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

FINANCIAL STATEMENTS
JUNE 30, 2015 and 2014

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

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CliftonLarsonAllen LLP
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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 Revolving Fund (the Fund), an enterprise fund of the State of Kansas, as of and for the years ended June 30, 2015 and June 30, 2014, 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 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 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.

Opinion

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, 2015 and June 30, 2014, and the respective changes in financial position and cash flows thereof 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, 2015 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 18, 2015, 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

CliftonLarsonAllen LLP

Greenwood Village, Colorado
September 18, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS
For The Fiscal Years Ended June 30, 2015 and 2014

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 sixth year of operations, the Fund continued to grow as shown below.

During the year ended June 30, 2015:

- The federal fiscal year 2014 capitalization grant in the amount of $12,656,000 was awarded during FY2015. $506,240 is available for administrative costs and $12,149,760 is available for loan project payments. The federal fiscal year 2015 capitalization grant in the amount of $12,674,000 was also awarded during FY2015. $506,960 is available for administrative costs and $12,167,040 is available for loan project payments.
- Federal capitalization grant dollars drawn down: $15,637,697 for loan project payments and $404,651 for administration expenses.
- Bonds issued - 2014SRF-1 State Match, $3,000,000
- Total available for loans-unexpended: $54,135,931
- Total loan agreements: 452 loans totaling $1,170,298,037 of which $1,076,492,533 has been paid in project payments.
- Loan agreements:
  New loans $39,753,842 (11 loans)
  Loan amendments: 11 increase amendments totaling $5,994,251 and
  16 decrease amendments totaling $4,256,887
- Disbursements for project costs: $35,012,861
- Average monthly disbursements during FY2015: $2,917,738
- Average monthly disbursements program-to-date: $3,472,557
- Completed projects: 14 totaling $85,793,358
- Total revenue bond debt service paid: $44,774,149

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.

Net Position

	2015	2014	2013
Current and other assets	$ 121,551,506	$ 132,233,219	$ 137,094,728
Noncurrent assets	427,240,749	432,584,307	439,905,856
Total assets	548,792,255	564,817,526	577,000,584
Deferred outflows of resources	5,998,820	7,155,865	8,761,180
Long-term liabilities	187,648,189	219,629,501	253,430,741
Other liabilities	38,436,088	38,819,285	41,134,337
Total liabilities	226,084,277	258,448,786	294,565,078
Restricted net position	328,706,798	313,524,605	291,196,686
Total net position	$ 328,706,798	$ 313,524,605	$ 291,196,686

The decrease in current assets for the year ended June 30, 2014 of $4.9 million is due in part to a decrease in current investments. Project payments this fiscal year were $33.6 million. In addition, $11.8 million of loan prepayments were received this fiscal year and $1.4 of loan prepayments were used to refund outstanding revenue bonds. There was a $3.0 million decrease in current loans receivable.

The decrease in total liabilities for the year ended June 30, 2014 of $36.1 million is due mainly to bond debt outstanding decreasing because of bond debt service principal payments during the year of $36.0 million.

The decrease in current assets for the year ended June 30, 2015 of $10.7 million is 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 is 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.

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, 2015 and 2014, there is no rebate liability for the Series 2001, 2004, 2005, 2010-1, 2013-2 and 2014 bonds. The Fund's revenue bonds payable totaled $207,060,000 and $237,185,845 at June 30, 2015 and 2014, respectively. Please refer to the notes to the financial statements for more information on debt activity.

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.

The Statement of Revenues, Expenses and Changes in Net Position provides information about the Fund resources and uses of those resources. This statement demonstrates that sufficient resources have been generated to cover expenses in fiscal year 2014. The increase in net position as of June 30, 2014 was $22.3

million. The Fund operating revenues decreased by 4.0% due to a decrease in interest received on loans. The Fund operating expenses (excluding principal forgiveness expense) increased by 2.0% due to an increase in administration expenses. Principal forgiveness increased 21.8%. Nonoperating revenues, including capital contributions, increased 16.6% due to an increase in grant draws of $3.7 million. Nonoperating expenses decreased by 25.2% due to a) amortized issuance costs, b) the implementation of GASB 65 and c) a reduction in interest expense on bonds. The FFY2013 federal capitalization grant in the amount of $12,051,000 was awarded September 16, 2013.

The Statement of Revenues, Expenses and Changes in Net Position demonstrates 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.

Revenues, Expenses and Changes in Net Position

	2015	2014	2013
Revenues:			
Operating revenues:			
Loans receivable	$ 10,783,295	$ 11,456,165	$ 12,441,680
Grant revenue	411,825	474,150	395,638
Service fee revenue	1,049,491	1,544,429	1,198,599
Nonoperating revenues:			
Investment income:			
Bond reserve fund	549,753	570,437	583,838
Other invested funds	309,140	284,018	209,017
Other nonoperating revenue	1,028,825	1,021,060	1,109,245
Total Revenues	14,132,329	15,350,259	15,938,017
Expenses:			
Operating expenses:			
Program administration - federal	411,825	473,768	367,501
Program administration - other	761,470	1,125,310	1,199,518
Loan principal forgiveness	2,889,821	2,095,931	1,721,446
Nonoperating expenses:			
Bond issuance costs	18,613	25,130	-
Bond interest	10,506,104	12,366,085	14,382,105
Other nonoperating expenses	-	-	2,177,605
Total Expenses	14,587,833	16,086,224	19,848,175
Decrease in net position before contributions	(455,504)	(735,965)	(3,910,158)
Capital contributions:			
Capitalization grants, net of recognized administrative grants	15,637,697	23,063,884	19,481,879
Change in net position	15,182,193	22,327,919	15,571,721
Total net position - beginning of year, restated	313,524,605	291,196,686	275,624,965
Total net position - end of year	$ 328,706,798	$ 313,524,605	$ 291,196,686

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 an increase in cash during the year ended June 30, 2014 of $7.4 million. Part of this increase is due to the maturity of investments. The balance of the increase is due to routine Program operations.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 & Municipals, Office of the Chief Financial Officer, Department of Administration.

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

	June 30, 2015	June 30, 2014
Assets		
Current assets:		
Cash	$ 52,988,840	$ 66,691,718
Investment interest receivable	398,074	282,362
Investments	28,218,447	27,082,142
Loans	36,134,653	34,542,798
Loan interest receivable	3,176,139	3,313,130
Debt service reserve funds-investments	318,984	-
Other receivables	316,369	321,069
Total current assets	121,551,506	132,233,219
Noncurrent assets:		
Restricted cash - arbitrage rebate	249,254	215,933
Restricted cash - loan reserve earnings	398,142	367,998
Investments	19,219,704	12,377,570
Loans	379,476,935	388,214,734
Loan reserve deposits - investments	4,732,768	4,732,768
Loan reserve deposits - cash	3,767,914	3,733,349
Debt service reserve funds-investments	7,411,034	7,730,018
Debt service reserve funds-cash	11,984,998	15,211,937
Total noncurrent assets	427,240,749	432,584,307
Total Assets	548,792,255	564,817,526
Deferred Outflows of Resources		
Deferred amounts on refunding	5,998,820	7,155,865
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	528,101	502,086
Bond interest payable	2,892,397	3,189,696
Revenue bonds payable, current	35,015,590	35,127,503
Total current liabilities	38,436,088	38,819,285
Noncurrent liabilities:		
Loan reserve deposits	8,500,683	8,466,117
Revenue bonds payable, long-term, net	179,147,506	211,163,384
Total noncurrent liabilities	187,648,189	219,629,501
Total Liabilities	226,084,277	258,448,786
Total Net Position	$ 328,706,798	$ 313,524,605

See accompanying notes to financial statements.

KANSAS WATER POLLUTION CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

	For the Years Ended June 30,	
	2015	**2014**
Operating Revenues		
Interest on Loans	$ 10,783,295	$ 11,456,165
Grant revenue	411,825	474,150
Service fee revenue	1,049,491	1,544,429
Total Operating Revenues	12,244,611	13,474,744
Operating Expenses		
Program administration-federal	411,825	473,768
Program administration-other	761,470	1,125,310
Loan principal forgiveness	2,889,821	2,095,931
Total Operating Expenses	4,063,116	3,695,009
Operating Income	8,181,495	9,779,735
Nonoperating Revenues (Expenses)		
Investment income:		
Bond reserve fund	549,753	570,437
Other investment income	309,140	284,018
Capital contributions-capitalization grants net of recognized administrative grants	15,637,697	23,063,884
Interest expense - bonds	(10,506,104)	(12,366,085)
Bond issuance costs	(18,613)	(25,130)
Other nonoperating revenue (expenses)	1,028,825	1,021,060
Total Nonoperating Revenues (Expenses)	7,000,698	12,548,184
Change in Net Position	15,182,193	22,327,919
Total Net Position - Beginning of Year	313,524,605	291,196,686
Total Net Position - End of Year	$ 328,706,798	$ 313,524,605

See accompanying notes to financial statements.

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

	For the Years Ended June 30, 2015	2014
Cash Flows From Operating Activities		
Loan principal collected	$ 39,268,985	$ 49,672,045
Loans disbursed	(35,012,861)	(33,648,260)
Interest received on loans	10,920,286	11,651,634
Program administration expenses	(411,825)	(473,768)
Other revenues	26,016	(394,866)
Service fees received	1,054,191	1,556,165
Service fees paid	(761,470)	(1,125,310)
Capitalization grant for administrative costs	411,825	474,150
Net Cash Provided By Operating Activities	15,495,147	27,711,790
Cash Flows From NonCapital Financing Activities		
Bond principal paid	(33,125,000)	(36,005,845)
Bond interest paid	(11,649,149)	(13,207,615)
Capitalization grant for loans	15,637,697	23,063,884
Bond proceeds, including premium	3,000,000	3,800,000
Bond issuance costs	(18,613)	(25,130)
Other nonoperating revenue	1,028,825	1,021,060
Net Cash Used In Noncapital Financing Activities	(25,126,240)	(21,353,646)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	42,348,244	39,258,175
Purchase of investments	(50,326,683)	(39,776,488)
Proceeds from sales and maturities of debt service reserve investments	-	554,279
Interest received on investments and debt service reserve funds	743,180	876,647
Loan reserve accounts	34,565	132,428
Net Cash Provided By (Used In) Investing Activities	(7,200,694)	1,045,041
Net Increase (Decrease) in Cash	(16,831,787)	7,403,185
Cash, Beginning of Year	86,220,935	78,817,750
Cash, End of Year	$ 69,389,148	$ 86,220,935
Cash consists of:		
Cash	$ 52,988,840	$ 66,691,718
Debt service reserve funds-cash	11,984,998	15,211,937
Restricted cash - arbitrage rebate	249,254	215,933
Loan reserve deposits	3,767,914	3,733,349
Restricted cash - loan reserve earnings	398,142	367,998
	$ 69,389,148	$ 86,220,935
Reconciliation of Operating Income To Net Cash Provided By Operating Activities		
Operating income	$ 8,181,495	$ 9,779,735
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Loans receivable	7,145,946	18,119,717
Loan interest receivable	136,990	195,469
Other receivables	4,700	11,735
Accounts payable and accrued expenses	26,016	(394,866)
Net Cash Provided By Operating Activities	$ 15,495,147	$ 27,711,790

See accompanying notes to financial statements.

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' (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 matching 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. The capitalization grants are included within the scope of the State of Kansas OMB Circular A-133 audit.

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 fund 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.

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 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 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 Loan 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/expenditure) 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 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.

Reclassification of Prior Year Ending Balances – Certain balances from the prior fiscal year have been reclassified to conform to the current year presentation.

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

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, 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

As of June 30, 2014, 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	$ -	$ 1,326,470	$ 7,411,034	$ -
State or municipal debt obligations	32,989,482	21,312,780	11,676,702	-	-
Investment Agreements	3,725,282	-	545,563	3,179,719	-
Commercial paper	6,470,230	6,470,230	-	-	-
	$ 51,922,498	$ 27,783,010	$ 13,548,735	$ 10,590,753	$ -

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 3 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.

Credit Risk –The Fund holds certain investments that 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, 2015:

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

The table below identifies the percent of total investments held by each provider as of June 30, 2014:

Investment Provider	Fair Value	Percent of Total
AIG	$ 3,725,282	7.17%
Citigroup	7,730,018	14.89%
Morgan Guaranty	1,007,486	1.94%
UMB Bank, NA	39,459,712	76.00%
TOTAL	$ 51,922,498	100.00%

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, 2015, excluding the .25% service fee, range from 1.86% to 4.19%.

Estimated future maturities of the loans receivable and interest payments at June 30, 2015 are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	$ 36,134,653	$ 11,513,355	$ 47,648,008
2017	36,093,868	10,567,151	46,661,019
2018	36,046,161	9,502,598	45,548,759
2018	34,624,124	8,517,256	43,141,380
2020	33,885,896	7,582,137	41,468,033
2021 – 2025	140,629,206	23,867,347	164,496,553
2026 – 2030	83,043,795	8,069,883	91,113,678
2031 - 2035	15,153,885	550,599	15,704,484
Totals	$ 415,611,588	$ 80,170,326	$ 495,781,914

Certain of the loans are funded from American Recovery and Reinvestment Act (ARRA) monies and the 2010, 2011, 2012, 2013 and 2014 capitalization grants. Principal forgiveness awarded for ARRA loans totaled $0 in both FY2015 and FY2014 with a cumulative amount of principal forgiveness of $22,603,166 on 22 loans. Principal forgiveness awarded for 2010 capitalization grant loans totaled $2,889,821 and $2,095,931 in FY2015 and FY2014, respectively, with a cumulative amount of principal forgiveness of $8,110,427 on 23 loans. No principal forgiveness has been awarded yet on 2011, 2012, 2013 or 2014 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 payable from 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.

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, 2015 and 2014 are as follows:

		2015		2014
Participants	**Loan Number**	**Loan Agreement Amount**	**Outstanding Principal Balance**	**Outstanding Principal Balance**
Dodge City	1792-01	$ 29,532,000	$ 21,082,485	$ 21,731,583
Johnson County	1293-01	47,190,000	-	1,614,475
Johnson County	1447-01	14,290,397	3,086,527	3,903,718
Johnson County	1532-01	12,519,392	7,487,124	8,058,834
Johnson County	1794-01	18,307,269	8,298,844	8,707,918
Johnson County	1920-01	8,131,778	420,900	540,690
Johnson County	1920-02	1,255,341	422,374	247,822
Manhattan	1583-01	8,666,236	3,931,718	4,389,907
Manhattan	1746-02	36,732,684	30,447,765	31,095,520
Manhattan	1786-01	1,642,258	1,204,532	1,262,595
Topeka	1038-09	1,209,404	161,829	265,359
Topeka	1271-01	4,330,136	1,316,936	1,556,804
Topeka	1272-02	60,000,000	31,628,131	34,831,110
Topeka	1272-04	9,317,000	6,378,467	6,789,019
Topeka	1412-01	4,828,002	812,047	1,064,030
Topeka	1472-01	11,605,000	3,120,039	3,756,480
		$ 269,556,897	$ 119,799,718	$ 129,815,864

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 $8,500,682 and $8,466,117 as of June 30, 2015 and 2014 respectively. The loan reserves include balances on deposit with the State Treasurer totaling $3,767,914 and $3,733,349 as of June 30, 2015 and 2014 respectively. Investments total $4,732,768 as of June 30, 2015 and 2014 and are invested in repurchase agreements at interest rates ranging from 5.30% to 5.78%, maturing on various dates ranging from March 1, 2018 to June 1, 2022.

5. BONDS PAYABLE

Outstanding Revenue Bonds consisted of the following at June 30:

		2015		2014
2001 Series II (Old Resolution)	$	31,000,000	$	40,500,000
2004 Series II (Old Resolution)		2,915,000		5,725,000
2005 Series I (Old Resolution)		260,000		1,305,000
2005 Series II (Old Resolution)		36,720,000		47,015,000
2010SRF Series 1 (MFI)		1,625,000		3,245,000
2010SRF Series 1 (MFI)		71,020,000		75,075,000
2010SRF Series 2 (MFI)		60,520,000		60,520,000
2013SRF Series 2 (MFI)		-		3,800,000
2014SRF (MFI)		3,000,000		-
Total bonds payable		207,060,000		237,185,000
Current maturities		(33,240,000)		(33,125,000)
Unamortized net original issue premium		7,103,096		9,105,887
Current unamortized net original issue premium		(1,775,590)		(2,002,503)
Long Term Revenue Bonds payable, net	$	179,147,506	$	211,163,384

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

Long-term liability activity for the year ending June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	$269,390,845	$3,800,000	$(36,005,845)	$237,185,000	$33,125,000

The 2001 Series II Bonds, in an original amount of $124,540,000, consist of serial bonds totaling $31,000,000. The serial bonds are due in principal payments ranging from $2,000,000 to 9,000,000 with the final payment due November 1, 2017, and bear interest at 5.50% payable semi-annually. Bonds maturing on November 1, 2018 and thereafter may be called for redemption and payment prior to maturity on or after November 1, 2011, in whole at any time or in part on any Interest Payment Date thereafter, at a redemption price equal to l00% of the principal amount thereof, plus accrued interest thereon to the date of redemption.

The 2004 Series II Bonds, in an original amount of $45,140,000, consist of a serial bond totaling $2,915,000. The final payment of $2,915,000 is due May 1, 2016, and bears interest at 5.25% payable semi-annually. Bonds maturing on November 1, 2017, and thereafter may be called for redemption and payment prior to maturity on or after November 1, 2014, in whole or in part at any time, at a redemption price equal to l00% of the principal amount thereof, plus accrued interest thereon to the date of redemption.

The Series 2005 Bonds, in an original amount of $118,860,000, consist of serial bonds totaling $36,980,000. The serial bonds are due in principal payments ranging from $940,000 to $10,220,000 with the final payment due November 1, 2018, and bear interest at rates ranging from 3.625% to 5.00% payable semi-annually. Bonds maturing on November 1, 2022 and November 1, 2026 may be called for redemption and payment prior to maturity on or after November 1, 2015, in whole or in part at any time, at a redemption price equal to l00% of the principal amount thereof, plus accrued interest thereon to the date of redemption.

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 $72,645,000 are due in annual principal payments ranging from $1,625,000 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 17, 2013, the Series 2013SRF-2 Bond was issued in an original amount of $5,100,000 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 $3,800,000. 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 18, 2014, with principal and interest paid at maturity. The proceeds provided $3,800,000 of state match loan funds for the program.

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 matures on December 21, 2015, with principal and interest paid at maturity. The proceeds provided $3,000,000 of state match loan funds for the program. The 2014-1 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 2014-1 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.

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 KDFA. 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 KDFA. At June 30, 2014 and 2015, 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.

Revenue Bond debt service requirements to maturity are as follow:

Year Ending June 30	Principal Amount Due	Interest Amount Due	Total
2016	$ 33,240,000	$ 10,132,329	$ 43,372,329
2017	22,595,000	8,542,897	31,137,897
2018	24,510,000	7,291,022	31,801,022
2019	25,115,000	6,237,646	31,352,646
2020	17,295,000	5,223,271	22,518,271
2021-2025	61,635,000	14,173,812	75,808,812
2026-2030	22,670,000	4,297,343	26,967,343
	$ 207,060,000	$ 55,898,320	$ 262,958,320

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

The debt service payment in FY 2015 was $33,125,000 for principal with cumulative principal payments totaling $345,650,845 and $11,649,149 for interest with cumulative interest payments totaling $296,713,701.

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, 2015 was $11,315,000.

Defeased bonds outstanding consisted of the following at June 30:

	Issue Date	Call Date	2015	2014
Series 2005 II	August 10, 2005	November 1, 2015	$ 11,315,000	$ 11,315,000
		Total defeased bonds outstanding:	$ 11,315,000	$ 11,315,000

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, 2010, 2013-2 and 2014 bonds as of June 30, 2015 and June 30, 2014.

As of June 30, 2015 and June 30, 2014, Water Pollution Control had a restricted cash balance of $249,254 and $215,933 respectively for future arbitrage liabilities.

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, 2015 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	12,674,000
	358,419,647
Less cumulative amounts drawn down	(328,919,958)
	29,499,689
Less amounts drawn down during Fiscal Year 2015	(16,042,348)
Balance Available	$ 13,457,341

As of June 30, 2015 and 2014, $13,457,341 and $4,169,689 respectively, of the capitalization grants had not been drawn down. As of June 30, 2015 and 2014, $28,898 and $21,725, 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.

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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 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 Revolving Fund (the Fund), an enterprise fund of the State of Kansas, as of and for the year ended June 30, 2015, 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 18, 2015.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
September 18, 2015