KANSAS PUBLIC WATER
SUPPLY LOAN FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)

FINANCIAL STATEMENTS
JUNE 30, 2014 and 2013

KANSAS PUBLIC WATER SUPPLY LOAN FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)

Table of Contents

CliftonLarsonAllen LLP
8390 East Crescent Parkway, Suite 600
Greenwood Village, CO 80111
303-779-5710 | fax 303-779-0348
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Dr. Susan Mosier
Interim 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 Public Water Supply Loan Fund (the Fund), an enterprise fund of the State of Kansas, as of and for the year ended 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 the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 an audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year 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, 2014 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 4 – 8 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 December 17, 2014, 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.

Report on Comparative Information

The comparative financial statements of the Fund for the year ended June 30, 2013 were audited by another auditor whose report dated December 17, 2013 expressed an unmodified opinion on those statements.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
December 17, 2014

The Kansas Public Water Supply Loan Fund (the Fund) provides financial assistance to Kansas municipalities in the form of loans for the construction of public water supply system infrastructure. 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 monies.

In this fifteenth year of operation, the continued success of the Fund is shown below by providing project funding for the additional Public Water Supply needs of Kansas communities.

During the fiscal year ended June 30, 2014:

- FFY 2013 federal capitalization grant award of $10,302,000 was received
- FFY 2011 federal capitalization grant amendment was received and there were no changes to the original amount awarded
- FFY 2012 federal capitalization grant amendment was received and there were no changes to the original amount awarded
- Federal capitalization grant dollars drawn down: $23,519,380 for loans and $1,554,889 for administration and other set-aside expenses
- Total available for loans-unexpended: $0 recycled, $0 leveraged, $6,190,908 federal for loans, $111,075,285 program equity and $1,000,000 general fund
- Total loan agreements: 273 loans totaling $573,162,355 of which $485,932,398 has been paid in project payments
- Loan agreements:
  - New loans $45,374,079 (13 loans)
  - Declined loans $386,176 (1 loan)
  - Loan amendments: 6 increase amendments totaling $8,783,656 and 10 decrease amendments totaling $6,753,236
- Disbursements for project costs: $25,242,428
- Average monthly disbursements FY2013: $2,103,536
- Average monthly disbursements program-to-date: $2,640,937
- Completed projects: 8 totaling: $5,369,288
- Total revenue bond debt service paid: $11,696,485

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 and State contribution deposited to the bond reserve account and the excess earnings of the Fund's operations since inception.

Net Position

	2014	2013	2012
Current and other assets	$ 122,071,611	$ 143,317,567	$ 142,574,900
Noncurrent assets	209,355,479	169,672,933	221,396,103
Total assets	331,427,090	312,990,500	363,971,003
Deferred outflows of resources	12,569,243	14,212,770	15,856,297
Long-term liabilities	148,365,385	155,163,227	207,545,683
Other liabilities	10,405,449	8,382,401	15,454,715
Total liabilities	158,770,834	163,545,628	223,000,398
Restricted net position	185,225,499	163,657,642	156,826,902
Total net position	$ 185,225,499	$ 163,657,642	$ 156,826,902

The Fund also implemented GASB 65 for the fiscal year ended June 30, 2014 which resulted in beginning net position for 2014 to be restated from $165,330,503 to $163,657,642. This was a difference of $1,672,861. The beginning net position for fiscal year ended June 30, 2013 was also restated with the implementation of GASB 65. The beginning net position was restated from $158,992,708 to $156,826,902, a difference of $2,165,806. GASB 65 requires that bond issuance costs be expensed in the year incurred rather than amortized over the life of the bonds.

The increase in current assets for the year ended June 30, 2013 of over $0.7 million is due in part to a net increase in current investments of over $49.2 million, but a decrease in cash of over $45.6 million. The excess of loan repayments over bond debt service payments provided $4.7 million of cash in addition to $12.7 million from the deallocation of the leveraged bond reserve accounts. Additionally, $67.2 million of loan prepayments were received this fiscal year and $45.3 million of loan prepayments were used to partially refund outstanding revenue bonds. Due to the large volume of loan prepayments, there was a $58.5 million decrease in loans receivable.

The decrease in total liabilities for the year ended June 30, 2013 of $59.5 million was due mainly to the prepayments on loans providing funds to refund $40.8 million of previously issued bonds, in addition to debt service payments of $12.4 million. Bond interest payable also decreased $0.6 million due to the decrease in bonds outstanding. In addition, the loan reserve accounts held by the fund decreased $4.1 million.

The decrease in current assets for the year ended June 30, 2014 of over $21.2 million is due in large part to a net decrease in cash of over $18.7 million. The main reason for the decrease in the cash was due to cash being used to purchase new investments. Additionally, $3.8 million of loan prepayments was received this fiscal year.

The decrease in total liabilities for the year ended June 30, 2014 was over $4.8 million. Revenue bonds payable decreased $4.7 million.

Prior to the Series 2009 bonds issued on September 29, 2009, all bonds issued for this program are tax-exempt revenue bonds. The Series 2009 DW-1 bonds are tax-exempt revenue bonds and the Series 2009 DW-2 bonds are taxable Build America 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 is in excess of the cost of the debt. For this Program, as of June 30, 2014 and June 30, 2013, there was no rebate liability for the Series 2004, 2009 DW-1, 2010-1, 2011 and 2013 bonds. The rebate liability is incrementally funded from the excess revenues available following each semiannual bond debt service payment. The Fund's revenue bonds payable totaled $148.3 million and $152.0 million at June 30, 2014 and 2013, respectively. Please refer to the notes to the financial statements for more information on debt activity.

The Statements of Revenues, Expenses and Changes in Net Position provide information about the Fund resources and uses of those resources. This statement demonstrates that sufficient resources were generated to cover expenses during the fiscal year 2013. The change in net position as of June 30, 2013, was an increase of $6.8 million. The Fund operating revenues decreased by 27.8% due to a decrease in interest on loans. The Fund operating expenses (excluding principal forgiveness expense) decreased 16.7% due to a decrease in grant expenses. Principal forgiveness decreased 64.1%. Nonoperating revenues, including capital contributions, increased 266.5% due to a significant increase in grant draws of over $10.3 million. Nonoperating expenses decreased 21.5% due to a reduction in costs associated with the cash defeasance of bonds and interest expense on bonds. The FFY 2012 federal capitalization grant in the amount of $11.0 million was awarded on August 14, 2012 and $11.0 has not been drawn down.

The change in net position as of June 30, 2014, was an increase of $21.6 million. The Fund operating revenues decreased by 14.7% due to a decrease in interest on loans. The Fund operating expenses (excluding principal forgiveness expense) increased 18.9% due to an increase in grant expenses. Principal forgiveness decreased 0.6%. Nonoperating revenues, including capital contributions, increased 79.0% due to an increase in grant draws of over $11.3 million. Nonoperating expenses decreased 39.5% due to a reduction in costs associated with the cash defeasance of bonds and interest expense on bonds. The FFY 2013 federal capitalization grant in the amount of $10.3 million was awarded on July 29, 2013 and $7.3 million has not been drawn down.

Revenues, Expenses And Changes In Net Position

	2014	2013	2012
Revenues			
Operating revenues			
Loans	$ 4,652,592	$ 5,712,390	$ 8,349,416
Grants	1,306,560	1,323,932	1,474,095
Service fees	519,907	599,486	856,490
Other revenues	105,257	80,218	13,645
Nonoperating revenues			
Investment income			
Bond reserve fund	1,400,698	1,403,306	1,425,387
Other investment income	420,756	262,590	128,787
Other nonoperating revenues	511,111	555,254	555,254
Total Revenues	8,916,881	9,937,176	12,803,074
Expenses			
Operating expenses			
Program administration-federal	496,709	394,852	709,811
Other program set-asides	920,223	900,057	762,646
Program administration-other	744,434	522,472	708,356
Loan principal forgiveness	1,365,318	1,372,941	3,821,752
Other expenses	-	-	287
Nonoperating expenses			
Bond issuance costs	7,742	-	-
Other nonoperating expenses	-	4,003,325	4,973,582
Bond interest	7,333,978	8,130,139	10,491,554
Total Expenses	10,868,404	15,323,786	21,467,988
Decrease in net position before contributions	(1,951,523)	(5,386,610)	(8,664,914)
Capital contributions			
Capitalization grants, net of recognized administrative grants	23,519,380	12,217,350	1,830,221
Increase (decrease) in net position	21,567,857	6,830,740	(6,834,693)
Total net position – beginning of year as restated	163,657,642	156,826,902	163,661,595
Total net position – end of year	$ 185,225,499	$ 163,657,642	$ 156,826,902

The Statement 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. As of June 30, 2013, the Fund experienced a net decrease in cash of $45.6 million. Part of this decrease is from bonds refunded and from new investments purchased during the year. The balance of the decrease is due to routine Program operations.

During the year ended June 30, 2014, the Fund experienced a net decrease in cash of $18.7 million. The main reason for this decrease is from new investments purchased during the year. The balance of the decrease is due to routine Program operations.

This report is intended to provide financial information about the Kansas Public Water Supply Loan 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 William Carr, Program Coordinator, Kansas Department of Health and Environment or Pam Fink, Director, Office of Financial Management, Department of Administration.

KANSAS PUBLIC WATER SUPPLY LOAN FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)
STATEMENTS OF NET POSITION

	June 30, 2014	June 30, 2013
Assets		
Current assets		
Cash	$ 64,758,142	$ 83,496,580
Investment interest receivable	655,006	596,411
Investments	45,781,150	49,266,231
Loan interest receivable	1,939,943	1,874,294
Loans	8,669,888	7,590,620
Other receivables	267,482	493,431
Total current assets	122,071,611	143,317,567
Noncurrent assets		
Restricted cash - loan reserve earnings	1,785	2,151
Investments	50,068,800	21,435,460
Loans	145,830,017	134,431,941
Loan reserve deposits	3,497,377	3,454,631
Debt service reserve funds - investments	9,957,500	10,348,750
Total noncurrent assets	209,355,479	169,672,933
Total Assets	331,427,090	312,990,500
Deferred Outflows of Resources		
Deferred amounts on refunding	12,569,243	14,212,770
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	263,023	373,961
Bond interest payable	2,002,406	2,052,985
Revenue bonds payable, current	8,140,020	5,955,455
Total current liabilities	10,405,449	8,382,401
Noncurrent liabilities		
Loan reserve deposits	3,499,247	3,457,069
Revenue bonds payable, long-term, net	144,866,138	151,706,158
Total noncurrent liabilities	148,365,385	155,163,227
Total Liabilities	158,770,834	163,545,628
Total Net Position	$ 185,225,499	$ 163,657,642

See the accompanying notes to financial statements.

KANSAS PUBLIC WATER SUPPLY LOAN FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For the Years Ended June 30, 2014	2013
Operating Revenues		
Interest on loans	$ 4,652,592	$ 5,712,390
Grant revenue	1,306,560	1,323,932
Service fee revenue	519,907	599,486
Other revenue	105,257	80,218
Total Operating Revenues	6,584,316	7,716,026
Operating Expenses		
Program administration - federal	496,709	394,852
Program administration - other federal set-asides	920,223	900,057
Program administration - other	744,434	522,472
Loan principal forgiveness	1,365,318	1,372,941
Total Operating Expenses	3,526,684	3,190,322
Operating Income	3,057,632	4,525,704
Nonoperating Revenues (Expenses)		
Investment Income		
Bond reserve fund	1,400,698	1,403,306
Other investment income	420,756	262,590
Capital contributions - capitalization grants net of recognized administrative grants	23,519,380	12,217,350
Bond issuance costs	(7,742)	-
Other nonoperating revenues (expenses)	511,111	(3,448,071)
Interest expense - bonds	(7,333,978)	(8,130,139)
Total Nonoperating Revenues (Expenses)	18,510,225	2,305,036
Change in Net Position	21,567,857	6,830,740
Net Position - Beginning of Year as Restated	163,657,642	156,826,902
Total Net Position - End of Year	$ 185,225,499	$ 163,657,642

See the accompanying notes to financial statements.

KANSAS PUBLIC WATER SUPPLY LOAN FUND
(AN ENTERPRISE FUND OF THE STATE OF KANSAS)
STATEMENTS OF CASH FLOWS

	For the Years Ended June 30, 2014	2013
Cash Flows From Operating Activities		
Loan principal collected	$ 11,399,766	$ 76,641,369
Loans disbursed	(25,242,428)	(19,529,388)
Interest received on loans	4,586,943	6,609,609
Program administration expenses	(1,416,932)	(1,294,909)
Other revenue	132,507	(112,144)
Service fees received	497,930	686,031
Service fees paid	(634,696)	(437,205)
Capitalization grant for administrative costs	1,306,560	1,323,932
Net Cash Provided By (Used In) Operating Activities	(9,370,350)	63,887,295
Cash Flows From Noncapital Financing Activities		
Bond principal paid	(5,055,000)	(12,410,000)
Bond interest paid	(6,641,485)	(8,095,700)
Capitalization grant for loans	23,519,380	12,217,350
Bond proceeds, including premium	1,300,000	-
Payment to bond escrow agent	-	(41,298,044)
Bond issuance costs	(7,742)	-
Other nonoperating expenses	511,111	(3,448,071)
Net Cash Provided By (Used In) Noncapital Financing Activities	13,626,264	(53,034,465)
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	60,083,953	5,225,656
Proceeds from sales and maturities of debt service reserve funds	-	12,677,500
Purchase of investments	(84,823,367)	(75,927,347)
Interest received on investments and debt service reserve funds	1,745,264	1,535,687
Net change in loan reserve accounts	(568)	(1,440)
Net Cash Used In Investing Activities	(22,994,718)	(56,489,944)
Net Decrease In Cash	(18,738,804)	(45,637,114)
Cash - Beginning Of Year	83,498,731	129,135,845
Cash - End Of Year	$ 64,759,927	$ 83,498,731
Cash consists of:		
Cash	$ 64,758,142	$ 83,496,580
Restricted cash - loan reserve earnings	1,785	2,151
	$ 64,759,927	$ 83,498,731
Reconciliation of Operating Income To Net Cash Provided By Operating Activities		
Operating income	$ 3,057,632	$ 4,525,704
Adjustments to reconcile operating income to net cash provided by operating activities:		
Loans receivable	(12,477,344)	58,484,921
Loan interest receivable	(65,649)	897,219
Other receivables	225,949	3,286
Accounts payable and accrued expenses	(110,938)	(23,835)
Net Cash Provided By (Used In) Operating Activities	$ (9,370,350)	$ 63,887,295

See the accompanying notes to financial statements.

1. ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Description of Program – The Kansas Public Water Supply Loan Fund (the Fund) was established pursuant to Kansas Statutes Annotated (K.S.A.) 65-163d et. seq. in 1994 by the Kansas Legislature. The Fund was created to implement the State of Kansas' (Kansas or the State) participation under the Federal Safe Drinking Water Act (the Federal Act) as amended by the Safe Drinking Water Act Amendments of 1996. Under Kansas law, the Secretary of the Kansas Department of Health and Environment (KDHE) administers the Public Water Supply Loan Program (the Program). The Federal Act authorizes the Environmental Protection Agency (EPA) to award capitalization grants for deposit into state funds in order to provide financial assistance for construction and management of public water supply systems. The Program is the response by the State to federal law changes governing the development of publicly owned, public water supply systems including the financing, construction and management of those systems. The state 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 by the EPA capitalization grants and proceeds of bonds which will provide State match funds. The State match funds must be equal to 20% of the federal capitalization grants. The Fund is to be established, maintained and credited with loan 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 single 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 28-15-52 established 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 of 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 (the Treasurer) and UMB (the Trustee).

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

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

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

Investments – The Fund generally invests in investment agreements and repurchase 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 cash. 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 Account – The debt service reserve account was established as required under certain bond resolutions and consists of investments in investment agreements and repurchase agreements. The 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 accounts 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 premium and discount.

Revenues – The Fund revenues consist of operating and nonoperating revenues. Operating revenues include: 1) interest earned on loans, 2) federal grant dollars earned for loans and administrative costs, also known as program set-asides (program administration, technical assistance, state program management, and other authorized activities such as the authorization by section 1452 of the Safe Drinking Water Act (42 U.S.C. 300j-12) (1452K) (1)b), and 3) loan service fees earned. Nonoperating revenues include the 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 monies for administrative costs, also known as program set-asides (program administration, technical assistance, state program management, and other authorized activities under 1452K (1)b) and 2) principal forgiveness which is recognized upon completion of the project. 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 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 Public Water Supply EPA capitalization grants and bond covenants. Restricted net position includes EPA capitalization grants restricted for the 1) bond reserve fund, 2) loans to municipalities, 3) program administration expenses, 4) technical assistance, 5) state program management, 6) and other authorized activities 1452K (1)b. The amount of capitalization grants restricted for program administration, technical assistance, state program management, and other authorized activities 1452K (1)b is being recognized as revenue when earned. Also included in restricted net position is an account titled "Contributed Capital – State of Kansas". The account consists of monies contributed to the Fund per K.S.A. 74-8203, as amended and supplemented.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Fund only has one item that qualifies for reporting in this category. It is the deferred amounts on refunding reported in the statement of net position. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

Uses 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 those estimates.

Restatement of Net Position – In previous years, bond issuance costs were classified as assets and amortized over the life of the bonds using the straight line method. With the implementation of GASB Statement No. 65, bond issuance costs are to be recognized as an expense in the period incurred. The provisions of this statement are to be applied retroactively to the earliest period presented in the financial statements. The beginning net position for fiscal years ended June 30, 2014 and June 30, 2013 have been restated to retroactively apply the provisions of this statement. The beginning net position for the earliest period has been adjusted as follows:

Net position - June 30, 2012, as originally stated	$	158,992,708
Restatement related to bond issue costs		(2,165,806)
Net position - June 30, 2012, as restated		156,826,902
Change in net position for the year ended June 30, 2013, as originally stated		6,337,795
Bond issue cost amortization for the year ended June 30, 2013, as originally stated		492,945
Net position - June 30, 2013, as restated	$	163,657,642

Reclassification – Certain amounts in the June 30, 2013 financial statements have been reclassified to conform to the current year's presentation.

2. INVESTMENTS AND DEBT SERVICE RESERVE ACCOUNTS

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 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

Monies 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, 2014 and 2013, respectively, the program's investment and debt service reserve account balances were as follows:

		Maturity			
Investment Type	Carrying Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Repurchase agreements	$ 9,651,214	$ -	$ -	$ 9,651,214	$ -
Investment agreements	13,375,036	-	-	13,375,036	-
State or municipal debt obligations	63,278,959	26,278,909	37,000,049	-	-
Commercial paper	19,502,241	19,502,241	-	-	-
	$ 105,807,450	$ 45,781,150	$ 37,000,049	$ 23,026,250	$ -

		Maturity			
Investment Type	Carrying Value	Less Than 1 Year	1 - 5 Years	6 - 10 Years	More Than 10 Years
Repurchase agreements	$ 9,651,214	$ -	$ -	$ -	$ 9,651,214
Investment agreements	13,375,036	-	-	13,375,036	-
State or municipal debt obligations	58,024,191	49,266,231	8,757,960	-	
	$ 81,050,441	$ 49,266,231	$ 8,757,960	$ 13,375,036	$ 9,651,214

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.

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

Concentration of Credit Risk – The Fund places no limit on the amount that may be invested with any one provider. The tables below identify the percent of total investments held by each provider as of June 30, 2014 and 2013, respectively.

Investment Provider	Fair Value	Percent of Total
Citigroup	$ 9,651,214	9.12%
AIG	13,375,036	12.64%
UMB Bank NA	82,781,200	78.24%
	$ 105,807,450	100.00%

Investment Provider	Fair Value	Percent of Total
Citigroup	$ 9,651,214	11.91%
AIG	13,375,036	16.50%
UMB Bank NA	58,024,191	71.59%
	$ 81,050,441	100.00%

3. LOANS

The loans made by the Fund to the municipalities may include interest and service fees capitalized during project construction. Loans are to be repaid not later than 20 years after project completion. Principal and interest payments are due semi-annually. Interest rates on the loans outstanding at June 30, 2014, excluding the .35% service fee rate, range from 1.77% to 4.42%.

Estimated future maturities of the loans receivable and interest payments, at June 30, 2014 are as follows:

Year Ending June 30,	Principal	Interest
2015	$ 8,669,888	$ 4,112,712
2016	8,869,586	4,104,909
2017	9,416,165	3,949,188
2018	9,752,348	3,651,944
2019	10,100,989	3,343,720
2020-2024	50,594,211	11,983,529
2025-2029	39,420,568	4,867,233
2030-2034	15,992,645	989,643
2035-2036	1,683,505	30,823
	$ 154,499,905	$ 37,033,701

Certain of the above loans are funded from the American Recovery and Reinvestment Act (ARRA) monies, and the 2010, 2011, 2012 and 2013 capitalization grants. Principal forgiveness for ARRA loans totaled $0 and $872,851 as of June 30, 2014 and 2013, respectively, with a cumulative amount of principal forgiveness of $7,479,969 on 22 loans. Principal forgiveness for 2010 capitalization grant loans totaled $1,365,318 and $432,751 as of June 30, 2014 and 2013, respectively, with a cumulative amount of principal forgiveness of $2,317,839 on 16 loans. Principal forgiveness for 2011 capitalization grant loans totaled $0 and $67,339 as of June 30, 2014 and 2013, respectively, with a cumulative amount of principal forgiveness of $67,339 on one loan. Principal forgiveness has not been awarded for the 2012 and 2013 capitalization grants as of June 30, 2014.

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 of system revenues and ad valorem property taxes levied or a secured lien on the system revenues which requires debt service coverage of 125% with a 10% reserve account or debt service coverage of 140%.

Loans to Major Participants – The Fund has made loans to the following major participants. The aggregate outstanding loan balances for each of these participants exceeds 5 percent of total loans receivable. The outstanding loan balances at June 30, 2014 and 2013 of these major participants are as follows:

		2014		2013
Participant	**Loan Number**	**Loan Agreement Amount**	**Outstanding Principal Balance**	**Outstanding Principal Balance**
Kansas City BPU	2263	$ 12,308,750	$ 7,348,539	$ 7,904,896
Kansas City BPU	2265	5,118,465	3,077,188	3,310,440
Kansas City BPU	2379	9,000,000	6,526,053	6,913,645
Kansas City BPU	2570	12,230,500	10,472,869	6,372,977
Manhattan	2462	17,975,861	16,662,147	17,308,336
Manhattan	2720	506,899	369,079	-
Manhattan	2743	3,091,960	1,663,812	-
Olathe	2366	20,000,000	-	-
Olathe	2470	16,876,745	14,617,442	15,165,796
Olathe	2681	230,875	133,514	139,500
Topeka	2371	7,823,725	5,374,586	5,708,337
Topeka	2372	2,055,933	1,443,006	1,533,124
Topeka	2417	3,127,353	2,282,377	2,412,355
Topeka	2418	1,545,025	1,170,211	1,228,508
Topeka	2419	1,806,628	1,441,341	1,038,753
Topeka	2420	2,027,074	1,348,449	1,421,802
Total		$ 115,725,793	$ 73,930,613	$ 70,458,469

4. LOAN RESERVE DEPOSITS

Loan reserve deposits for twenty-one Rural Water Districts and six municipalities total $3,497,377 and $3,454,631 as of June 30, 2014 and 2013, respectively, with restricted cash earnings of $1,785 and $2,151, respectively. The balances are on deposit with the State Treasurer.

5. REVENUE BONDS PAYABLE

Revenue bonds payable consisted of the following at June 30:

	2014	2013
2004 Series 1 Revenue Bonds (Old Resolution)	$ 2,986,000	$ 3,836,000
2004 Series 2 Revenue Bonds (Old Resolution)	14,000	14,000
2009 Series DW-1 Revenue Bonds (Old Resolution)	5,430,000	6,145,000
2009 Series DW-2 Revenue Bonds (Old Resolution)	31,400,000	31,400,000
2010 Series SRF-1 DW Revenue Bonds (MFI)	890,000	1,615,000
2010 Series SRF-1 DW Revenue Bonds (MFI)	53,235,000	55,730,000
2011 Series SRF Revenue Bonds (MFI)	3,145,000	3,415,000
2011 Series SRF Revenue Bonds (MFI)	49,880,000	49,880,000
2013 Series SRF-2 Revenue Bonds (MFI)	1,300,000	-
Total bonds payable	148,280,000	152,035,000
Current maturities	(7,290,000)	(5,055,000)
Unamortized net original issue premium	4,726,158	5,626,613
Current unamortized net original issue premium	(850,020)	(900,455)
Long Term Revenue Bonds payable, net	$ 144,866,138	$ 151,706,158

Long-term liability activity for the years end June 30, 2014 and 2013, respectively, were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	$ 152,035,000	$ 1,300,000	$ (5,055,000)	$ 148,280,000	$ 7,290,000

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds Payable	$ 205,275,000	$ -	$ (53,240,000)	$ 152,035,000	$ 5,055,000

The 2004 Revenue Bonds, in the original amount of $176,010,000, consist of serial bonds totaling $3,000,000 as of June 30, 2014. The serial bonds are due in annual principal payments ranging from $225,000 to $940,000 with the final payment due on April 1, 2019, and bears interest at rates ranging from 3.7% to 5.00%, payable semi-annually. Series 2004 Bonds maturing on April 1, 2017 through April 1, 2023, inclusive, may be called for redemption and payment prior to maturity on or after April 1, 2014, in whole or in part at any time thereafter, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest thereon to the date of redemption.

The 2009 Revenue Bonds were issued in the original amount of $73,040,000 and consist of serial bonds, Series DW-1 and DW-2 totaling $5,430,000 and $29,980,000, respectively, and a Series DW-2 term bond totaling $1,420,000, as of June 30, 2014. The Series DW-1 serial bonds are due in annual principal payments ranging from $140,000 to $1,110,000 with the final payment due on April 1, 2021 and bear interest at rates ranging from 2.25% to 3.125%, payable semi-annually. The Series DW-2 serial bonds are due in annual principal payments ranging from $3,800,000 to $7,195,000 with the final payment due on April 1, 2026, and bear interest at rates ranging from 4.8% to 5.2%, payable semi-annually. The DW-2 term bond has principal payments ranging from $345,000 to $655,000, due April 1, 2029 and bears interest at 5.6% payable semi-annually. The Series 2009 Bonds, or portions thereof, maturing on April 1, 2018 and thereafter may be called for redemption and payment prior to maturity on or after April 1, 2017, in whole or in part at any time (selection of maturities and the amount of Series 2009 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 15, 2010, the Series 2010SRF Revenue Bonds were issued in the original amount of $213,950,000 for the Public Water Supply (PWS) and Water Pollution Control (WPC) programs. The bonds consist of Series 2010SRF-1, which include both PWS and WPC, and Series 2010SRF-2 and 2010SRF-3, for WPC. The Public Water Supply portions of Series 2010SRF-1 were issued in the original amount of $61,510,000, and consist of serial bonds totaling $54,125,000, as of June 30, 2014. The Series 2010SRF-1 serial bonds are due in annual principal payments ranging from $3,075,000 to $10,700,000 with the final payment due on March 1, 2022, and bear interest at rates ranging from 3% to 5%, 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.

On May 24, 2011, the 2011SRF Revenue Bonds were issued in the original amount of $53,380,000 and consist of serial bonds totaling $53,025,000, as of June 30, 2014. The serial bonds are due in annual principal payments ranging from $370,000 to $7,805,000 with the final payment due on March 1, 2031 and bear interest at rates ranging from 2.00% to 4.20%, payable semi-annually. The Series 2011 Bonds, or portions thereof, maturing on March 1, 2023 and thereafter may be called for redemption and payment prior to maturity on or after March 1, 2019, in whole or in part at any time (selection of maturities and the amount of Series 2011 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 March 21, 2013, the Fund refunded $31,580,000 of the Series 2004 bonds and $9,250,000 of the Series 2009 DW-1 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 was undertaken to reduce the debt service payments, including interest, over the life of the debt by $440,283.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the refunded debt of $4,003,325. As this refunding was a cash defeasance, this difference was expensed in full in fiscal year 2013.

On December 17, 2013, the Series 2013SRF-2 Bond was issued in an original amount of $5,100,000 for the Public Water Supply (PWS) and Water Pollution Control (WPC) programs. The Public Water Supply portion of the bond was issued in the original amount of $1,300,000. The interest rate on the bond is variable, with the initial rate of 0.5 percent that resets January 1st and July 1st and matures on December 18, 2014. The proceeds provided $1,300,000 of state match loan funds for the program. The 2013-2 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 2013-2 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. At June 30, 2014 and 2013, the Fund was not in default of significant provisions of the Master and 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 KDFA. At June 30, 2014 and 2013, the Fund was not in default of the provisions of the Master Financing Indenture or the Supplemental Indenture.

Aggregate revenue bond debt service requirements are as follows:

Year Ending June 30,	Principal Amount Due	Interest Amount Due	Total
2015	$ 7,290,000	$ 6,471,928	$ 13,761,928
2016	7,310,000	6,198,910	13,508,910
2017	7,195,000	5,905,210	13,100,210
2018	6,580,000	5,678,960	12,258,960
2019	9,035,000	5,377,648	14,412,648
2020 - 2024	59,850,000	20,022,660	79,872,660
2025 - 2029	42,375,000	6,802,655	49,177,655
2030 - 2031	8,645,000	512,255	9,157,255
	$ 148,280,000	$ 56,970,226	$ 205,250,226

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

The debt service payment in fiscal year 2014 was $5,055,000 for principal with cumulative principal payments totaling $127,910,000, and $6,641,485 for interest with a cumulative interest repayment totaling $145,785,456.

The fund defeased certain State Revolving Fund revenue bonds by placing the cash and proceeds for refunding bonds in an irrevocable escrow account with the Treasurer and UMB Bank 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, 2014 was $56,705,000.

Defeased bonds outstanding consisted of the following at June 30:

	Issue Date	Call Date	2014	2013
Series 2004	September 29, 2004	April 1, 2014	$ -	$ 91,405,000
Series 2004	September 29, 2004	April 1, 2015	13,065,000	13,065,000
Series 2004	September 29, 2004	April 1, 2016	13,580,000	13,580,000
Series 2009	September 29, 2009	April 1, 2014	-	535,000
Series 2009	September 29, 2009	April 1, 2015	545,000	545,000
Series 2009	September 29, 2009	April 1, 2016	560,000	560,000
Series 2009	September 29, 2009	April 1, 2017	28,955,000	28,955,000
Total defeased bonds outstanding:			$ 56,705,000	$ 148,645,000

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 2004, 2009, 2010, 2011 and 2013 bonds as of June 30, 2014 and 2013.

7. FEDERAL CAPITALIZATION GRANTS

As of June 30, 2014, the federal capitalization grants for 1997 through 2011 and the 2009 ARRA grant have been drawn down.

The 2010 federal capitalization grant of $16,605,000 was awarded on November 8, 2010 with four percent, $664,200, allocated for administration, $332,100 reserved for technical assistance, and $850,000 for other authorized activities as evidenced by the budget page of the grant award. As program administration funds are earned, grant revenue is recognized. An amount of $14,758,700 is reserved for direct loans.

On December 6, 2010, an amendment was processed that revised the programmatic terms and conditions which included fringe benefits but did not change the grant amount, direct loan, or set-aside amounts.

As of June 30, 2014, the entire 2010 capitalization grant had been drawn down. The entire 2010 capitalization grant has met the State matching requirements.

The 2011 federal capitalization grant of $11,522,000 was awarded on September 28, 2011 with four percent, $460,880, allocated for administration and $288,050 reserved for technical assistance as evidenced by the budget page of the grant award. As program administration funds are earned, grant revenue is recognized. An amount of $10,773,070 is reserved for direct loans.

On July 17, 2012, an amendment was processed and $349,322 for state program management was awarded. On August 14, 2012, a second amendment was processed to reallocate $349,322 from state program management to technical assistance and administration. $6,986 was allocated for technical assistance and $342,336 was allocated for administration as evidenced by the budget page of the grant award amendment. On December 16, 2013, a third amendment was processed to reallocate $303,216 from administration to direct loans.

As of June 30, 2014, the entire 2011 capitalization grant had been drawn down. The 2011 capitalization grant has met the State matching requirements.

The 2012 capitalization grant of $10,981,000 was awarded on August 14, 2012 with four percent, $439,240, allocated for administration and $290,000 allocated for technical assistance and $200,000 for state program management as evidenced by the budget page of the grant award. As program administration funds are earned, grant revenue is recognized. An amount of $10,051,760 is reserved for direct loans.

On December 16, 2013, an amendment was processed to reallocate $200,000 from administration to direct loans.

As of June 30, 2014, $143,736 of the 2012 capitalization grant had not been drawn down. The entire 2012 capitalization grant has met the state matching requirements and is available based on the grant payment schedule.

The 2013 capitalization grant of $10,302,000 was awarded on July 29, 2013 with four percent, $412,080, allocated for administration and $300,000 allocated for technical assistance, $300,000 allocated for state program management and $600,000 allocated for other authorized activities as evidenced by the budget page of the grant award. As program administration funds are earned, grant revenue is recognized. An amount of $8,689,920 is reserved for direct loans.

As of June 30, 2014, $7,293,329 of the 2013 capitalization grant had not been drawn down. The entire 2013 capitalization grant has met the state matching requirements and is available based on the grant payment schedule.

Federal capitalization grants awarded by the EPA through June 30, 2014 are as follows:

Federal Fiscal Year	Loans	Reserve	Program Administration	Other Set-Asides	Total Grant
1997 Grant Award	$ -	$ 11,776,871	$ 563,800	$ 1,754,329	$ 14,095,000
1998 Grant Award	-	9,407,614	400,324	200,162	10,008,100
1999 Grant Award	-	9,860,036	419,576	209,788	10,489,400
2000 Grant Award	-	10,393,127	436,060	72,313	10,901,500
2001 Grant Award	-	9,969,176	436,190	541,234	10,946,600
2002 Grant Award	-	9,001,632	-	233,068	9,234,700
2003 Grant Award	-	8,812,032	367,168	-	9,179,200
2004 Grant Award	-	9,141,216	380,884	-	9,522,100
2005 Grant Award	-	7,934,148	751,138	816,614	9,501,900
2006 Grant Award	-	7,310,128	329,172	590,000	8,229,300
2007 Grant Award	-	7,094,840	329,160	805,000	8,229,000
2008 Grant Award	-	7,595,160	325,840	225,000	8,146,000
2009 Grant Award	-	7,172,740	325,840	647,420	8,146,000
2009 Grant-ARRA	19,500,000	-	-	-	19,500,000
2010 Grant Award	14,758,700	-	664,200	1,182,100	16,605,000
2011 Grant Award	10,773,070	-	803,216	295,036	11,871,322
2012 Grant Award	10,251,760	-	239,240	490,000	10,981,000
	55,283,530	115,468,720	6,771,808	8,062,064	185,586,122
Less cumulative amounts drawn down	(34,566,378)	(115,468,720)	(5,835,641)	(7,506,049)	(163,376,788)
	20,717,152	-	936,167	556,015	22,209,334
2013 Grant Award	8,689,920	-	412,080	1,200,000	10,302,000
Less amounts drawn down during Fiscal Year 2014	(23,519,380)	-	(489,215)	(1,065,675)	(25,074,270)
	$ 5,887,692	$ -	$ 859,032	$ 690,340	$ 7,437,064

As of June 30, 2014 and 2013, $7,437,065 and $22,209,334, respectively, of the capitalization grants had not been drawn down.

CliftonLarsonAllen

CliftonLarsonAllen LLP
8390 East Crescent Parkway, Suite 600
Greenwood Village, CO 80111
303-779-5710 | fax 303-779-0348
CLAconnect.com

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
Interim 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 Public Water Supply Loan Fund (the Fund), an enterprise fund of the State of Kansas, as of and for the year ended June 30, 2014, 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, 2014.

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. 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 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
December 17, 2014