no spending limits and is not subject to any State General Fund appropriations or any other appropriations. Recent issuances of state match bonds have been an internal placement with the State's Pooled Money Investment Board. The next issuance of state match bonds is expected to be in early winter and with a 15-month term to coincide with the debt service payment dates of the Master Financing Indenture bonds. At this time there is no need to leverage further until loan demand increases.

While the financial strength of the Fund does face risk from the overall health of the US and Kansas economies indirectly through the program's borrowers, this risk is mitigated by several factors: first, the program is well capitalized and lightly leveraged at this point in time; second, it is anticipated that the program will receive additional capitalization grants from the EPA; third, the program, through the loan agreements, has a relatively strong security position in the borrowers' financial resources; and finally, the program's history of experiencing no borrower defaults through the prior two economic recessions.

In the fall of 2016, the Fund may defease the remaining outstanding 2001 Series II bonds and the remaining 2005 Series II bonds. This is expected to be a cash defeasance with loan prepayment funds on hand being used to fund the required escrow deposit.

This report is intended to provide financial information about the Kansas Water Pollution Control Revolving Fund to State of Kansas and United States Environmental Protection Agency officials, investors and other interested parties and to discuss the activity and success of the Fund. For additional information you may contact Rod Geisler, Program Manager, Kansas Department of Health and Environment or Martin Eckhardt, Manager, Statewide Agency Audits & Municipal Services, Office of the Chief Financial Officer, Department of Administration.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND
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STATEMENTS OF NET POSITION

	June 30,	
	2016	2015
Assets		
Current assets:		
Cash	\$ 65,261,047	\$ 52,988,840
Investment interest receivable	315,678	398,074
Investments	41,331,263	28,218,447
Loans	34,383,032	36,134,653
Loan interest receivable	2,843,407	3,176,139
Debt service reserve funds-investments	-	318,984
Other receivables	285,167	316,369
Total current assets	144,419,594	121,551,506
Noncurrent assets:		
Restricted cash - arbitrage rebate	250,114	249,254
Restricted cash - loan reserve earnings	372,860	398,142
Investments	2,399,636	19,219,704
Loans	340,041,739	379,476,935
Loan reserve deposits - investments	4,584,065	4,732,768
Loan reserve deposits - cash	3,774,906	3,767,914
Debt service reserve funds-investments	7,411,034	7,411,034
Debt service reserve funds-cash	2,152,216	11,984,998
Total noncurrent assets	360,986,570	427,240,749
Total Assets	505,406,164	548,792,255
Deferred Outflows of Resources		
Deferred amounts on refunding	4,919,989	5,998,820
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	508,999	528,101
Bond interest payable	2,421,521	2,892,397
Revenue bonds payable, current	16,172,800	35,015,590
Total current liabilities	19,103,320	38,436,088
Noncurrent liabilities:		
Loan reserve deposits	8,358,971	8,500,683
Revenue bonds payable, long-term, net	146,297,148	179,147,506
Total noncurrent liabilities	154,656,119	187,648,189
Total Liabilities	173,759,439	226,084,277
Total Net Position	\$ 336,566,714	\$ 328,706,798

See accompanying notes to financial statements.

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STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For the Years Ended June 30,	
	2016	2015
Operating Revenues		
Interest on Loans	\$ 10,289,816	\$ 10,783,295
Grant revenue	449,912	411,825
Service fee revenue	1,001,536	1,049,491
Other revenue	56,122	-
Total Operating Revenues	11,797,386	12,244,611
Operating Expenses		
Program administration-federal	449,912	411,825
Program administration-other	897,282	761,470
Loan principal forgiveness	5,953,841	2,889,821
Total Operating Expenses	7,301,035	4,063,116
Operating Income	4,496,351	8,181,495
Nonoperating Revenues (Expenses)		
Investment income:		
Bond reserve fund	532,149	549,753
Other investment income	505,929	309,140
Capital contributions-capitalization grants net of recognized administrative grants	11,045,759	15,637,697
Interest expense - bonds	(9,734,095)	(10,506,104)
Bond issuance costs	(17,220)	(18,613)
Other nonoperating revenue	1,031,043	1,028,825
Total Nonoperating Revenues (Expenses)	3,363,565	7,000,698
Change in Net Position	7,859,916	15,182,193
Total Net Position - Beginning of Year	328,706,798	313,524,605
Total Net Position - End of Year	\$ 336,566,714	\$ 328,706,798

See accompanying notes to financial statements.

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
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STATEMENTS OF CASH FLOWS

	For the Years Ended June 30,	
	2016	2015
Cash Flows From Operating Activities		
Program administration expenses	\$ (449,912)	\$ (411,825)
Other revenues	68,221	26,016
Service fees received	1,001,536	1,054,191
Service fees paid	(897,282)	(761,470)
Capitalization grant for administrative costs	449,912	411,825
Net Cash Provided By Operating Activities	172,475	318,737
Cash Flows From NonCapital Financing Activities		
Bond principal paid	(31,240,000)	(33,125,000)
Bond interest paid	(10,841,607)	(11,649,149)
Capitalization grant for loans	11,045,759	15,637,697
Bond proceeds, including premium	2,500,000	3,000,000
Bond issuance costs	(17,220)	(18,613)
Payment to bond escrow agent	(21,237,680)	
Other nonoperating revenue	1,031,043	1,028,825
Net Cash Used In Noncapital Financing Activities	(48,759,705)	(25,126,240)
Cash Flows From Investing Activities		
Loan principal collected	58,793,494	39,268,985
Loans disbursed	(23,560,518)	(35,012,861)
Interest received on loans	10,622,548	10,920,286
Proceeds from sales and maturities of investments	51,975,982	42,348,244
Purchase of investments	(48,268,731)	(50,326,683)
Proceeds from sales and maturities of debt service reserve investments	318,984	-
Interest received on investments and debt service reserve funds	1,120,475	743,180
Loan reserve accounts	6,991	34,565
Net Cash Provided By Investing Activities	51,009,225	7,975,716
Net Increase (Decrease) in Cash	2,421,995	(16,831,787)
Cash, Beginning of Year	69,389,148	86,220,935
Cash, End of Year	\$ 71,811,143	\$ 69,389,148
Cash consists of:		
Cash	\$ 65,261,047	\$ 52,988,840
Debt service reserve funds-cash	2,152,216	11,984,998
Restricted cash - arbitrage rebate	250,114	249,254
Loan reserve deposits	3,774,906	3,767,914
Restricted cash - loan reserve earnings	372,860	398,142
	\$ 71,811,143	\$ 69,389,148
Reconciliation of Operating Income To Net Cash Provided By Operating Activities		
Operating income	\$ 4,496,351	\$ 8,181,495
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Loans receivable	41,186,816	7,145,946
Loan interest receivable	332,732	136,990
Other receivables	31,202	4,700
Accounts payable and accrued expenses	(19,102)	26,016
Effect of changes in operating assets and liabilities:		
Loan principal collected	(58,793,494)	(39,268,985)
Loans disbursed	23,560,518	35,012,861
Interest received on loans	(10,622,548)	(10,920,286)
Net Cash Provided By Operating Activities	\$ 172,475	\$ 318,737

See accompanying notes to financial statements.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Description of Program – The Kansas Water Pollution Control Revolving Fund (the Fund) was established pursuant to Kansas Statutes Annotated (K.S.A.) 65-3321 et. seq. in 1988 by the Kansas Legislature. The Fund was created to implement the State of Kansas’ (Kansas or the State) participation under the Federal Clean Water Act as amended by the Federal Water Quality Act of 1987. Under State law, the Secretary of the Kansas Department of Health and Environment (KDHE) administers the Water Pollution Control Revolving Loan Program (the Program). The Federal Act authorizes the Environmental Protection Agency (EPA) to award capitalization grants for deposit into state revolving funds in order to provide financial assistance for constructing publicly owned wastewater treatment facilities. The Program is the response by the State to federal law changes governing the development of publicly owned wastewater treatment works. The State revolving fund may be used to make loans, fund debt service reserves and provide other types of financial assistance to public entities. Initial funding for the Program is to be provided from the federal capitalization grants and proceeds of bonds, which will provide State match funds. The State match funds must be equal to 20% of the federal capitalization grants. The Fund is to be established, maintained and credited with repayments and the Fund equity is to be available in perpetuity for providing such financial assistance.

Loans are made to municipalities from the Fund for eligible project costs as defined by federal and state law and regulations. These costs are primarily construction, planning and design engineering costs and other costs related to a municipal construction project. Kansas Administrative Regulation 28-16-113 establishes the interest rates for the loans, together with fees set for servicing the loans, to be an amount equal to 60% of the previous three months’ average “bond buyers 20 bond index” as published each week for the preceding three months. KDHE administers the aspects of the Program relating to selection of projects and the making of loans to eligible municipalities. The Department of Administration administers the accounting and reporting aspects of the Program relating to the receipt and disbursement of monies within the Fund, including disbursement of loans to municipalities, and billing and collecting of loan repayments. The Kansas Development Finance Authority (KDFA) issues revenue bonds for the State matching funds needed and for leveraged borrowing for the Fund. Monies in the Fund are deposited with the Treasurer of the State of Kansas (the Treasurer) and UMB (the Trustee).

Basis of Accounting – The Fund is an enterprise fund of the State. The financial statements of the Fund have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of accounting refers to when revenues, expenses and the related assets, deferred outflows, liabilities and deferred inflows are recognized in the accounts and reported in the financial statements. Measurement focus refers to what is being measured. The financial statements are prepared on the accrual basis of accounting and on an economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. With this measurement focus, all assets, deferred outflows, liabilities and deferred inflows are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how the Fund meets the cash flow needs of its activities.

Cash – Cash includes balances on deposit with the Treasurer and the Trustee.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

NOTES TO FINANCIAL STATEMENTS

Investments – The Fund generally invests in repurchase agreements and investment agreements. These investments are stated at cost as they are not negotiable or transferable and are not affected by market fluctuations. The Fund also invests in State or municipal debt obligations and commercial paper. These investments are stated at their market value.

Loans and Other Receivables – Receivables include interest earnings, current loan repayments due and loan principal balances outstanding. All receivables are considered collectable; therefore, no allowance account has been established.

Loan Reserve Deposits – The loan reserve deposits have been established as required under certain provisions of certain loan agreements and consist of investments in repurchase agreements, investment agreements and cash. These investments are stated at cost as they are not negotiable or transferable and are not affected by market fluctuations. No trustee is required by the loan agreements. Such loan reserve deposits may only be used to prevent an event of default in the repayment of principal or interest on certain loans.

Debt Service Reserve Fund – The debt service reserve funds were established as required under certain bond resolutions and consist of investments in repurchase agreements and cash. These investments are stated at cost as they are not negotiable or transferable and are not affected by market fluctuations. No trustee is required by the bond resolutions. Contractually, such reserve funds may only be used to prevent a default in the payment of principal or interest on bonds payable.

Premiums and Discounts – The interest method is being used to calculate amortization of premiums and discounts.

Revenues – The Fund revenues consist of operating and nonoperating revenues. Operating revenues include: 1) interest earned on loans, 2) federal grant dollars earned for loan and administrative costs and 3) loan service fees. Nonoperating revenues include investment income on bond reserves and other invested program monies and any other revenues not classified as operating revenues.

Expenses – The Fund expenses consist of operating and nonoperating expenses. Operating expenses include: 1) federal grant moneys for administrative costs and 2) principal forgiveness which is generally recognized upon completion of the project but is occasionally recognized as project payments are disbursed. Nonoperating expenses include: 1) revenue bond interest and 2) revenue bond premium and discount amortized.

Net Position – Net position represents the difference between assets, deferred outflows, liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Currently the fund has no net investment in capital assets. Net position is reported as restricted when there are external limitations imposed on their use. All assets of the program have been determined to be restricted assets in accordance with the conditions of the Clean Water State Revolving Fund EPA capitalization grants and bond covenants. Restricted net position includes EPA capitalization grants restricted for loans to municipalities and for program administration expenses. The amount of capitalization grants restricted for program administration is being recognized as revenue when earned (see Note 7).

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position 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) until then. The Fund only has one item that qualifies for reporting in this category. It is the deferred amounts on refunding reported in the statement of net position. A deferred amount on refunding results from the difference in

KANSAS WATER POLLUTION CONTROL REVOLVING FUND (AN ENTERPRISE FUND OF THE STATE OF KANSAS)

NOTES TO FINANCIAL STATEMENTS

the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the remaining life of the old bonds or the life of the new bonds.

In addition to liabilities, the statement of net position 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. The Fund has no items that qualify for reporting in this category.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 estimates.

Current Year GASB Statement Implementation – For the year ended June 30, 2016, the Water Pollution Control Revolving Fund adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which is effective for financial statement periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and the valuation techniques. See Note 2 for fair value measurement of investments.

2. INVESTMENTS, DEBT SERVICE RESERVE FUNDS AND LOAN RESERVE INVESTMENTS

The Fund's investment policies are governed by Article IX of the Master Bond Resolution and Article VIII of the Master Financing Indenture. Allowable investments for the Fund cash balances held in the State Treasury and invested through the State Pooled Money Investment Board are as follows:

- Direct obligations of, or obligations that are insured as to principal and interest by, the U.S. Government or any direct agency thereof, with maturities up to four years
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Limited interest-bearing loans to various State agencies as specifically provided by law
- Certain Kansas agency and IMPACT Act projects and bonds
- High grade commercial paper

Specific Fund Investments – Cash balances not held in the State Treasury, but governed by the Master Bond Resolution may be invested as permitted by bond documents and bond covenants. Allowable investments include:

- U.S. Government obligations
- Obligations of government-sponsored agencies
- Federal funds, unsecured certificates of deposit, time deposits and banker's acceptances
- Deposits fully insured by FDIC
- Commercial paper
- Investments in money market funds
- Repurchase agreements
- Stripped securities
- Investments in the Municipal Investment Pool Fund
- Investment agreements
- Guaranteed investment contracts

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Moneys held in the Funds and Accounts established under the Master Financing Indenture may be invested by the KDFA or by the Trustee to the fullest extent practicable in Investment Securities as defined in the Master Financing Indenture which include:

- Defeasance obligations
- Obligations of certain agencies not backed by the full faith and credit of the U.S. government
- Investments in money market funds
- Investment agreements
- Deposits fully insured by FDIC
- Commercial paper
- State or municipal debt obligations
- Investments in the Municipal Investment Pool Fund
- Repurchase agreements
- Guaranteed investment contracts

As of June 30, 2016, the Fund had the following investments:

Investment Type	Carrying Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Repurchase Agreements	\$ 8,269,817	\$ -	\$ 858,783	\$ 7,411,034	\$ -
State or municipal debt obligations	20,748,281	18,348,645	2,399,636		
Investment Agreements	3,725,282	-	3,562,508	162,774	-
Commercial paper	22,982,618	22,982,618	-	-	-
	\$ 55,725,998	\$ 41,331,263	\$ 6,820,927	\$ 7,573,808	\$ -

As of June 30, 2015, the Fund had the following investments:

Investment Type	Carrying Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Repurchase Agreements	\$ 8,737,504	\$ 318,984	\$ 1,007,486	\$ 7,411,034	\$ -
State or municipal debt obligations	38,010,078	18,790,374	16,572,778	-	2,646,926
Investment Agreements	3,725,282	-	3,562,508	162,774	-
Commercial paper	9,428,073	9,428,073	-	-	-
	\$ 59,900,937	\$ 28,537,431	\$ 21,142,772	\$ 7,573,808	\$ 2,646,926

Interest Rate Risk – Due to the tax exempt status of the bonds it is generally the practice of Fund management to match reserve fund interest rates to the arbitrage yield on the bonds and the term of the investments to the maturity of the bonds. For invested loan funds, the Fund generally invests to maximize the interest rate and set a term of investment based on estimated expenditures which is generally less than three years. For loan reserve account investments, the Fund generally invests to maximize the interest rate and sets the term of the investments to the maturity of the corresponding loans.

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
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Credit Risk –The Fund holds certain investments that may have credit risk since the underlying securities may include securities other than those that take the form of U.S. Treasuries or obligations explicitly guaranteed by the U.S. government. The investments are unrated. Certain investments have an underlying collateral agreement.

Concentration of Credit Risk – The Fund places no limit on the amount that may be invested with any one provider. The table below identifies the percent of total investments held by each provider as of June 30, 2016:

<u>Investment Provider</u>	<u>Fair Value</u>	<u>Percent of Total</u>
AIG	\$ 3,725,282	6.69%
Citigroup	7,411,034	13.30%
Morgan Guaranty	858,783	1.54%
UMB Bank, NA	<u>43,730,899</u>	<u>78.47%</u>
TOTAL	<u>\$ 55,725,998</u>	<u>100.00%</u>

The table below identifies the percent of total investments held by each provider as of June 30, 2016:

<u>Investment Provider</u>	<u>Fair Value</u>	<u>Percent of Total</u>
AIG	\$ 3,725,282	6.22%
Citigroup	7,730,018	12.91%
Morgan Guaranty	1,007,486	1.68%
UMB Bank, NA	<u>47,438,151</u>	<u>79.19%</u>
TOTAL	<u>\$ 59,900,937</u>	<u>100.00%</u>

The Water Pollution Control Revolving Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Fund has the following recurring fair value measurements as of June 30, 2016:

- Repurchase agreements of \$8.3 million are valued using quoted market prices (Level 1 inputs).
- Investment agreements of \$3.7 million are valued using quoted market prices (Level 1 inputs).
- State or municipal debt obligations of \$20.7 million are valued using quoted market prices (Level 1 inputs).
- Commercial paper of \$23.0 million is valued using quoted market prices (Level 1 inputs).

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
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3. LOANS

The loans made by the Fund to the municipalities from capitalization grants, state match, leveraged and general loan monies may include interest and service fees capitalized during project construction. Loans must begin repayments not later than one year after project completion and the repayment period is to be no longer than twenty years. Principal and interest payments are due semi-annually. Interest rates on the loans outstanding at June 30, 2016, excluding the .25% service fee, range from 1.75% to 4.19%.

Estimated future maturities of the loans receivable and interest payments at June 30, 2016 are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 34,383,032	\$ 9,348,935	\$ 43,731,967
2018	35,605,864	8,298,739	43,904,603
2019	32,686,199	7,342,727	40,028,926
2020	32,031,516	6,511,908	38,543,424
2021	31,050,016	5,656,776	36,706,792
2022 – 2026	128,091,858	17,529,796	145,621,654
2027 – 2031	69,901,107	5,126,562	75,027,669
2032 - 2036	10,666,015	326,102	10,992,117
2032 - 2036	9,164	129	9,293
Totals	<u>\$ 374,424,771</u>	<u>\$ 60,141,674</u>	<u>\$ 434,566,445</u>

Certain of the loans are funded from American Recovery and Reinvestment Act (ARRA) monies and the 2010, 2011, 2012, 2013, 2014 and 2015 capitalization grants. Principal forgiveness for ARRA loans has been awarded in full with a cumulative amount of principal forgiveness of \$22,603,166 on 22 loans. Principal forgiveness awarded for 2010 capitalization grant loans totaled \$5,953,841 and \$2,889,821 in FY2016 and FY2015, respectively, with a cumulative amount of principal forgiveness of \$14,064,268 on 30 loans. No principal forgiveness has been awarded yet on 2011, 2012, 2013, 2014 or 2015 capitalization grant loans.

Each of the municipalities has established a dedicated source of revenue for repayment of the loans. The dedicated sources of revenue are either an obligation of system revenues and ad valorem property taxes levied or, if not so pledged, a secured lien on the revenues of the water treatment system which is secured by a policy of municipal bond insurance or comparable security.

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Loans to Major Loan Participants – The Fund has made loans to the following major loan participants. The aggregate outstanding loan balances for each of these participants exceeds five percent of total loans receivable. The combined outstanding loan balances at June 30, 2016 and 2015 are as follows:

Participants	Loan Number	2016		2015
		Loan Agreement Amount	Outstanding Principal Balance	Outstanding Principal Balance
Dodge City	1792-01	\$ 25,881,296	\$ 20,068,916	\$ 21,082,485
Johnson County	1447-01	14,290,397	2,241,398	3,086,527
Johnson County	1532-01	12,519,392	6,898,947	7,487,124
Johnson County	1794-01	18,307,269	7,878,566	8,298,844
Johnson County	1920-01	10,705,671	2,274,265	420,900
Johnson County	1920-02	1,128,967	619,857	422,374
Manhattan	1583-01	8,666,236	3,459,029	3,931,718
Manhattan	1746-02	36,732,684	28,963,326	30,447,765
Manhattan	1786-01	1,642,258	1,144,980	1,204,532
Newton	1610-01	1,207,034	434,027	493,587
Newton	1747-01	7,647,208	5,173,144	5,483,382
Newton	1747-03	24,420,000	16,880,268	14,238,997
Topeka	1038-09	1,209,404	-	161,829
Topeka	1271-01	4,330,136	1,069,549	1,316,936
Topeka	1272-02	60,000,000	28,324,441	31,628,131
Topeka	1272-04	9,317,000	5,957,588	6,378,467
Topeka	1412-01	4,828,002	550,937	812,047
Topeka	1472-01	11,605,000	2,463,650	3,120,039
		\$ 254,437,954	\$ 134,402,888	\$ 140,015,684

4. LOAN RESERVE DEPOSITS

Loan reserve deposits for the City of Topeka, the City of Kansas City, Strother Field and the Metropolitan Topeka Airport Authority total \$8,358,971 and \$8,500,682 as of June 30, 2016 and 2015 respectively. The loan reserves include balances on deposit with the State Treasurer totaling \$3,774,906 and \$3,767,914 as of June 30, 2016 and 2015 respectively. Investments total \$4,584,065 and \$4,732,768 as of June 30, 2016 and 2015 respectively and are invested in repurchase agreements and investment agreements at interest rates ranging from 5.30% to 5.78%, maturing on various dates ranging from March 1, 2018 to June 1, 2022.

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5. BONDS PAYABLE

Outstanding Revenue Bonds consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
2001 Series II (Old Resolution)	\$ 2,610,000	\$ 31,000,000
2004 Series II (Old Resolution)	-	2,915,000
2005 Series I (Old Resolution)	-	260,000
2005 Series II (Old Resolution)	23,955,000	36,720,000
2010SRF Series 1 (MFI)	-	1,625,000
2010SRF Series 1 (MFI)	67,670,000	71,020,000
2010SRF Series 2 (MFI)	60,520,000	60,520,000
2014SRF (MFI)	-	3,000,000
2015SRF (MFI)	2,500,000	-
Total bonds payable	157,255,000	207,060,000
Current maturities	(14,705,000)	(33,240,000)
Unamortized net original issue premium	5,214,947	7,103,096
Current unamortized net original issue premium	(1,467,799)	(1,775,590)
Long Term Revenue Bonds payable, net	\$ 146,297,148	\$ 179,147,506

Long-term liability activity for the year ending June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	\$207,060,000	\$2,500,000	\$(52,305,000)	\$157,255,000	\$14,705,000

Long-term liability activity for the year ending June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	\$237,185,000	\$3,000,000	\$(33,125,000)	\$207,060,000	\$33,240,000

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The 2001 Series II Bonds, in an original amount of \$124,540,000, consist of serial bonds totaling \$2,610,000. The final payment of \$2,610,000 is due November 1, 2017 and bears interest at 5.50% payable semi-annually.

The 2004 Series II Bonds, in an original amount of \$45,140,000, consisted of a serial bond totaling \$2,915,000. The final payment of \$2,915,000 was made May 1, 2016, at an interest rate of 5.25%.

The Series 2005 Bonds, in an original amount of \$118,860,000, consist of serial bonds totaling \$23,955,000. The serial bonds are due in principal payments ranging from \$5,755,000 to \$9,330,000 with the final payment due November 1, 2018, and bear interest at 5.00% payable semi-annually.

The Series 2010SRF Revenue Bonds were issued in the original amount of \$213,950,000 for the Water Pollution Control (WPC) and Public Water Supply (PWS) programs. The Fund issued \$83,530,000 in WPC Series 2010SRF-1 Revenue Bonds. The WPC serial bonds totaling \$67,670,000 are due in annual principal payments ranging from \$3,765,000 to \$20,020,000 with the final payment due March 1, 2022, and bear interest at 5.00% payable semi-annually. The Series 2010SRF-1 Bonds, or portions thereof, maturing on March 1, 2021 and thereafter may be called for redemption and payment prior to maturity on or after March 1, 2020, in whole or in part at any time (selection of maturities and the amount of Series 2010SRF-1 Bonds of each maturity to be redeemed to be determined by the Authority in such manner as it may determine), at the redemption price of 100% (expressed as a percentage of the principal amount), plus accrued interest thereon to the date of redemption.

The Series 2010SRF-2 Taxable Revenue Bonds, Build America Bonds were issued in the original amount of \$60,520,000 for the Water Pollution Control (WPC) program. The serial bonds totaling \$60,520,000 are due in annual principal payments ranging from \$4,475,000 to \$12,035,000 with the final payment due March 1, 2025, and bear interest at rates ranging from 4.52% to 5.17% payable semi-annually. The term bonds are due in annual principal payments ranging from \$3,875,000 to \$5,645,000 with the final payment due March 1, 2030 and bear interest at 5.945% payable semi-annually. The Series 2010SRF-2 Bonds, or portions thereof, maturing on March 1, 2021 and thereafter may be called for redemption and payment prior to maturity on or after March 1, 2020, in whole or in part at any time (selection of maturities and the amount of Series 2010SRF-2 Bonds of each maturity to be redeemed to be determined by the Authority in such manner as it may determine), at the redemption price of 100% (expressed as a percentage of the principal amount), plus accrued interest thereon to the date of redemption.

On December 18, 2014, the Series 2014SRF-1 Bond was issued in an original amount of \$5,200,000 for Public Water Supply (PWS) and Water Pollution Control (WPC). The Water Pollution Control portion of the bond was issued in the original amount of \$3,000,000. The interest rate on the bond is variable, with the initial rate of .50% that resets each January 1 and July 1. The Bond matured on December 21, 2015. The proceeds provided \$3,000,000 of state match loan funds for the program.

On December 21, 2015, the Series 2015SRF-1 Bond was issued in an original amount of \$4,500,000 for Public Water Supply (PWS) and Water Pollution Control (WPC). The Water Pollution Control portion of the bond was issued in the original amount of \$2,500,000. The interest rate on the bond is variable, with the initial rate of .99% that resets each January 1 and July 1. The Bond matures on December 22, 2016, with principal and interest paid at maturity. The proceeds provided \$2,500,000 of state match loan funds for the program. The 2015-1 Bonds shall be subject to redemption and payment prior to their Stated Maturity, at the option of and upon instruction from the Authority, as a whole or in part at any time (selection of the amount of Series 2015-1 Bonds to be redeemed to be determined by the Authority in such manner as it may determine) at a Redemption Price of 100% (expressed as a percentage of the principal amount), plus accrued interest thereon to the Redemption Date.

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On March 9, 2016, the Fund refunded \$19,390,000 of Series 2001 II bonds and \$1,675,000 of Series 2005 II bonds. Loan principal prepayments provided cash funds to refund the bonds and an amount to pay costs of issuance. An irrevocable escrow account with the State Treasurer as escrow agent was established to provide amounts sufficient for payment of principal and interest on the refunded bonds. Accordingly, the escrow account and the refunded bonds are not included in the Fund's statement of net position. This advance refunding was undertaken to reduce the debt service payments, including interest, over the life of the debt by \$161,367.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$1,284,379. As this refunding was a cash defeasance, this difference was expensed in full in the current year in the accompanying financial statements.

The Master and Supplemental Bond Resolutions for the Old Resolution Bonds provide for the establishment of debt service reserve funds which are maintained and administered by K DFA. The Master Financing Indenture provides for the establishment of a debt service reserve fund in the custody of the trustee in the name of the K DFA. At June 30, 2015 and 2016, the Fund was not in default of significant provisions of the Master or Supplemental Bond Resolutions or the Master Financing Indenture or the Supplemental Indentures.

Aggregate revenue bond debt service requirements to maturity are as follows:

Year Ending June 30	Principal Amount Due	Interest Amount Due	Total
2017	\$ 14,705,000	\$ 7,772,659	\$ 22,477,659
2018	16,160,000	7,049,021	23,209,021
2019	24,790,000	6,229,522	31,019,522
2020	17,295,000	5,223,271	22,518,271
2021	20,020,000	4,358,522	24,378,522
2022-2026	45,490,000	11,163,021	56,653,021
2027-2030	18,795,000	2,949,612	21,744,612
	<u>\$ 157,255,000</u>	<u>\$ 44,745,628</u>	<u>\$ 202,000,628</u>

Certain of the above bonds may be redeemed prior to maturity in accordance with related bond indentures.

The debt service payment in FY 2016 was \$31,240,000 for principal with cumulative principal payments totaling \$376,890,845 and \$9,557,229 for interest with cumulative interest payments totaling \$306,270,930.

In prior years, the Fund defeased certain State Revolving Fund revenue bonds by placing the proceeds for new bonds in an irrevocable escrow account to provide for all future debt service payments on the old bonds. Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the Fund's financial statements. Defeased debt outstanding at June 30, 2016 was \$19,065,000.

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Defeased bonds outstanding consisted of the following at June 30:

	Issue Date	Call Date	2016	2015
Series 2000 II	February 10, 2000	November 1, 2016	\$ 9,000,000	
Series 2000 II	February 10, 2000	May 1, 2017	1,390,000	
Series 2000 II	February 10, 2000	November 1, 2017	7,000,000	
Series 2005 II	August 10, 2005	November 1, 2015		11,315,000
Series 2005 II	August 10, 2005	November 1, 2017	1,350,000	
Series 2005 II	August 10, 2005	November 1, 2018	325,000	
Total defeased bonds outstanding:			<u>\$ 19,065,000</u>	<u>\$ 11,315,000</u>

6. ARBITRAGE REBATE

In accordance with Internal Revenue Code Section 148(f) relating to arbitrage restrictions on tax-exempt bonds, there is currently no rebate liability for the Series 2001, 2004, 2005 and 2010 bonds as of June 30, 2016 and June 30, 2015. The 2014 and 2015 bonds are taxable bonds and are not subject to arbitrage.

As of June 30, 2016 and June 30, 2015, Water Pollution Control had a restricted cash balance of \$250,114 and \$249,254 respectively for future arbitrage liabilities.

**KANSAS WATER POLLUTION CONTROL REVOLVING FUND
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7. FEDERAL CAPITALIZATION GRANTS

Ninety-six percent of the federal capitalization grants awarded by the EPA are to be loaned out to municipalities. Up to four percent of the capitalization grants may be spent on Program administration. Management of the Fund has determined that the entire four percent will be spent on administration as evidenced by the budget page of each grant agreement.

Federal capitalization grants awarded by EPA through June 30, 2016 are as follows:

Federal Fiscal Year	Total Grant
1989 Grant Award	\$ 8,783,047
1990 Grant Award	9,077,104
1991 Grant Award	18,524,583
1992 Grant Award	17,538,246
1993 Grant Award	17,349,156
1994 Grant Award	10,764,963
1995 Grant Award	11,117,898
1996 Grant Award	18,211,386
1997 Grant Award	5,582,400
1998 Grant Award	12,154,626
1999 Grant Award	12,536,764
2000 Grant Award	12,114,497
2001 Grant Award	12,006,720
2002 Grant Award	12,033,450
2003 Grant Award	11,955,240
2004 Grant Award	11,962,467
2005 Grant Award	9,724,900
2006 Grant Award	7,884,100
2007 Grant Award	9,658,400
2008 Grant Award	6,104,200
2009 Grant Award	6,104,300
2009 Grant Award - ARRA	35,374,200
2010 Grant Award	18,391,000
2011 Grant Award	13,328,000
2012 Grant Award	12,757,000
2013 Grant Award	12,051,000
2014 Grant Award	12,656,000
2015 Grant Award	12,591,000
2016 Grant Award	12,060,000
	370,396,647
Less cumulative amounts drawn down	(344,962,306)
	25,434,341
Less amounts drawn down during Fiscal Year 2016	(11,499,546)
Balance Available	\$ 13,934,795

As of June 30, 2016 and 2015, \$13,934,795 and \$13,457,341 respectively, of the capitalization grants had not been drawn down. As of June 30, 2016 and 2015, \$25,023 and \$28,898, respectively, of grant revenue had been recorded as accruals but had not been drawn down from the grant. At fiscal year end grant revenue and the corresponding grant expense are recorded.



CliftonLarsonAllen

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

Dr. Susan Mosier
Secretary of the Kansas Department
Of Health and Environment
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 the State of Kansas Water Pollution Control Fund (the Fund), an enterprise fund of the State of Kansas, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Greenwood Village, Colorado
September 15, 2016