
***KANSAS WATER POLLUTION
CONTROL REVOLVING FUND
(AN ENTERPRISE FUND OF
THE STATE OF KANSAS)***
*FINANCIAL STATEMENTS
JUNE 30, 2013*

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Independent Auditors' Report

Dr. Robert Moser, MD
Secretary of Kansas Department
of Health and Environment and
the Board of Directors of the Kansas
Development Finance Authority
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, which comprise the statement of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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.

Dr. Robert Moser, MD
Secretary of Kansas Department
of Health and Environment and
the Board of Directors of the Kansas
Development Finance Authority

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 financial position of the Fund as of June 30, 2013 and 2012, and the results of its operations and its 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 to the financial statements, the financial statements referred to above present only the financial position, results of operations and cash flows 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, 2013 and 2012 and results of operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Dr. Robert Moser, MD
Secretary of Kansas Department
of Health and Environment and
the Board of Directors of the Kansas
Development Finance Authority

Managements' Discussion And Analysis

The accompanying management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 December 17, 2013 on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

RubinBrown LLP

December 17, 2013

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

Management's Discussion And Analysis (*Continued*)

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 137,094,728	\$ 161,285,377	\$ 157,544,333
Noncurrent assets	441,617,630	481,244,601	549,750,506
<u>Total assets</u>	<u>578,712,358</u>	<u>642,529,978</u>	<u>707,294,839</u>
Long-term liabilities	246,833,289	329,007,847	388,514,689
Other liabilities	38,970,609	35,548,774	34,311,169
<u>Total liabilities</u>	<u>285,803,898</u>	<u>364,556,621</u>	<u>422,825,858</u>
<u>Restricted net position</u>	<u>292,908,460</u>	<u>277,973,357</u>	<u>284,468,981</u>
<u>Total net position</u>	<u>\$ 292,908,460</u>	<u>\$ 277,973,357</u>	<u>\$ 284,468,981</u>

The increase in current assets for the year ended June 30, 2012 of \$3.741 million is due in part to an increase in cash of \$7.281 million. Project payments this fiscal year were \$38.814 million. The excess of loan repayments over bond debt service payments provided an additional \$5.313 million of cash. In addition, \$51,657,485 of loan prepayments were received this fiscal year and \$30,547,429 of loan prepayments were used to partially refund outstanding revenue bonds. Due to the large volume of loan prepayments, there was a \$68.846 million decrease in loans receivable. Other factors affecting assets include: 1) a \$13,017,225 increase in ending balances of the Revenue Fund accounts, 2) an increase of \$826,565 in the ending balance of the service fees account, 3) a \$160,805 decrease in investment interest receivables, 4) a \$58,961 decrease in other receivables and 5) an \$807,177 decrease in loan interest receivable. \$1,567,395 was also deallocated from state match and leveraged debt service reserve accounts.

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

Management's Discussion And Analysis (*Continued*)

The decrease in total liabilities for the year ended June 30, 2012 of \$58.269 million is due mainly to bond debt outstanding decreasing because of bond debt service payments during the year of \$27,295,000, along with prepayments on loans providing funds to refund \$27,895,000 of bonds. Bond interest payable also decreased \$2,054,961 due to the decrease in bonds outstanding.

The decrease in current assets for the year ended June 30, 2013 of \$24.2 million is due in part to cash balances being invested in noncurrent investments and loan prepayments being used to defease bonds. Project payments this fiscal year were \$32.264 million. The excess of loan repayments over bond debt service payments, net of arbitrage rebate requirements provided an additional \$10.3 million of cash. In addition, \$36,174,893 of loan prepayments were received this fiscal year and \$51,725,432 of loan prepayments were used to partially refund outstanding revenue bonds. There was a \$1.074 million decrease in current loans receivable. Other factors affecting current assets include: 1) a \$1,245,000 increase in ending balances of the Revenue Fund accounts, 2) an increase of \$24,065 in the ending balance of the service fees accounts, 3) a \$104,350 increase in investment interest receivables, 4) a \$27,250 decrease in other receivables and 5) a \$211,010 decrease in loan interest receivable. \$1,947,689 was also deallocated from state match and leveraged reserve accounts during the year.

The decrease in total liabilities for the year ended June 30, 2013 of \$78.753 million is due mainly to the bond debt outstanding decreasing because of bond debt service payments during the year of \$30,520,000, along with prepayments on loans providing funds to refund \$48,155,000 of bonds. Bond interest payable also decreased \$646,064 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 SRF 2010-2 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, 2013 and 2012, there is no rebate liability for the Series 2001, 2002, 2004, 2005, 2008 and 2010-1 bonds. The Fund's revenue bonds payable totaled \$269,390,845 and \$345,400,000 at June 30, 2013 and 2012, 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.

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

Management's Discussion And Analysis (*Continued*)

Revenues, Expenses And Changes In Net Position

	2013	2012	2011
Revenues			
Operating revenues			
Loans	\$ 12,441,680	\$ 14,341,138	\$ 15,262,471
Grants	395,638	825,286	491,662
Service fees	1,198,599	1,436,434	1,384,003
Other	1,109,245	1,343,419	—
Nonoperating revenues			
Investment income			
Bond reserve fund	583,838	2,798,009	1,494,507
Other invested fund	209,017	107,225	279,402
Total Revenues	15,938,017	20,851,511	18,912,045
Expenses			
Operating expenses			
Program administration - federal	367,501	825,711	501,597
Program administration - other	1,199,518	577,306	788,154
Arbitrage rebate	—	—	(265,147)
Loan principal forgiveness	1,721,446	15,495,382	8,475,762
Nonoperating expenses			
Bond issuance costs amortized	243,808	245,669	416,907
Other nonoperating expenses	2,570,415	3,043,808	—
Bond interest	14,382,105	17,246,260	18,574,829
Total Expenses	20,484,793	37,434,136	28,492,102
Decrease in net position before contributions	(4,546,776)	(16,582,625)	(9,580,057)
Capital contributions			
Capitalization grants - ARRA	—	490,304	21,485,387
Capitalization grants, net of recognized administrative grants	19,481,879	9,596,697	11,138,769
Change in net position	14,935,103	(6,495,624)	23,044,099
Total net position - beginning of year	277,973,357	284,468,981	261,424,882
Total net position - end of year	\$ 292,908,460	\$ 277,973,357	\$ 284,468,981

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

Management's Discussion And Analysis (*Continued*)

The Statements of Revenues, Expenses and Changes in Net Position provide 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 2013. In fiscal year 2012 net position decreased. This reduction in the change in net position as of June 30, 2012 was \$6,495,624. The Fund operating revenues increased by 4.71% due to the Build America Bond (BAB) interest subsidy, grant revenue and service fee revenue. The Fund's operating expenses (excluding principal forgiveness expense) increased by 36.93% due to an increase in administration expenses and the change in arbitrage expenses. Principal forgiveness increased 82.82%. Nonoperating revenues increased 63.78% due to a termination interest payment received from a third party as part of a negotiated termination. Nonoperating expenses increased by 8.13% due to costs associated with the cash defeasance of bonds and due to a reduction in interest expense on bonds. The 2011 federal capitalization grant in the amount of \$13,328,000 was awarded August 25, 2011.

This statement demonstrates that sufficient resources have been generated to cover expenses in fiscal year 2013. The change in net position as of June 30, 2013 was \$14,935,103. The Fund operating revenues decreased by 15.6% due to a decrease in loan interest repayment revenue, grant revenue and service fee revenue. The Fund's operating expenses (excluding principal forgiveness expense) increased by 11.69% due to an increase in administration expenses. Nonoperating revenues decreased 72.7% due to reduced investment income because of the return in late FY12 of invested monies. Nonoperating expenses decreased by 16.3% due to a reduction in interest expense on bonds. The 2012 federal capitalization grant in the amount of \$12,757,000 was awarded August 15, 2012.

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, 2012 of \$19.580 million. Part of this increase is due to loan principal prepayments and the return of debt service reserve investment monies. The balance of the increase is due to routine Program operations.

The Fund experienced a decrease in cash during the year ended June 30, 2013 of \$57.754 million. The majority of this decrease due to cash balances being invested and loan prepayments being used to defease bonds. The balance of the increase is due to routine Program operations.

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

Management's Discussion And Analysis (*Continued*)

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 Pam Fink, Director, Office of Financial Management, Department of Administration.

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

STATEMENT OF NET POSITION

	June 30,	
	2013	2012
Assets		
Current assets:		
Cash	\$ 62,575,361	\$ 118,395,754
Investment interest receivable	300,450	196,097
Investments	32,837,664	—
Loan interest receivable	3,508,599	3,719,613
Loans	37,539,849	38,613,859
Other receivables	332,805	360,054
Total current assets	137,094,728	161,285,377
Noncurrent assets:		
Restricted cash - arbitrage rebate	215,933	215,933
Restricted cash - loan reserve earnings	776,923	763,167
Investments	6,107,838	—
Loans	403,337,401	446,514,336
Loan reserve accounts - invested	5,933,932	5,933,932
Loan reserve accounts - cash	3,600,921	3,588,243
Debt service reserve funds - investments	8,284,297	8,284,297
Debt service reserve funds - cash	11,648,612	13,596,301
Bond issue costs, net of amortization	1,711,773	2,348,392
Total noncurrent assets	441,617,630	481,244,601
Total Assets	578,712,358	642,529,978
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	896,952	909,898
Bond interest payable	3,472,812	4,118,876
Revenue bonds payable, current	34,600,845	30,520,000
Total current liabilities	38,970,609	35,548,774
Noncurrent liabilities		
Loan reserve accounts payable	9,534,854	9,522,176
Revenue bonds payable, long-term, net	246,059,615	329,939,893
Deferred amounts on refunding	(8,761,180)	(10,454,222)
Total noncurrent liabilities	246,833,289	329,007,847
Total Liabilities	285,803,898	364,556,621
Total Net Position	\$ 292,908,460	\$ 277,973,357

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

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION**

	For The Years Ended June 30,	
	2013	2012
Operating Revenues		
Interest on loans	\$ 12,441,680	\$ 14,341,138
Grant revenue	395,638	825,286
Service fee revenue	1,198,599	1,436,434
Other revenue	1,109,245	1,343,419
Total Operating Revenues	15,145,162	17,946,277
Operating Expenses		
Program administration - federal	367,501	825,711
Program administration - other	1,199,518	577,306
Loan principal forgiveness	1,721,446	15,495,382
Total Operating Expenses	3,288,465	16,898,399
Operating Income	11,856,697	1,047,878
Nonoperating Revenues (Expenses)		
Investment income		
Bond reserve fund	583,838	2,798,009
Other investment income	209,017	107,225
Capital contributions - capitalization grants net of recognized administrative grants	19,481,879	9,596,697
Capital contributions - ARRA capitalization grants	—	490,304
Interest expense - bonds	(14,382,105)	(17,246,260)
Bond issuance costs - amortization	(243,808)	(245,669)
Other nonoperating expenses	(2,570,415)	(3,043,808)
Total Nonoperating Revenues (Expenses)	3,078,406	(7,543,502)
Change In Net Position	14,935,103	(6,495,624)
Net Position - Beginning Of Year	277,973,357	284,468,981
Net Position - End Of Year	\$ 292,908,460	\$ 277,973,357

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

STATEMENT OF CASH FLOWS

	For The Years Ended June 30,	
	2013	2012
Cash Flows From Operating Activities		
Loan principal collected	\$ 74,945,040	\$ 92,165,165
Loans disbursed	(32,415,540)	(38,814,167)
Interest received on loans	12,652,695	15,148,315
Program administration expenses	(1,437,019)	(1,273,017)
Other revenue	1,096,298	1,410,987
Service fees received	1,225,847	1,495,395
Service fees paid	(130,000)	(130,000)
Capitalization grant for administrative costs	395,638	825,286
Net Cash Provided By Operating Activities	56,332,959	70,827,964
Cash Flows From Noncapital Financing Activities		
Bond principal paid	(30,520,000)	(27,295,000)
Bond interest paid	(15,720,644)	(20,505,932)
ARRA capitalization grant for loans	—	490,304
Capitalization grant for loans	19,481,879	9,596,697
Bond proceeds, including premium	2,665,845	—
Payment to bond escrow agent	(49,166,951)	(27,519,819)
Other nonoperating expenses	(2,570,415)	(3,043,808)
Net Cash Used In Noncapital Financing Activities	(75,830,286)	(68,277,558)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	3,774,344	—
Proceeds from sales and maturities of debt service reserve funds	—	13,963,593
Purchase of investments	(42,719,845)	—
Interest received on investments and debt service reserve funds	688,502	3,066,037
Net Cash Provided By (Used In) Investing Activities	(38,256,999)	17,029,630
Net Increase (Decrease) In Cash	(57,754,326)	19,580,036
Cash - Beginning Of Year	132,971,155	113,391,119
Cash - End Of Year	\$ 75,216,829	\$ 132,971,155
Cash consists of:		
Cash	\$ 62,575,361	\$ 118,395,754
Debt service reserve fund - cash	11,648,612	13,596,301
Restricted cash - arbitrage rebate	215,933	215,933
Restricted cash - loan reserve earnings	776,923	763,167
	\$ 75,216,829	\$ 132,971,155
Reconciliation Of Operating Income To Net Cash Provided By Operating Activities		
Operating income	\$ 11,856,697	\$ 1,047,878
Adjustments to reconcile operating income to net cash provided by operating activities:		
Loans receivable	44,250,945	68,846,383
Loan interest receivable	211,014	807,177
Other receivables	27,249	58,961
Accounts payable and accrued expenses	(12,946)	67,565
Net Cash Provided By Operating Activities	\$ 56,332,959	\$ 70,827,964

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 And 2012

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. 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 (KDFFA) 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).

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

Notes To Financial Statements (*Continued*)

Basis Of Presentation And 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 total net 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 Trustee.

Investments - The Fund generally invests in repurchase agreements and guaranteed investment contracts. 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. 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.

Debt Service Reserve Fund - The debt service reserve funds were established as required under certain bond resolutions and consist of investments in repurchase agreements, guaranteed investment contracts 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 investments may only be used to prevent any default in the payment of principal or interest on bonds payable.

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

Notes To Financial Statements (*Continued*)

Loan Reserve Accounts - The loan reserve accounts 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 accounts may only be used to prevent any event of default in the repayment of principal or interest on certain loans.

Bond Issuance Costs, Premiums And Discounts - Bond issuance costs are being amortized over the life of the bonds using the straight-line method. Beginning with the 2001 bonds, the interest method is being used to calculate amortization of premiums and discounts. Prior to the 2001 bonds, premiums and discounts are being amortized on the straight-line basis.

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 earned. 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. Nonoperating expenses include: 1) revenue bond interest, 2) revenue bond issuance costs amortized and 3) 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 Water Pollution Control 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 (Note 7).

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

Notes To Financial Statements (*Continued*)

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.

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

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

Notes To Financial Statements (*Continued*)

- 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, 2013, the Fund had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Maturity</u>			
		<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>	<u>More Than 10 Years</u>
Repurchase agreements	\$ 12,462,787	\$ 318,985	\$ 7,644,362	\$ 4,499,440	\$ —
State or municipal debt obligations	38,945,502	32,837,664	6,107,838	—	—
Investment agreements	1,755,442	1,755,442	—	—	—
	<u>\$ 53,163,731</u>	<u>\$ 34,912,091</u>	<u>\$ 13,752,200</u>	<u>\$ 4,499,440</u>	<u>\$ —</u>

The investments shown above represent debt service reserve funds of \$8,284,297, loan reserve accounts of \$5,933,932 and State or municipal debt obligations of \$38,945,502.

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

Notes To Financial Statements (*Continued*)

As of June 30, 2012, the Fund had the following investments:

Investment Type	Carrying Value	Maturity			More Than 10 Years
		Less Than 1 Year	1 - 5 Years	6 - 10 Years	
Repurchase agreements	\$ 12,462,787	\$ —	\$ 318,985	\$ 12,143,802	\$ —
Investment agreements	1,755,442	—	1,755,442	—	—
	<u>\$ 14,218,229</u>	<u>\$ —</u>	<u>\$ 2,074,427</u>	<u>\$ 12,143,802</u>	<u>\$ —</u>

The investments shown above represent debt service reserve funds of \$8,284,297 and loan reserve accounts of \$5,933,932.

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.

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, 2013:

Investment Provider	Fair Value	Percent Of Total
AIG	\$ 4,279,561	8.05%
FSA	1,201,164	2.26%
Citigroup	7,730,018	14.54%
Morgan Guaranty	1,007,486	1.90%
UMB Bank, NA	38,945,502	73.25%
	<u>\$ 53,163,731</u>	<u>100.00%</u>

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

Notes To Financial Statements (*Continued*)

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 are to be repaid not later than twenty years after project completion. Principal and interest payments are due semi-annually. Interest rates on the loans outstanding at June 30, 2013, excluding the .25% service fee, range from 1.86% to 4.19%.

The commitments to municipalities participating in the Program and outstanding loan balances as of June 30, are as follows:

Project	2013 Total Loan Commitment	2013 Cumulative Amount Loaned	2013 Undisbursed Loan Commitment	2013 Outstanding Loan Balance	2012 Outstanding Loan Balance
City of Abilene	\$ 701,892	\$ 701,892	\$ —	\$ —	\$ 252,984
City of Abilene	8,620,417	8,620,417	—	6,835,480	7,204,417
City of Admire	225,163	225,163	—	108,562	120,139
City of Alma	323,442	323,442	—	—	—
City of Alma	2,704,200	2,704,200	—	—	—
City of Almena	426,500	426,500	—	243,745	264,268
City of Alta Vista	764,904	764,904	—	409,912	446,537
City of Americus	1,637,000	1,637,000	—	1,222,355	1,294,067
City of Andale	588,225	588,225	—	376,362	403,700
City of Anthony	1,885,432	1,885,432	—	986,172	1,084,261
City of Anthony	313,713	313,713	—	277,889	290,107
City of Argonia	907,256	641,992	265,264	617,018	167,873
City of Arkansas City	2,513,466	2,513,466	—	—	—
City of Arma	1,025,168	1,025,168	—	—	474,331
City of Ashland	650,735	650,735	—	65,043	106,598
City of Assaria	500,020	80,108	419,912	80,108	—
City of Atchison	3,657,035	2,640,016	1,017,019	2,376,020	2,186,838
City of Attica	301,985	301,985	—	199,511	213,222
City of Atwood	827,519	827,519	—	—	382,990
City of Auburn	1,049,203	1,049,203	—	438,148	493,613
City of Auburn	477,767	477,767	—	388,110	408,367
City of Augusta	9,248,942	9,248,942	—	—	—
Baileyville Improvement Dist 1	80,808	80,808	—	—	—
City of Baldwin City	300,559	300,559	—	—	21,473
City of Baldwin City	450,538	450,538	—	103,807	131,150
City of Baldwin City	409,438	409,438	—	—	183,787
City of Baldwin City	2,955,074	2,955,074	—	—	2,302,331
City of Baldwin City	1,256,649	1,256,649	—	—	1,034,753
City of Basehor	8,110,368	8,110,368	—	—	4,687,769
City of Basehor	5,663,682	5,663,682	—	4,950,743	5,174,970
City of Baxter Springs	622,243	622,243	—	285,497	315,831
City of Bazine	146,000	146,000	—	103,174	109,696
City of Beattie	199,553	199,553	—	157,003	165,428
City of Bel Aire	535,980	—	535,980	—	—
City of Belle Plaine	3,111,220	3,111,220	—	1,341,353	1,495,653
City of Belleville	1,643,675	1,643,675	—	1,018,614	1,095,340
City of Beloit	2,671,685	2,671,685	—	618,845	780,755
City of Belvue	196,504	196,504	—	130,826	139,866
City of Bennington	467,594	467,594	—	188,561	210,149
City of Bentley	302,327	302,327	—	—	233,019
City of Benton	820,401	820,401	—	677,594	710,995
City of Bern	73,027	73,027	—	42,761	46,213

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

Notes To Financial Statements (*Continued*)

Project	2013 Total Loan Commitment	2013 Cumulative Amount Loaned	2013 Undisbursed Loan Commitment	2013 Outstanding Loan Balance	2012 Outstanding Loan Balance
City of Beverly	\$ 98,475	\$ 98,475	\$ —	\$ 61,264	\$ 65,706
City of Bird City	538,143	538,143	—	422,035	445,515
City of Bronson	187,791	187,791	—	98,709	107,968
City of Bucklin	206,668	206,668	—	93,033	103,819
City of Bucklin	646,224	646,224	—	452,276	502,243
City of Buhler	374,699	374,699	—	171,425	191,102
City of Buhler	1,108,491	1,108,491	—	818,409	866,385
City of Burlington	629,842	629,842	—	—	—
City of Burrton	445,668	445,668	—	386,662	404,495
City of Caldwell	687,000	687,000	—	453,137	484,743
City of Caney	600,000	600,000	—	283,846	314,706
City of Caney	305,596	305,596	—	233,860	247,007
City of Canton	288,228	288,228	—	203,133	215,759
City of Carbondale	712,741	712,741	—	—	48,418
City of Cawker City	255,669	255,669	—	205,899	202,257
City of Chanute	1,140,603	1,140,603	—	—	501,499
City of Chanute	360,428	47,717	312,711	47,717	5,000
City of Cheney	1,148,001	1,148,001	—	586,240	644,493
Cherokee Co SD #1	350,000	170,851	179,149	170,851	—
City of Chetopa	343,841	343,841	—	90,678	108,993
City of Cimarron	899,093	899,093	—	232,727	285,954
City of Claflin	244,006	244,006	—	160,697	171,801
City of Clay Center	425,053	425,053	—	51,536	84,608
City of Clay Center	464,521	464,521	—	358,132	378,103
City of Clearwater	1,455,932	1,455,932	—	—	952,784
City of Coats	65,163	65,163	—	40,786	43,749
City of Coffeyville	1,628,702	1,628,702	—	554,577	630,448
City of Coffeyville	9,188,590	9,188,590	—	3,944,828	4,405,142
City of Coffeyville	3,028,448	3,028,448	—	1,221,285	1,388,368
City of Colby	8,755,230	8,755,230	—	6,439,455	6,811,374
City of Colony	452,125	117,869	334,256	117,869	—
City of Columbus	695,634	695,634	—	605,514	626,312
City of Colwich	1,055,494	1,055,494	—	262,825	323,313
City of Conway Springs	425,828	425,828	—	103,431	127,093
City of Conway Springs	314,433	314,433	—	186,844	201,840
City of Council Grove	878,230	878,230	—	251,946	302,832
City of Council Grove	509,600	509,600	—	405,776	423,304
City of Dearing	177,438	177,438	—	66,864	77,823
City of Delia	231,181	231,181	—	158,075	167,929
City of Delphos	350,267	350,267	—	88,352	108,681
City of Denison	59,810	59,810	—	27,084	29,766
City of Derby	3,371,000	2,856,493	514,507	1,327,281	1,506,493
Dickinson County	247,272	247,272	—	100,554	114,373
City of Dodge City	29,532,000	25,020,109	4,511,891	23,032,494	22,358,249
City of Douglass	721,500	721,500	—	265,912	305,540
City of Douglass	1,288,296	1,288,296	—	811,825	868,374
City of Downs	1,189,333	1,189,333	—	964,728	1,014,819
City of Easton	376,231	376,231	—	226,786	238,106
City of Edgerton	197,615	197,615	—	94,166	111,625
City of Edgerton	10,748,000	10,303,909	444,091	10,303,909	—
City of Edna	69,800	69,800	—	—	2,496
City of Edna	426,584	426,584	—	336,882	356,578
City of Edwardsville	109,079	109,079	—	—	—
City of Edwardsville	3,063,879	3,063,879	—	—	2,215,280
City of Effingham	218,300	218,300	—	93,367	104,224
City of Elbing	282,203	282,203	—	129,150	143,974
City of El Dorado	1,182,869	1,182,869	—	—	—
City of El Dorado	11,606,958	11,606,958	—	8,444,247	8,935,405
City of El Dorado	2,106,252	2,106,252	—	1,263,751	1,650,300
City of Elgin	50,220	50,220	—	32,251	34,577
Ellis County	59,056	59,056	—	42,034	44,676
City of Ellinwood	1,985,676	1,985,676	—	573,400	688,859

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

Notes To Financial Statements (*Continued*)

Project	2013 Total Loan Commitment	2013 Cumulative Amount Loaned	2013 Undisbursed Loan Commitment	2013 Outstanding Loan Balance	2012 Outstanding Loan Balance
City of Ellis	\$ 1,023,155	\$ 1,023,155	\$ —	\$ 350,702	\$ 407,732
City of Ellsworth	1,500,000	1,500,000	—	1,229,896	1,291,614
City of Emporia	5,010,437	5,010,437	—	—	—
City of Emporia	7,389,811	7,389,811	—	—	—
City of Englewood	64,093	64,093	—	41,868	44,740
City of Ensign	340,705	4,376	336,329	4,376	—
City of Eudora	5,515,000	5,515,000	—	—	2,554,712
City of Eudora	2,767,450	2,767,450	—	2,463,038	2,523,866
City of Eureka	3,138,478	3,138,478	—	301,197	493,625
City of Eureka	510,204	504,944	5,260	366,374	389,293
Flint Hills RC&D	764,300	9,814	754,486	9,814	—
City of Ford	196,965	196,965	—	108,039	117,681
City of Fredonia	590,155	554,280	35,875	274,242	314,234
City of Frontenac	2,602,065	2,602,065	—	711,374	835,111
City of Fort Scott	6,788,070	6,788,070	—	780,308	852,945
City of Garden City	13,400,890	13,400,890	—	—	—
City of Garden Plain	2,473,796	2,473,796	—	1,172,880	1,221,699
City of Gardner	2,223,206	2,223,206	—	484,119	612,065
City of Gardner	20,078,700	20,078,700	—	—	—
City of Gardner	3,483,009	3,483,009	—	2,224,123	2,348,449
City of Gardner	9,584,000	5,417,782	4,166,218	5,417,782	—
City of Garnett	727,030	727,030	—	—	—
City of Garnett	3,300,000	3,300,000	—	—	—
City of Geuda Springs	186,824	186,824	—	75,965	85,534
Glacial Hills - Delaware	268,063	268,063	—	—	—
Glacial Hills - Delaware	295,776	295,776	—	—	—
Glacial Hills - Delaware	756,000	—	756,000	—	—
Glacial Hills - Delaware	388,295	—	388,295	—	—
Glacial Hills - Holton	191,310	—	191,310	—	—
Glacial Hills - Wolf River	153,948	—	153,948	—	—
City of Glasco	325,600	288,978	36,622	288,978	—
City of Glen Elder	134,275	134,275	—	84,342	90,436
City of Goddard	500,000	500,000	—	227,224	253,305
City of Goddard	6,817,490	6,817,490	—	6,195,191	6,353,124
City of Goessel	206,316	206,316	—	137,677	146,366
City of Gorham	188,202	188,202	—	167,647	175,142
City of Grainfield	903,594	437,511	466,083	437,511	—
City of Girard	1,486,105	1,486,105	—	239,079	328,369
City of Great Bend	5,590,000	5,590,000	—	1,930,712	2,244,678
City of Great Bend	2,193,658	2,193,658	—	1,624,144	2,096,934
City of Grinnell	522,343	522,343	—	352,293	450,468
City of Grandview Plaza	133,384	133,384	—	49,100	52,493
City of Halstead	924,335	924,335	—	416,059	464,148
City of Halstead	309,664	309,664	—	245,210	258,534
City of Hanover	239,581	239,581	—	—	131,699
City of Harper	1,157,067	1,157,067	—	753,574	805,258
City of Hartford	235,000	235,000	—	130,406	141,864
City of Harveyville	123,643	123,643	—	4,884	78,933
City of Haven	513,893	513,893	—	428,844	450,097
City of Hays	5,516,364	5,516,364	—	387,751	760,482
City of Hays	156,577	156,577	—	—	—
City of Herington	596,722	596,722	—	401,705	429,461
City of Hesston	2,291,249	182,025	2,109,224	182,025	—
City of Hiawatha	691,927	691,927	—	107,702	132,446
City of Highland	797,380	797,380	—	223,726	264,073
City of Hillsboro	422,447	422,447	—	—	—
City of Hillsboro	399,578	399,578	—	—	—
City of Hillsboro	490,000	490,000	—	—	—
City of Hillsboro	2,857,206	2,857,206	—	—	—
City of Hill City	4,999,110	169,612	4,829,498	169,612	—
City of Holton	2,005,536	2,005,536	—	—	74,508
City of Holton	4,628,576	4,628,576	—	4,484,582	4,599,532

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

Notes To Financial Statements (*Continued*)

Project	2013 Total Loan Commitment	2013 Cumulative Amount Loaned	2013 Undisbursed Loan Commitment	2013 Outstanding Loan Balance	2012 Outstanding Loan Balance
City of Holyrood	\$ 318,917	\$ 318,917	\$ —	\$ 169,148	\$ 184,975
City of Howard	819,760	819,760	—	474,043	512,841
City of Hoyt	692,780	692,780	—	172,591	207,372
City of Hoyt	735,029	653,103	81,926	645,103	630,107
City of Hugoton	1,738,259	1,738,259	—	1,096,952	1,163,588
City of Humboldt	1,200,000	1,200,000	—	424,878	501,778
City of Humboldt	1,326,970	1,326,970	—	627,848	695,297
City of Humboldt	684,000	684,000	—	596,319	599,798
City of Hutchinson	1,311,490	1,311,490	—	—	—
City of Hutchinson	5,989,284	5,989,284	—	3,673,495	3,949,854
City of Hutchinson	10,000,000	10,000,000	—	7,967,856	8,395,398
City of Hutchinson	5,700,000	5,700,000	—	2,834,594	2,955,235
City of Independence	507,265	507,265	—	17,063	50,191
City of Independence	418,306	418,306	—	94,811	119,829
City of Independence	7,447,476	7,447,476	—	—	—
City of Independence	4,000,000	265,916	3,734,084	265,916	—
City of Ingalls	341,736	341,736	—	225,257	244,266
City of Iola	2,727,942	2,727,942	—	2,153,641	2,270,564
City of Iola	785,000	—	785,000	—	—
Jefferson County #7	336,697	336,697	—	—	—
Jefferson County	551,559	551,559	—	386,298	410,520
City of Jetmore	1,480,929	1,480,929	—	725,930	756,453
Johnson County Community College	528,500	528,500	—	—	—
Johnson County	4,902,966	4,902,966	—	—	—
Johnson County	3,069,300	3,069,300	—	—	—
Johnson County	3,146,378	3,146,378	—	—	—
Johnson County	3,543,860	3,543,860	—	—	83,875
Johnson County	1,752,469	1,752,469	—	—	40,307
Johnson County	47,190,000	47,190,000	—	4,754,367	7,779,150
Johnson County	14,290,397	14,290,397	—	4,693,896	5,457,952
Johnson County	12,519,392	12,519,392	—	8,614,537	9,154,681
Johnson County	18,307,269	18,307,269	—	9,106,089	9,334,640
Johnson County	8,131,778	—	8,131,778	—	—
Johnson County	1,452,921	—	1,452,921	—	—
City of Junction City	3,849,275	3,849,275	—	1,516,370	1,666,974
City of Junction City	6,002,166	6,002,166	—	4,415,976	4,683,624
City of Kanopolis	90,747	90,747	—	61,529	65,580
Kansas City/Wyandotte County	531,041	531,041	—	130,792	160,810
Kansas City/Wyandotte County	12,284,148	12,284,148	—	3,882,083	4,513,995
Kansas City/Wyandotte County	3,322,871	3,322,871	—	952,072	1,123,767
Kansas City/Wyandotte County	13,231,300	10,417,674	2,813,626	4,391,499	4,872,900
City of Kensington	208,959	208,959	—	—	—
City of Kincaid	149,460	149,460	—	114,588	120,685
City of Kingman	873,425	873,425	—	—	—
City of Kingman	3,726,575	3,726,575	—	—	—
City of Kinsley	575,656	575,656	—	359,924	386,968
City of Kirwin	166,827	166,827	—	145,572	152,159
Kansas State University	583,507	583,507	—	—	—
Kansas Water Office	1,716,793	1,716,793	—	—	—
Kansas Water Office	300,480	—	300,480	—	—
Kansas Water Office	1,310,652	—	1,310,652	—	—
Kansas University	178,941	178,941	—	—	—
Kansas University	450,000	—	450,000	—	—
Labette County	481,000	214,410	266,590	158,507	178,346
City of LaCrosse	2,678,530	2,262,909	415,621	2,199,532	1,658,101
City of LaCygne	559,171	559,171	—	280,200	307,948
City of LaHarpe	760,000	760,000	—	299,145	340,071
City of Lakin	887,498	785,655	101,843	400,106	446,219
City of Lancaster	305,817	305,817	—	104,411	117,564
City of Lansing	15,674,127	15,674,127	—	—	10,263,608
City of Larned	6,824,462	6,824,462	—	5,457,913	5,738,615
City of Latham	189,499	189,499	—	163,343	171,073

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

Notes To Financial Statements (*Continued*)

Project	2013 Total Loan Commitment	2013 Cumulative Amount Loaned	2013 Undisbursed Loan Commitment	2013 Outstanding Loan Balance	2012 Outstanding Loan Balance
City of Lawrence	\$ 44,773,720	\$ 44,773,720	\$ —	\$ 21,686,595	\$ 23,848,882
City of Lebo	467,079	467,079	—	313,359	334,677
City of Lecompton	161,494	161,494	—	71,328	79,680
City of Lehigh	358,533	358,533	—	299,751	314,526
City of Lenexa	1,073,430	1,073,430	—	251,096	261,721
City of Leon	455,930	455,930	—	—	46,526
City of Leon	732,253	674,303	57,950	674,303	—
City of Leonardville	81,401	81,401	—	36,507	43,394
City of Leoti	888,149	888,149	—	583,002	332,198
City of Liberty	144,445	144,445	—	133,393	138,991
City of Lincolnville	245,275	—	245,275	—	—
City of Lindsborg	1,150,000	1,150,000	—	254,316	333,279
City of Lindsborg	4,950,673	4,950,673	—	3,236,717	3,380,567
City of Linwood	205,171	205,171	—	—	151,712
City of Lincoln Center	699,705	699,705	—	441,871	474,519
City of Lenora	128,598	128,598	—	4,326	12,740
City of Logan	540,837	540,837	—	372,986	395,644
City of Little River	190,383	190,383	—	133,236	141,658
City of Louisburg	866,618	866,618	—	—	29,316
City of Lorraine	100,000	58,320	41,680	58,320	—
Leavenworth County	380,027	380,027	—	271,379	288,002
Leavenworth County SD #3	1,139,578	1,139,578	—	994,070	1,036,378
City of Lyndon	1,466,000	1,466,000	—	1,098,220	1,166,779
City of Lyons	1,402,806	1,402,806	—	686,674	781,334
City of Madison	630,857	630,857	—	210,759	245,032
City of Maize	2,828,535	2,828,535	—	—	—
City of Manhattan	8,666,236	8,666,236	—	4,834,041	5,264,551
City of Manhattan	39,506,000	31,793,922	7,712,078	28,856,224	24,444,510
City of Mankato	300,653	300,653	—	152,344	167,431
City of Maple Hill	318,930	318,930	—	—	—
City of Marion	433,625	43,835	389,790	43,835	—
City of Marysville	3,761,700	3,761,700	—	1,162,898	1,372,422
City of Marysville	937,213	937,213	—	610,780	653,153
City of Mayetta	229,793	229,793	—	83,613	96,104
City of McCune	450,527	450,527	—	204,055	227,477
City of McFarland	289,253	289,253	—	192,683	205,899
City of McLouth	1,522,288	1,522,288	—	767,774	843,842
City of McPherson	1,067,645	1,067,645	—	173,645	238,982
City of McPherson	1,127,000	1,127,000	—	503,335	562,291
City of McPherson	11,346,393	11,346,393	—	9,383,128	9,844,410
City of Meade	843,338	843,338	—	458,870	495,721
City of Medicine Lodge	2,946,766	2,946,766	—	1,864,426	1,998,890
City of Melvern	150,575	150,575	—	—	94,596
City of Meriden	527,531	527,531	—	—	—
City of Milford	302,068	302,068	—	—	—
City of Minneapolis	416,529	416,529	—	—	—
City of Minneapolis	526,144	16,212	509,932	16,212	—
City of Mission	406,272	406,272	—	93,853	97,896
City of Mission Hills	4,116,534	4,116,534	—	—	—
Montgomery County	248,456	248,456	—	143,267	154,678
City of Moran	358,225	358,225	—	146,149	164,560
City of Moran	353,389	346,808	6,581	338,103	76,508
City of Moscow	715,460	—	715,460	—	—
Metropolitan Topeka Airport Authority	2,410,486	2,410,486	—	1,243,727	1,361,784
City of Neodesha	300,449	300,449	—	128,840	164,903
City of Newton	1,207,034	1,207,034	—	607,465	661,886
City of Newton	7,647,208	7,647,208	—	6,078,130	6,363,117
City of Nickerson	4,411,837	4,411,837	—	—	—
City of Norton	4,300,000	4,300,000	—	3,061,395	3,254,612
City of Nortonville	671,184	671,184	—	424,056	454,679
City of Oakley	1,563,221	1,563,221	—	1,402,713	1,472,367
City of Oberlin	1,759,081	1,759,081	—	1,065,449	1,132,693
City of Ogen	1,525,279	1,525,279	—	1,271,114	1,330,015

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

Notes To Financial Statements (*Continued*)

Project	2013 Total Loan Commitment	2013 Cumulative Amount Loaned	2013 Undisbursed Loan Commitment	2013 Outstanding Loan Balance	2012 Outstanding Loan Balance
City of Olathe	\$ 542,545	\$ 542,545	\$ —	\$ —	\$ —
City of Olathe	686,461	686,461	—	—	—
City of Olathe	3,663,045	3,663,045	—	822,520	1,042,747
City of Olathe	2,864,968	2,864,968	—	713,956	842,709
City of Olathe	2,184,000	2,184,000	—	1,408,247	1,509,811
City of Olathe	768,500	768,500	—	609,206	646,241
City of Olathe	5,000,000	5,000,000	—	4,188,653	4,395,474
City of Olpe	567,303	567,303	—	339,349	364,878
City of Osawatomie	1,518,929	1,518,929	—	—	—
City of Osawatomie	2,413,903	2,413,903	—	—	—
City of Osborne	292,010	292,010	—	259,102	270,505
City of Oskaloosa	369,267	369,267	—	—	—
City of Oskaloosa	3,013,222	3,013,222	—	—	—
City of Oswego	272,952	272,952	—	9,668	28,447
City of Ottawa	10,764,014	10,764,014	—	6,955,624	7,453,384
City of Ottawa	4,707,513	—	4,707,513	—	—
City of Overbrook	1,054,662	1,054,662	—	720,128	769,728
City of Oxford	290,504	290,504	—	—	—
City of Palco	224,307	224,307	—	132,484	142,088
City of Paola	6,955,248	6,955,248	—	—	—
City of Park	313,473	313,473	—	286,869	303,016
City of Parsons	1,023,544	1,023,544	—	232,859	—
City of Parsons	7,100,000	7,100,000	—	4,721,299	5,196,910
City of Parsons	500,000	—	500,000	—	—
City of Partridge	200,363	200,363	—	136,840	145,109
City of Pawnee Rock	299,595	299,595	—	167,900	143,338
City of Paxico	116,590	116,590	—	76,329	81,603
City of Perry	607,800	607,800	—	250,793	282,297
City of Phillipsburg	2,855,519	2,855,519	—	1,508,746	1,643,547
City of Pittsburg	3,800,000	3,800,000	—	2,278,831	2,459,252
City of Pittsburg	4,000,000	3,681,625	318,375	2,501,219	1,924,869
City of Pittsburg	2,508,311	2,508,311	—	1,234,330	1,248,676
City of Plainville	712,172	712,172	—	216,921	252,196
City of Plains	756,588	—	756,588	—	—
City of Pleasanton	347,441	347,441	—	191,719	207,807
City of Pomona	735,458	735,458	—	238,909	280,030
Pottawatomie County	44,800	44,800	—	—	—
Pottawatomie County/Manhattan	4,676,603	4,676,603	—	3,740,569	4,519,559
City of Potwin	173,288	173,288	—	105,702	112,681
City of Pratt	1,810,689	1,810,689	—	677,954	770,845
City of Pratt	3,412,637	413,475	2,999,162	353,677	134,038
City of Prescott	165,636	165,636	—	—	—
City of Preston	326,633	326,633	—	—	—
City of Preston	295,923	295,923	—	243,420	250,272
City of Pretty Prairie	596,398	596,398	—	444,340	470,409
City of Princeton	142,161	142,161	—	105,749	111,694
City of Protection	711,030	711,030	—	544,568	575,182
City of Quenemo	386,400	386,400	—	—	—
City of Quenemo	440,419	440,419	—	—	—
City of Quinter	449,611	449,611	—	235,775	257,836
City of Quinter	713,981	713,981	—	573,724	603,002
Reno County	354,104	354,104	—	—	—
City of Riley	698,296	698,296	—	461,856	493,898
Riley County	180,106	180,106	—	66,458	76,393
City of Robinson	180,000	180,000	—	139,502	147,306
City of Robinson	295,143	62,824	232,319	62,824	—
City of Rose Hill	667,047	667,047	—	184,240	221,359
City of Rose Hill	819,856	819,856	—	465,193	498,917
City of Rose Hill	6,165,000	6,117,440	47,560	5,113,262	5,347,874
City of Rossville	558,540	558,540	—	340,023	365,858
City of Russell	2,500,000	2,500,000	—	—	—
City of Sabetha	3,250,000	3,250,000	—	2,229,359	2,376,553
City of Sawyer	157,570	157,570	—	132,167	138,764

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

Notes To Financial Statements (*Continued*)

Project	2013 Total Loan Commitment	2013 Cumulative Amount Loaned	2013 Undisbursed Loan Commitment	2013 Outstanding Loan Balance	2012 Outstanding Loan Balance
City of Scranton	\$ 213,380	\$ 213,380	\$ —	\$ —	\$ 41,385
City of Scranton	520,307	520,307	—	—	—
City of Sedan	236,000	236,000	—	38,668	53,261
City of Sedan	701,772	701,772	—	301,777	336,869
City of Sedgwick	957,626	957,626	—	—	516,093
City of Seneca	900,000	900,000	—	—	624,285
City of Severy	153,840	153,840	—	126,302	132,528
City of Shawnee	465,000	465,000	—	—	7,643
City of South Hutchinson	2,123,510	2,123,510	—	—	625,951
City of South Hutchinson	6,267,538	6,267,538	—	—	3,639,927
Shawnee County	996,800	996,800	—	—	—
Shawnee County	2,772,224	2,772,224	—	—	—
Shawnee County	10,990,672	10,990,672	—	—	—
Shawnee County	2,760,845	2,760,845	—	1,856,945	1,998,214
Shawnee County	1,643,657	1,643,657	—	1,145,569	1,228,349
Shawnee County	2,650,000	2,650,000	—	636,872	1,700,000
City of Silver Lake	340,453	340,453	—	—	—
City of Silver Lake	343,626	343,626	—	266,479	281,339
City of Silver Lake	697,400	—	697,400	—	—
City of Smith Center	1,661,831	1,661,831	—	1,293,527	1,364,785
City of Smolan	152,548	152,548	—	—	—
City of Soldier	180,857	180,857	—	173,899	176,773
City of Solomon	280,675	206,280	74,395	198,754	—
City of Spring Hill	776,043	776,043	—	—	—
City of Spring Hill	3,843,815	3,843,815	—	2,039,502	2,256,799
City of Stark	84,025	84,025	—	51,130	55,023
City of Sterling	1,220,348	1,218,536	1,812	1,038,787	915,677
City of St Francis	481,860	481,860	—	303,841	325,797
City of St. George	52,874	52,874	—	32,651	35,144
City of St. Marys	3,385,268	3,385,268	—	1,789,573	1,956,161
City of Stockton	5,402,300	498,256	4,904,044	498,256	423,649
City of Strong City	340,254	340,254	—	158,343	175,182
Strother Field	1,271,849	879,822	392,027	548,552	507,610
Sumner County-Slate Valley	202,394	202,394	—	143,218	152,296
City of Tampa	70,813	70,813	—	61,598	64,447
City of Tescott	236,054	236,054	—	123,701	135,305
City of Tonganoxie	671,500	671,500	—	—	47,330
City of Tonganoxie	311,940	311,940	—	—	—
City of Tonganoxie	4,382,650	4,382,650	—	—	3,965,246
City of Topeka	1,209,404	1,209,404	—	365,535	462,467
City of Topeka	29,835,125	29,835,125	—	2,074,475	4,073,291
City of Topeka	4,330,136	4,330,136	—	1,789,383	2,014,894
City of Topeka	60,000,000	60,000,000	—	37,936,446	40,947,116
City of Topeka	9,317,000	9,317,000	—	7,189,496	7,580,146
City of Topeka	4,828,002	4,828,002	—	1,307,204	1,541,879
City of Topeka	11,605,000	11,605,000	—	4,373,581	4,971,928
City of Towanda	776,778	776,778	—	198,707	244,428
City of Towanda	112,900	112,900	—	—	—
City of Towanda	1,252,465	1,252,465	—	1,008,083	1,039,532
City of Troy	270,800	113,707	157,093	113,707	83,919
City of Tyro	260,000	260,000	—	189,811	201,211
City of Udall	400,252	400,252	—	175,948	196,347
City of Uniontown	271,080	271,080	—	190,865	202,556
City of Valley Center	3,299,868	3,299,868	—	2,665,504	2,804,622
City of Victoria	1,043,195	1,043,195	—	549,155	600,538
City of Viola	450,000	443,057	6,943	436,242	343,717
City of Wakefield	235,405	235,405	—	13,751	32,311
City of Wakeeney	2,764,283	2,764,283	—	2,171,542	2,289,437
City of Wamego	2,215,305	2,215,305	—	475,768	611,716
City of Washington	774,362	774,362	—	127,598	188,413
City of Wathena	811,065	811,065	—	529,324	575,872
City of Waverly	201,100	201,100	—	66,955	77,914
City of Wellington	13,800,000	13,800,000	—	12,448,278	12,805,011

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

Notes To Financial Statements (*Continued*)

Project	2013 Total Loan Commitment	2013 Cumulative Amount Loaned	2013 Undisbursed Loan Commitment	2013 Outstanding Loan Balance	2012 Outstanding Loan Balance
City of Wellsville	\$ 2,542,422	\$ 2,542,422	\$ —	\$ 1,487,496	\$ 1,605,615
City of Wetmore	398,040	398,040	—	282,238	298,796
City of White City	373,792	373,792	—	193,968	211,271
City of Williamsburg	259,561	259,561	—	88,134	102,556
City of Willowbrook	600,000	585,927	14,073	367,455	395,923
City of Wilson	483,958	483,958	—	286,999	309,789
City of Winchester	259,287	259,287	—	86,427	102,013
City of Winchester	693,420	693,420	—	491,228	520,047
City of Windom	169,907	169,907	—	123,066	130,286
City of Winfield	7,970,091	7,970,091	—	—	—
City of West Mineral	215,671	215,671	—	106,761	114,376
City of Westmoreland	567,670	567,670	—	374,670	337,642
City of Woodston	114,150	—	114,150	—	—
Wyandotte County Community Housing	57,185	57,185	—	—	—
City of Yates Center	2,738,507	2,738,507	—	1,432,315	1,550,816
	\$ 1,076,042,062	\$ 1,007,831,413	\$ 68,210,649	\$ 440,877,250	\$ 485,128,195

Certain of the above loans are funded from American Recovery and Reinvestment Act (ARRA) monies and the 2010 and 2011 capitalization grants. Principal forgiveness awarded for ARRA loans totaled \$30,416 and \$14,061,738 in FY 2013 and FY 2012, respectively, with a cumulative amount of principal forgiveness of 22,603,166 on 22 loans. Principal forgiveness for 2010 capitalization grant loans totaled \$1,691,030 and \$1,433,644 in FY 2013 and FY 2012, respectively, with a cumulative amount of principal forgiveness of \$3,124,674 on 11 loans.

Each of the above 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.

4. Loan Reserve Accounts

Loan reserve accounts for the City of Topeka, the City of Kansas City, Strother Field and the Metropolitan Topeka Airport Authority total \$9,534,853 and \$9,522,175 as of June 30, 2013 and 2012, respectively. The loan reserves include balances on deposit with the State Treasurer totaling \$3,600,921 and \$3,588,243 as of June 30, 2013 and 2012, respectively, and investments totaling \$5,933,932 in repurchase agreements at interest rates ranging from 3.664% to 5.78%, maturing on various dates ranging from June 1, 2014 to June 1, 2022.

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

Notes To Financial Statements (Continued)

5. Bonds Payable

Outstanding Revenue Bonds consisted of the following at June 30:

	<u>2013</u>	<u>2012</u>
2001 Series II	\$ 50,575,000	\$ 60,880,000
2004 Series II	8,435,000	26,480,000
2005 Series I	2,345,000	2,875,000
2005 Series II	56,015,000	79,470,000
2008 Series I	1,415,000	2,855,000
2008 Series II	1,405,000	22,070,000
2010SRF Series 1	4,895,000	6,620,000
2010SRF Series 1	75,240,000	75,240,000
2010SRF Series 2	60,520,000	60,520,000
2010SRF Series 3	5,880,000	8,390,000
2013SRF	2,665,845	—
Total bonds payable	269,390,845	345,400,000
Unamortized net premium	11,269,615	15,059,893
Current maturities	(34,600,845)	(30,520,000)
Long Term Revenue Bonds payable, net	\$ 246,059,615	\$ 329,939,893

Long-term liability activity for the year ending June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Payable	\$ 345,400,000	\$ 2,665,845	\$ (78,675,000)	\$ 269,390,845	\$ 34,600,845

Long-term liability activity for the year ending June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Payable	\$ 400,590,000	\$ —	\$ (55,190,000)	\$ 345,400,000	\$ 30,520,000

The 2001 Series II Bonds, in an original amount of \$124,540,000, consist of serial bonds totaling \$50,575,000. 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.

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

Notes To Financial Statements (*Continued*)

The 2004 Series II Bonds, in an original amount of \$45,140,000, consist of serial bonds totaling \$8,435,000. The serial bonds are due in principal payments ranging from \$2,710,000 to \$2,915,000 with the final payment due May 1, 2016, and bear interest at 5.25% payable semi-annually.

The Series 2005 Bonds, in an original amount of \$118,860,000, consist of serial bonds totaling \$58,360,000. 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 3.5% to 5% payable semi-annually.

The Series 2008 Bonds, in an original amount of \$66,545,000, consist of serial bonds totaling \$2,820,000. The serial bonds are due in principal payments ranging from \$405,000 to \$1,415,000 with the final payment due November 1, 2019, and bear interest at rates ranging from 3.50% to 4.125% payable 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 \$80,135,000 are due in annual principal payments ranging from \$1,725,000 to \$20,020,000 with the final payment due March 1, 2022, and bear interest at 5.00% payable semi-annually.

The Series 2010SRF-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 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-3 Taxable Revenue Bonds were issued in the original amount of \$8,390,000 for the Water Pollution Control (WPC) program. A serial bond of \$5,880,000 is due March 1, 2014 at an interest rate of 2.231%.

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

Notes To Financial Statements (*Continued*)

On March 28, 2012, the Fund refunded \$27,895,000 of Series 2008 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 \$19,237,733.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$3,017,860. As this refunding was a cash defeasance, this difference was expensed in full in 2012 in the accompanying financial statements.

On January 29, 2013, the Series 2013SRF Bond was issued in an original amount of \$2,665,845. The taxable Bond will mature on January 29, 2014, with principal and interest due upon maturity. The initial interest rate is .5% and will reset each January 1 and July 1. The proceeds provided \$2,665,845 of state match loan funds for the program.

On March 21, 2013, the Fund refunded \$755,000 of Series 2001 II bonds, \$15,420,000 of Series 2004 II bonds, \$11,315,000 of Series 2005 II bonds and \$20,665,000 of Series 2008 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 \$21,007,649.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of \$2,558,482. As this refunding was a cash defeasance, this difference was expensed in full in the current year in the accompanying financial statements.

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

Notes To Financial Statements (*Continued*)

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 KDFFA. At June 30, 2013 and 2012, the Fund was not in default of any provisions of the Master or Supplemental Bond Resolutions. 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 KDFFA. At June 30, 2013 and 2012, the Fund was not in default of any provisions of the Master Financing Indenture or the Supplemental Indenture.

Revenue Bond debt service requirements to maturity are as follows:

Year Ending June 30,	Principal Amount Due	Interest Amount Due	Total
2014	\$ 34,600,845	\$ 13,199,876	\$ 47,800,721
2015	30,325,000	11,664,278	41,989,278
2016	30,240,000	10,131,428	40,371,428
2017	22,595,000	8,559,603	31,154,603
2018	24,510,000	7,307,728	31,817,728
2019 - 2023	87,940,000	21,903,472	109,843,472
2024 - 2028	28,740,000	7,097,407	35,837,407
2029 - 2030	10,440,000	956,253	11,396,253
	\$ 269,390,845	\$ 80,820,045	\$ 350,210,890

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

The debt service repayment in FY 2013 was \$30,520,000 for principal with cumulative principal repayments totaling \$276,520,000 and \$15,720,644 for interest with cumulative interest repayments totaling \$271,856,937.

In prior years, the Fund defeased certain State Revolving Fund revenue bonds by placing the cash and proceeds for refunding 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. At June 30, 2013, \$100,270,000 of bonds have been defeased and are no longer included in bonds outstanding.

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

Notes To Financial Statements (*Continued*)

In December 2013, subsequent to year end, the Kansas Development Finance Authority (KDFFA) issued Kansas Revolving Funds Revenue Bonds Series 2013SRF-2, for \$3.8 million related to the Fund to provide the State match for the Water Pollution Control Revolving Fund. The interest rate on the bonds is variable, with the initial rate of .5 percent that resets each January 1st and July 1st. The bonds mature on December 18, 2014.

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, 2002, 2004, 2005, 2008 and 2010 Bonds as of June 30, 2013 and 2012.

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. Therefore, as administration funds are earned, Fund equity is reduced and program administration grant revenue is recognized.

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

Notes To Financial Statements (*Continued*)

Federal capitalization grants awarded by EPA through June 30, 2013 are as follows:

Federal Fiscal Year	Loans	Program Administration	Total Grant
1989 Grant Award	\$ 8,431,725	\$ 351,322	\$ 8,783,047
1990 Grant Award	8,714,020	363,084	9,077,104
1991 Grant Award	17,783,600	740,983	18,524,583
1992 Grant Award	16,836,716	701,530	17,538,246
1993 Grant Award	16,655,190	693,966	17,349,156
1994 Grant Award	10,334,364	430,599	10,764,963
1995 Grant Award	10,673,182	444,716	11,117,898
1996 Grant Award	17,482,935	728,451	18,211,386
1997 Grant Award	5,359,104	223,296	5,582,400
1998 Grant Award	11,668,441	486,185	12,154,626
1999 Grant Award	12,050,539	486,225	12,536,764
2000 Grant Award	11,629,920	484,577	12,114,497
2001 Grant Award	11,526,451	480,269	12,006,720
2002 Grant Award	11,552,112	481,338	12,033,450
2003 Grant Award	11,477,030	478,210	11,955,240
2004 Grant Award	11,483,968	478,499	11,962,467
2005 Grant Award	9,335,904	388,996	9,724,900
2006 Grant Award	7,568,736	315,364	7,884,100
2007 Grant Award	9,272,064	386,336	9,658,400
2008 Grant Award	5,860,032	244,168	6,104,200
2009 Grant Award	5,860,128	244,172	6,104,300
2009 Grant Award - ARRA	33,959,232	1,414,968	35,374,200
2010 Grant Award	17,655,360	735,640	18,391,000
2011 Grant Award	12,794,880	533,120	13,328,000
2012 Grant Award	12,246,720	510,280	12,757,000
	308,212,353	12,826,294	321,038,647
Less cumulative amounts drawn down	(277,235,550)	(8,290,581)	(285,526,131)
	30,976,803	4,535,713	35,512,516
Less amounts drawn down during Fiscal Year 2013	(19,481,879)	(374,631)	(19,856,510)
	\$ 11,494,924	\$ 4,161,082	\$ 15,656,006

As of June 30, 2013 and 2012, \$15,656,006 and \$22,755,516, respectively, of the capitalization grants had not been drawn down.

**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. Robert Moser, MD
Secretary of Kansas Department
of Health and Environment and
the Board of Directors of the Kansas
Development Finance Authority
Topeka, Kansas

We have audited the financial statements of the Kansas Water Pollution Control Revolving Fund (the Fund) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated December 17, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 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.

Dr. Robert Moser, MD
Secretary of Kansas Department
of Health and Environment and
the Board of Directors of the Kansas
Development Finance Authority

Our consideration of internal control over financial reporting 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 significant deficiencies or material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance And Other Matters

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

Purpose Of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund'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.

RubinBrown LLP

December 17, 2013

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

June 30, 2013

Finding 2012-1 - (Not Repeated In The Current Period)

Condition - With management's transition in accounting reporting software, processes were not put in place to ensure the proper reconciliation of cash balances on a timely basis.

Matter was cleared appropriately in the current reporting period.