



**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Financial Statements and Schedule

April 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

Independent Auditors' Report

The Honorable Mayor and
Members of the City Council
Kansas City, Missouri:

We have audited the accompanying basic financial statements of the City of Kansas City, Missouri (the City) Sewer Fund (the Sewer Fund) as of and for the years ended April 30, 2008 and 2007. These financial statements are the responsibility of the Sewer Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Sewer Fund and do not purport to, and do not, present fairly the financial position of the City of Kansas City, Missouri as of April 30, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kansas City, Missouri Sewer Fund as of April 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the management's discussion and analysis information. However, we did not audit the information and express no opinion on it.

As described in note 1(l) to the financial statements, the Sewer Fund adopted as of May 1, 2007 the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Also described in 1(l) to the financial statements, the Sewer Fund adopted the provisions of Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

Our 2008 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Kansas City, Missouri
October 31, 2008

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

This management's discussion and analysis (MD&A) of the City of Kansas City, Missouri's Sewer Fund (the Fund) provides an introduction and overview of the Fund's financial statements and activities for the fiscal years ended April 30, 2008 and 2007. The Fund is an enterprise fund of the City of Kansas City, Missouri (the City) and is supported wholly by sewer service charges. The Fund is charged with the responsibility for the administration, promotion, operation, and maintenance of the wastewater and stormwater systems.

The information contained herein should be considered in conjunction with the financial statements and notes in order to provide a complete understanding of the financial performance and activities during the years ended April 30, 2008 and 2007. The City combines the wastewater and stormwater operations into one set of financial statements.

Overview of the Financial Statements

The accompanying financial statements are prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Revenues and expenses are recognized when earned and incurred, not when received or paid. Capital assets, except land, are depreciated over their useful lives. (See note 1 in the notes to the financial statements for significant accounting policies).

The statements of net assets present information of the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Fund's financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Fund's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statements of cash flows relate to the flows of cash and cash equivalents. Consequently, only transactions that affect the Fund's cash accounts through operating activities, financing activities, and investing activities are listed on these statements.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

Financial Position and Assessment

Summary of Net Assets
(In thousands)

	Year ended April 30		
	2008	2007	2006
Assets:			
Current assets – unrestricted	\$ 24,355	18,696	19,335
Current assets – restricted	7,705	6,803	6,836
Noncurrent assets – unrestricted	17,180	20,113	14,579
Noncurrent assets – restricted	21,790	37,515	16,277
Capital assets	697,048	635,603	602,680
Other assets	2,552	2,783	2,786
Total assets	<u>\$ 770,630</u>	<u>721,513</u>	<u>662,493</u>
Liabilities:			
Current liabilities	\$ 8,105	7,656	7,439
Liabilities payable from restricted assets	14,900	12,902	13,151
Long-term liabilities	177,752	187,931	156,812
Total liabilities	<u>200,757</u>	<u>208,489</u>	<u>177,402</u>
Net assets:			
Invested in capital assets, net of related debt	537,291	482,537	459,236
Restricted	4,908	4,464	4,355
Unrestricted	27,674	26,023	21,500
Total net assets	<u>569,873</u>	<u>513,024</u>	<u>485,091</u>
Liabilities and net assets	<u>\$ 770,630</u>	<u>721,513</u>	<u>662,493</u>

In FY2008, the Fund's assets exceeded its liabilities by \$569.9 million, an increase of \$56.8 million, or 11.1%, from the previous year. The largest portion of net assets (94.3%) was invested in capital assets (e.g. land, buildings, treatment facilities, sewer and storm lines, machinery, and equipment) less any outstanding debt related to those assets. These assets were used to provide sewer services to the customers of the system.

In FY2007, the Fund's assets exceeded its liabilities by \$513.0 million, an increase of \$27.9 million, or 5.8%, from the previous year. The largest portion of net assets (94.0%) was invested in capital assets (e.g. land, buildings, treatment facilities, sewer and storm lines, machinery, and equipment) less any outstanding debt related to those assets. These assets were used to provide sewer services to the customers of the system.

In FY2008, total assets increased by \$49.1 million, or 6.8%, from the previous year. This increase was due primarily to \$61.4 million in capital improvements made to facilities and sewer lines of the system and a decrease of \$14.8 million in restricted assets. Liabilities decreased \$7.7 million, or 3.7%, due to a decrease in bonds payable of \$9.4 million as a result of our annual principal payments.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

In FY2007, total assets increased by \$59.0 million, or 8.9%, from the previous year. This increase was due primarily to \$32.9 million in capital improvements made to facilities and sewer lines of the system and an increase of \$21.2 million in restricted assets. Liabilities increased \$31.1 million, or 17.5%, from the issuance of the 2007 bonds of long-term bonds of \$40 million.

Summary of Revenues, Expenses, and Changes in Net Assets

(In thousands)

	Year ended April 30		
	2008	2007	2006
Operating revenues	\$ 79,929	74,041	68,823
Operating expenses	(69,111)	(60,602)	(59,396)
Operating income	10,818	13,439	9,427
Nonoperating expenses, net	(1,539)	(2,075)	(1,446)
Net income before capital contributions	9,279	11,364	7,981
Capital contributions	47,570	16,569	24,512
Change in net assets	56,849	27,933	32,493
Total net assets – beginning of the year	513,024	485,091	452,598
Total net assets – end of the year	\$ 569,873	513,024	485,091

Summary of Operating Revenues

(In thousands)

	Year ended April 30		
	2008	2007	2006
Retail sewer charges	\$ 46,126	44,882	41,161
Intermunicipal sewer charges	18,723	15,901	15,477
Stormwater fees	11,210	9,723	9,525
Other operating revenue	3,870	3,535	2,660
Total operating revenues	\$ 79,929	74,041	68,823

In FY2008, sewer rates increased 8.0%. Operating revenues increased \$5.9 million, or approximately 8.0%. Retail sewer charges increased 2.8%. Intermunicipal sewer charges increased 17.0% due to periods of wet weather increasing the flow sent to us to treat. Contributed capital increased \$31.0 million primarily due to \$5.6 million of sewer lines and \$18.5 million of storm sewer lines installed related to the construction of Sprint Arena and the KC Live District.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

In FY2007, sewer rates increased 6.0%. Operating revenues increased \$5.2 million, or approximately 7.6%. Retail sewer charges increased 9.0% due to an increase in metered water sales of 4.8%. The increase in intermunicipal sewer charges was due to growth in our largest interjurisdictional customer and wet weather. Intermunicipal billings are based on the total flow sent to us to treat, and inflow and infiltration to those sewer systems can cause increased flow in wet weather.

Summary of Operating Expenses
(In thousands)

	Year ended April 30		
	2008	2007	2006
Sewerage treatment and pumping	\$ 17,998	16,155	16,129
Sewer maintenance	17,066	14,839	15,121
Administrative and general	16,288	12,948	12,830
Industrial and household hazardous waste control	2,022	2,029	1,827
Depreciation and amortization	15,737	14,631	13,489
Total operating expenses	\$ 69,111	60,602	59,396

In FY2008, operating expenses increased \$8.5 million, or 14.0%, as a result of the following:

- Administrative and general expenses increased \$3.3 million, or 25.8%, for several reasons including, increased customer collection and billing charges for the Fund's portion of AMR (Automated Meter Reading) system of \$837,000, the settlement of a large claim of \$1,228,000, an increase in general liability insurance of \$629,000, and \$184,000 resulting from other postemployment benefits (OPEB) liability.
- Sewer maintenance expenses increased \$2.2 million, or 15.0%. These increases were related to automotive repair and maintenance \$381,000, fuel costs increased \$273,000, salaries and benefits increased \$585,000 due to the City's salary range adjustments, workman's compensation claims increased \$113,000, and OPEB liability increased \$500,000.
- Depreciation expense increased \$1.11 million, or 7.0%, due to additions of capital assets.
- Sewerage treatment and pumping increased \$1.8 million or 11.4% due to increases related to salaries and benefits of \$720,000 due to the City's salary range adjustments, OPEB liability of \$115,000, electrical costs of \$300,000 and repair and supply expenses of \$400,000.

In FY2007, operating expenses increased \$1.2 million, or 2.0%, as a result of the following:

- Household hazardous waste costs increased \$202,000, or 11%, due to increased costs for disposal of material and for operating supplies related to an increase of 85,072 pounds, or 7.5%, in material collected for disposal.
- Depreciation expense increased \$1,142,000, or 8%, due to additions of capital assets

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

Capital Assets

Capital assets as of April 30, 2008 totaled \$697.0 million (net of accumulated depreciation) and accounted for 90.4% of total assets. Capital assets increased \$61.4 million from the previous year as a result of our capital improvements program. Completed projects included \$1.4 million in plant and pump station improvements, \$53.5 million in sewers, \$2.2 million in equipment, and an increase in work in process of \$19.1 million. Offsetting these increases was an increase of \$14.2 million in accumulated depreciation and retirements of \$0.5 million.

Capital assets as of April 30, 2007 totaled \$635.6 million (net of accumulated depreciation) and accounted for 88.1% of total assets. Capital assets increased \$32.9 million from the previous year as a result of our capital improvements program. Completed projects included \$2.0 million in plant and pump station improvements, \$23.6 million in sewers, \$3.2 million in equipment, and an increase in work in process of \$18.0 million. Offsetting these increases was an increase of \$12.5 million in accumulated depreciation and retirements of \$1.4 million.

Debt Administration

The change in long-term debt during the year ended April 30, 2008 was due to a debt service payment of \$9.8 million and a stormwater loan of \$517,300 received from the state in September 2007.

The increase in long-term debt during the year ended April 30, 2007 was due to the issuance of \$40 million in Series 2007A Sewer Revenue bonds in April 2007, offset with debt service payments of \$9.6 million.

Credit ratings for the 2007A bonds were Aa3 from Moody's and AA from Standard and Poor's. The rating agencies cited stable and diverse local economy, solid finances with historically strong debt coverage, and competitive rates as reasons for the rating. The debt of the sanitary sewer system requires annual debt coverage of 110% and a parity test of 110%.

Request for Information

This financial report is designed to provide the Fund's management, investors, creditors, and customers with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the funds it receives and expends. For additional information about this report, or if you need additional financial information, please contact:

Mable Ramey-Moore
Assistant Director, Finance & Business Support
Water Services Department
4800 East 63rd Street
Kansas City, MO 64130

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Statements of Net Assets

April 30, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 1,331,773	862,010
Investments	5,001,171	2,593,617
Accounts receivable, net	16,436,159	13,699,394
Accrued interest receivable	171,799	126,535
Prepaid expense	396,027	318,311
Inventories	627,419	499,036
Due from other funds	391,249	596,882
Total unrestricted current assets	<u>24,355,597</u>	<u>18,695,785</u>
Restricted assets:		
Cash and cash equivalents	3,672,894	5,773,185
Investments	3,818,998	794,404
Accrued interest receivable	213,093	235,693
Total restricted assets	<u>7,704,985</u>	<u>6,803,282</u>
Total current assets	<u>32,060,582</u>	<u>25,499,067</u>
Investments	17,179,777	20,113,484
Restricted assets—investments	21,790,353	37,514,788
Special assessments receivable	2,288	2,288
Capital assets, depreciable, net	593,730,033	551,348,486
Capital assets, nondepreciable	103,317,873	84,254,491
Debt issuance costs, net	2,549,677	2,780,281
Total assets	<u>\$ 770,630,583</u>	<u>721,512,885</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 4,066,494	4,787,448
Current portion of compensated absences	206,477	95,726
Accrued payroll and related expenses	1,199,153	829,274
Contracts and retainage payable	114,385	84,704
Other liabilities	544,911	744,911
Due to other funds	1,039,361	277,129
Current portion of claims liability	934,241	837,114
Total current liabilities, less liabilities payable from restricted assets	<u>8,105,022</u>	<u>7,656,306</u>
Liabilities payable from restricted assets:		
Accrued interest and fiscal agent fees	2,860,447	2,402,412
Current portion of revenue bonds payable	11,166,700	9,822,924
Contracts and retainage payable	872,284	677,088
Total liabilities payable from restricted assets	<u>14,899,431</u>	<u>12,902,424</u>
Total current liabilities	<u>23,004,453</u>	<u>20,558,730</u>
Compensated absences	1,653,238	1,699,625
Claims liability	2,450,689	2,141,939
Other postemployment benefit obligation	845,349	—
Pension liability	809,067	1,290,936
Revenue bonds payable and notes payable, net of current portion	171,994,918	182,798,193
Total liabilities	<u>200,757,714</u>	<u>208,489,423</u>
Net assets:		
Invested in capital assets, net of related debt	537,290,784	482,536,591
Restricted	4,907,788	4,464,120
Unrestricted	27,674,297	26,022,751
Total net assets	<u>569,872,869</u>	<u>513,023,462</u>
Total liabilities and net assets	<u>\$ 770,630,583</u>	<u>721,512,885</u>

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended April 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Retail sewer charges	\$ 46,125,920	44,881,172
Intermunicipal sewer charges	18,722,855	15,900,917
Stormwater fees	11,210,134	9,723,082
Other operating revenues	<u>3,870,231</u>	<u>3,534,840</u>
Total operating revenues	<u>79,929,140</u>	<u>74,040,011</u>
Operating expenses:		
Sewerage treatment and pumping	17,998,162	16,155,222
Sewer maintenance	17,066,247	14,839,583
Administrative and general	16,287,798	12,947,561
Industrial and household hazardous waste control	2,021,275	2,029,068
Depreciation and amortization	<u>15,736,974</u>	<u>14,630,688</u>
Total operating expenses	<u>69,110,456</u>	<u>60,602,122</u>
Operating income	<u>10,818,684</u>	<u>13,437,889</u>
Nonoperating revenues (expenses):		
Interest income	3,468,255	2,278,921
Interest expense and fiscal agent fees	(4,984,772)	(4,364,623)
Gain (loss) on disposal of capital assets	<u>(22,750)</u>	<u>11,047</u>
Total nonoperating expenses, net	<u>(1,539,267)</u>	<u>(2,074,655)</u>
Net income before capital contributions	9,279,417	11,363,234
Capital contributions	<u>47,569,990</u>	<u>16,569,126</u>
Change in net assets	56,849,407	27,932,360
Net assets – beginning of the year	<u>513,023,462</u>	<u>485,091,102</u>
Net assets – end of the year	<u>\$ 569,872,869</u>	<u>513,023,462</u>

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Statements of Cash Flows

Years ended April 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Cash received from customers	\$ 77,398,008	74,327,019
Cash paid to employees, including benefits	(23,437,985)	(21,445,792)
Cash paid to suppliers	(29,096,718)	(23,456,375)
Net cash provided by operating activities	24,863,305	29,424,852
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(29,899,634)	(31,945,121)
Proceeds from issuance of revenue bonds, including premium	517,300	40,792,838
Principal payments on revenue bonds	(9,822,924)	(9,571,789)
Interest paid on revenue bonds	(3,633,429)	(3,681,779)
Debt issuance costs	(148,560)	(213,170)
Net cash used in capital and related financing activities	(42,987,247)	(4,619,021)
Cash flows from investing activities:		
Investment purchases	(54,173,862)	(63,295,212)
Investment maturities and sales	67,399,857	36,002,377
Interest received on investments	3,267,419	2,184,172
Net cash provided by (used in) investing activity	16,493,414	(25,108,663)
Net decrease in cash and short-term investments	(1,630,528)	(302,832)
Cash and cash equivalents at beginning of year	6,635,195	6,938,027
Cash and cash equivalents at end of year	\$ 5,004,667	6,635,195
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 10,818,684	13,437,889
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	15,736,974	14,630,688
Changes in assets and liabilities:		
Accounts receivable and special assessments receivable	(2,736,765)	(202,871)
Prepaid expense	(77,716)	(68,942)
Inventories	(128,383)	(2,256)
Due from other governments	—	768,627
Due from other funds	205,633	489,879
Accounts payable	(720,954)	1,055,015
Compensated absences	64,364	128,238
Accrued payroll and related expenses	369,879	82,478
Other liabilities	(200,000)	(30,534)
Due to other funds	762,232	(886,010)
Claims payable	405,877	6,159
Pension liability	(481,869)	16,492
Postretirement liability	845,349	—
Total adjustments	14,044,621	15,986,963
Net cash provided by operating activities	\$ 24,863,305	29,424,852
Components of cash and cash equivalents at end of year:		
Unrestricted	\$ 1,331,773	862,010
Restricted	3,672,894	5,773,185
	\$ 5,004,667	6,635,195
Noncash capital and related financing activity:		
Contributions of capital assets	\$ 47,569,990	16,569,126
Increase (decrease) in fair value of investments	526,382	(194,433)

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

(1) Summary of Significant Accounting Policies

The City of Kansas City, Missouri Sewer Fund (the Sewer Fund) is a fund of the City of Kansas City, Missouri (the City) and is operated by the Water Services Department. The financial statements present only the Sewer Fund and are not intended to present fairly the financial position of the City of Kansas City, Missouri, and the respective changes in its financial position and cash flows as of April 30, 2008 and 2007, and for the years then ended in conformity with U.S. generally accepted accounting principles. The Sewer Fund includes sewer and stormwater accounts. The following is a summary of the more significant accounting policies.

(a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting wherein revenues (including unbilled revenues) are recorded when earned and expenses are recorded when incurred. In reporting its financial activity, the Sewer Fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

(b) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Sewer Fund's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

(c) Accounts Receivable

Accounts receivable balances are recorded at the invoiced amount. The allowance for doubtful accounts is the Sewer Fund's best estimate of the probable losses in the existing accounts receivable balance.

(d) Revenue Recognition

Revenues are recorded as earned. Unbilled revenue representing estimated consumer usage for the period between the last billing date and the end of the period is accrued by the Sewer Fund.

(e) Inventories

Inventories, consisting of repair parts, materials, supplies, chemicals, rock, and fuel, are valued at the lower of weighted average cost or market.

(f) Debt Issuance Costs

Debt issuance costs are amortized on the straight-line method over the life of the bond issue.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

(g) Capital Assets and Depreciation/Amortization

Capital assets are stated at cost or estimated historical cost and include assets funded by revenue bonds, general obligation bonds, grants, and contributions. Contributed assets are valued at fair value at the date of contribution.

Depreciation is provided on the straight-line method. Sewer lines are depreciated on a composite basis with a useful life of 75 years. Treatment plants and other facilities are depreciated on a composite basis with useful lives of 40 to 75 years. Equipment is depreciated on a unit basis over useful lives of 3 to 10 years.

At the time of retirement or other disposition of assets for which depreciation is computed on the composite method, the original cost of the assets, net of any proceeds from their sale, is removed from the asset and accumulated depreciation accounts and no retirement gain or loss is recorded. For retirements of assets for which depreciation is computed on the unit method, the asset and related depreciation accounts are eliminated, and the difference between the net carrying value and any proceeds is recorded as a gain or loss.

Any conspicuous or known events, or changes in circumstances, affecting a capital asset is reviewed by the Sewer Fund to determine whether there is a significant and unexpected decline in the service utility of the capital asset, which could indicate asset impairment.

Expenses for maintenance and repairs of property are charged to operations as incurred. Renewals and betterments that increase the life of the asset, but not the value, are charged as a reduction to accumulated depreciation.

Interest costs capitalized on debt related to active projects for the years ended April 30, 2008 and 2007 totaled \$860,911 and \$829,833, respectively.

(h) Compensated Absences

Under the terms of the City's personnel policy, Sewer Fund employees are granted vacation and sick leave in varying amounts. Vacation is accumulated at the annual rate of 10 to 20 days depending on the employee's length of service. Sick leave is accumulated at the rate of 3.7 hours per two-week pay period. The maximum amount of vacation that may be carried forward is two times the amount earned in a year, which is accrued for in the respective funds. Sick leave with pay may be accumulated up to a limit of 2,080 hours. Upon separation from service, employees may convert accrued sick leave at the ratio of 4 hours of sick leave to 1 hour of vacation leave credit. Retiring employees 55 years or older with at least 25 years of creditable service; employees who are to receive a line-of-duty disability pension; and employees who qualify for a City pension and retire with a normal retirement, take early retirement at age 60 or thereafter, or die are entitled to sick leave credit at the rate of 2 hours of sick leave to 1 hour of vacation leave credit.

(i) Operating vs. Nonoperating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the Sewer Fund's ongoing operations. The principal operating revenues are charges to customers for

CITY OF KANSAS CITY, MISSOURI
SEWER FUND

Notes to Financial Statements

April 30, 2008 and 2007

services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expense not meeting this definition are reported as nonoperating revenues and expenses.

(j) *Restricted Assets*

When both restricted and unrestricted resources are available for use, it is the Sewer Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

(k) *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure 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.

(l) *New Accounting Pronouncements*

On May 1, 2007, the City adopted Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. The City and the Sewer Fund measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired City employees in future years. The City and the Sewer Fund are also required to record a net OPEB obligation that is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan. See note 10 for additional disclosure.

Effective May 1, 2007, the Sewer Fund adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB 48). This statement establishes criteria for governments to use to account for the exchange of an interest in their expected receivables or specific future revenues for immediate cash payments. This statement also requires disclosures pertaining to future revenues that have been pledged or sold. This statement does not impact the financial statements as it only involves disclosures. See note 6 for additional information.

(m) *Reclassifications*

Certain 2007 reclassifications have been made to conform to the 2008 presentation.

(2) *Deposits and Investments*

The City maintains a cash and investment pool that is available for use by all funds. The pool is comprised of demand and time deposits, repurchase agreements, and other investments with maturities of less than five years. At April 30, 2008 and 2007, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately \$76,412,012 and \$54,503,000, respectively, which was covered by federal depository insurance or by collateral held by the

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

City's agents under joint custody agreements in accordance with the City's administrative code. The Sewer Fund's allocation of deposits was \$508,992 and \$1,143,105 at April 30, 2008 and 2007, respectively.

Investments – Pooled and Non-pooled

The City is empowered by City Charter to invest in the following types of securities:

1. *United States Treasury Securities (Bills, Notes, Bonds, and Strips)*. The City may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. *United States Agency/GSE Securities*. The City of Kansas City, Missouri may invest in obligations issued or guaranteed by any agency of the United States government and in obligations issued by any government sponsored enterprise (GSE) which has a liquid market and a readily determinable market value that are described as follows:
 - a. U.S. Govt. Agency Coupon and Zero Coupon Securities.
 - b. U.S. Govt. Agency Callable Securities. Restricted to securities callable at par only.
 - c. U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed interest rate.
 - d. U.S. Govt. Agency Floating Rate Securities. Restricted to coupons with no interim caps that reset at least quarterly and that float off of only one index.
 - e. U.S. Govt. Agency Mortgage-Backed Securities (MBS, CMO, Pass-Thru Securities). Restricted to securities with final maturities of five (5) years or less or have the final projected payment no greater than four (4) years when analyzed in a +300 basis point interest rate environment. Restricted to obligations of FNMA, FHLMC, and GNMA only.
3. *Repurchase Agreements*. The City may invest in contractual agreements between the City and commercial banks or primary government securities dealers. The Bond Market Association's guidelines for the Master Repurchase Agreement will be used and will govern all repurchase agreement transactions. All repurchase agreement transactions will be either physical delivery or triparty.
4. *Bankers' Acceptances*. The City may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.
5. *Commercial Paper*. The City may invest in commercial paper issued by domestic corporations which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that have total assets in excess of five hundred million (\$500,000,000) and are not listed on Credit Watch with negative implications by any nationally recognized rating agency at the time of purchase. In addition, the

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

City's portfolio may not contain commercial paper of any one corporation, the total value of which exceeds 2% of the City's aggregate investment portfolio.

6. Any full faith and credit obligations of the State of Missouri rated at least A or A2 by Standard and Poor's or Moody's.
7. Any full faith and credit obligations of any county in which the city is located rated at least AA or Aa2 by Standard and Poor's or Moody's.
8. Any full faith and credit obligations of any school district in Kansas City, Missouri rated at least AA or Aa2 by Standard and Poor's or Moody's.
9. Any full faith and credit obligations or revenue bonds of the City of Kansas City, Missouri rated at least AA or Aa2 by Standard and Poor's or Moody's.
10. Any municipal obligation as defined in (6), (7), (8), or (9) that is not rated, but either pre-refunded or escrowed to maturity with U.S. Treasury securities as to both principal and interest.

(a) Interest Rate Risk

Interest rate risk is the risk that the fair value of the City's investments will decrease as a result of an increase in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the final maturity on any security owned to a maximum of five years. In addition, the City compares the weighted average maturity of its portfolio to the weighted average maturity of the Merrill Lynch 1-3 year government/agency index, and relative to the index, may decrease the weighted average maturity of the portfolio during periods of rising interest rates or increase it during periods of declining rates. As of April 30, 2008, the City had the following investments and maturities (amounts are in thousands):

Investment type	Fair value	Investment maturities (in years)				Weighted average
		Less than 1	1 – 2	2 – 3	3 – 5	
Pooled investments:						
Money market account	\$ 35,043	35,043	—	—	—	0.01
Certificates of deposit	23,350	23,350	—	—	—	0.24
Commercial paper	8,000	8,000	—	—	—	0.01
Municipal securities	10,003	—	1,455	—	8,548	3.72
U.S. Treasury bills	9,931	9,931	—	—	—	0.44
U.S. Treasury notes/bonds	119,747	63,328	56,419	—	—	0.96
U.S. agencies – noncallable	281,275	157,454	21,695	44,708	57,418	1.51
U.S. agencies – callable	229,961	86,719	—	—	143,242	2.84
Mortgaged-backed agency	42,618	23,060	11,425	2,353	5,780	1.22
Total pooled investments	759,928	406,885	90,994	47,061	214,988	1.70
Non-pooled investments:						
U.S. agencies – noncallable	69,560	58,066	7,737	—	3,757	0.73
U.S. agencies – callable	16,885	—	—	2,553	14,332	4.30
	86,445	58,066	7,737	2,553	18,089	1.43
Total	\$ 846,373	464,951	98,731	49,614	233,077	1.67

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

The Sewer Fund's allocation of pooled investments at April 30, 2008 was \$40,958,528. The Sewer Fund's non-pooled investments at April 30, 2008 were \$3,500,802.

As of April 30, 2007, the City had the following investments and maturities (amounts are in thousands):

Investment type	Fair value	Investment maturities (in years)				Weighted average
		Less than 1	1 - 2	2 - 3	3 - 5	
Pooled investments:						
Money market account	\$ 25,082	25,082	—	—	—	0.01
Certificates of deposit	5,709	5,709	—	—	—	0.38
U.S. Treasury	23,642	23,642	—	—	—	0.31
U.S. Treasury notes/bonds	110,645	110,645	—	—	—	0.63
U.S. agencies – noncallable	328,146	195,127	86,691	40,954	5,374	1.02
U.S. agencies – callable	172,610	35,145	38,907	29,570	68,988	2.73
Mortgaged-backed agency	19,961	9,217	6,562	4,182	—	1.21
Total pooled investments	685,795	404,567	132,160	74,706	74,362	1.33
Non-pooled investments:						
U.S. Treasury bills	7,748	7,748	—	—	—	0.14
U.S. agencies – noncallable	112,941	104,025	6,371	—	2,545	0.50
U.S. agencies – callable	21,499	2,565	16,426	—	2,508	1.49
	142,188	114,338	22,797	—	5,053	0.63
	\$ 827,983	518,905	154,957	74,706	79,415	1.21

The Sewer Fund's allocation of pooled investments at April 30, 2007 was \$29,645,034. The Sewer Fund's non-pooled investments at April 30, 2007 were \$28,631,336.

Some of the non-pooled assets are held by a trustee associated with the proceeds from sewer state revolving bonds. The amount held by the trustee includes investments that are insured or registered or for which the securities are held by the Sewer Fund or its agent in the Sewer Fund's name or under joint custody agreements. Non-pooled assets held by the trustee were \$7,826,644 and \$8,232,013 at April 30, 2008 and 2007, respectively.

Callable Agency Securities. The City actively monitors its callable bond portfolio with respect to probability of call relative to market rates of interest. As of April 30, 2008 and 2007, the total fair value of the City's callable bond portfolio (pooled and non-pooled) was \$246,846,216 and \$194,109,444, respectively.

Mortgaged-Backed Securities. The City has invested in collateralized mortgage obligation securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA). Details of those securities are as follows:

FHR 2984 A, \$10,000,000 par value. The security was purchased on June 30, 2005 and has a stated final maturity of July 15, 2010. The security has a fixed coupon rate of 5.50% and pays interest monthly. Based on current prepayment speeds using industry-standard modeling, the City's principal amount should be fully retired in September 2008. At April 30, 2008 and 2007, the security had a fair market value of \$2,876,167 and \$10,007,030, respectively.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

FHR 3149 QD, \$10,000,000 par value. The security has a fixed coupon rate of 5.00% and pays principal interest monthly. The security was purchased on January 5, 2007, and although has a stated final maturity of September 15, 2025, the security is one of the first five tranches to begin receiving principal payments. Based on current prepayments speeds using industry-standard modeling, the City's principal amount should be fully retired in July, 2010. At April 30, 2008, the security had a remaining face value \$7,963,346, a book value of \$7,922,721, and a fair market value of \$8,003,163.

FHR 3294CA, \$10,000,000 original par value. The security has a fixed coupon rate of 5.50% and pays principal and interest monthly. The security was purchased on July 18, 2007, and although has a stated final maturity of April 15, 2026, the security is the first tranche to begin receiving principal payments. Based on current prepayment speeds using industry-standard modeling, the City's principal amount should be fully retired in May 2009. At April 30, 2008, the security had a remaining face value of \$5,996,748, a book value of \$5,967,611, and a fair market value of \$6,025,326.

FHR 3388 CG, \$20,000,000 original par value. The security was purchased on November 30, 2007, and has a stated final maturity of December 15, 2011. The security has a fixed coupon rate of 5.00% and pays principal and interest monthly. Based on current prepayment speeds using industry-standard modeling, the City's principal amount will be fully retired in December 2011. At April 30, 2008, the security had a remaining face value of \$16,731,148, a book value of \$16,731,148, and a fair market value of \$16,818,066.

FHR 2005-101 NA, \$17,000,000 original par value. The security has a fixed coupon rate of 5.00% and pays principal and interest monthly. The security was purchased on December 12, 2007, and although has a stated final maturity of March 23, 2024, the security is the first tranche to begin principal payments. Based on current prepayment speeds using industry-standard modeling, the City's principal amount will be fully retired in February 2010. At April 30, 2008, the security had a remaining face value of \$8,870,557, a book value of \$8,870,557, and a fair market value of \$8,895,851.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

(b) Credit Risk

Credit risk is the risk that the City will not recover its investments due to the ability of the counterparty to fulfill its obligation. In order to prevent over concentration by investment type and thereby mitigate credit risk, the City's Investment Policy provides for diversification of the portfolio by investment type as follows:

Investment type	Maximum
U.S. Treasury Securities and Government	100%
Collateralized Time and Demand Deposits	100
U.S. Government Agency and GSE Securities	80
Collateralized Repurchase Agreements	50
U.S. Agency Callable Securities	30
Commercial Paper	30
Bankers Acceptances	30
Qualified Municipal Obligations	10

As of April 30, 2008, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard and Poor's (amounts are in thousands):

	Fair value	Moody's/ S&P ratings
U.S. treasury securities	\$ 129,678	Aaa/AAA
U.S. agency securities	640,299	Aaa/AAA
Commercial paper	8,000	A-1+/P-1
Municipal securities	10,003	Aaa/AAA
	\$ 787,980	

As of April 30, 2007, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard and Poor's (amounts are in thousands):

	Fair value	Moody's/ S&P ratings
U.S. treasury bills	\$ 31,390	Aaa/AAA
U.S. treasury notes/bonds	110,645	Aaa/AAA
U.S. agency discount notes	77,153	Aaa/AAA
U.S. agency securities	578,006	Aaa/AAA
	\$ 797,194	

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

(c) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party (i.e., the City's safekeeping institution).

The City's investment policy requires that all funds on deposit with any financial institution be secured with collateral securities in an amount equal to at least 102% of the deposit less any amount insured by the Federal Deposit Insurance Corporation (FDIC), or any other governmental agency performing a similar function. As of April 30, 2008 and 2007, all deposits were adequately and fully collateralized.

The City's investment policy required that all investment securities be held in the City's name in the City's safekeeping account at its safekeeping institution, thereby mitigating custodial credit risk. As of April 30, 2008 and 2007, all investment securities were in the City's name in the City's safekeeping accounts at its safekeeping institutions. In addition, all collateral securities were in the City's joint custody account(s) at the Federal Reserve Bank and were either U.S. Treasury (U.S. government guaranteed) or U.S. agency (AAA/Aaa rated) obligations.

(d) Summary

The following is a complete listing of cash and investments held by the Sewer Fund at April 30, 2008 and 2007:

	2008	2007
Deposits	\$ 508,992	1,143,105
Pooled investments	40,958,528	29,645,034
Non-pooled investments	3,500,802	28,631,336
Trustee accounts	7,826,644	8,232,013
Total	\$ 52,794,966	67,651,488

The deposits and investments of the Sewer Fund at April 30, 2008 and 2007 are reflected in the statements of net assets as follows:

	2008	2007
Cash and cash equivalents	\$ 1,331,773	862,010
Investments	22,180,948	22,707,101
Restricted cash and cash equivalents	3,672,894	5,773,185
Restricted investments	25,609,351	38,309,192
	\$ 52,794,966	67,651,488

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

(3) Accounts Receivable

A summary of accounts receivable at April 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Sewer customers	\$ 8,184,693	6,798,782
Unbilled utility revenue	5,426,544	5,719,568
Intermunicipal sewer customers	4,817,917	3,886,151
Other accounts receivable	610	11,232
	<u>18,429,764</u>	<u>16,415,733</u>
Less allowance for doubtful accounts	<u>1,993,605</u>	<u>2,716,339</u>
Net accounts receivable	<u>\$ 16,436,159</u>	<u>13,699,394</u>

(4) Capital Assets

Capital asset activity for the year ended April 30, 2008 is as follows:

	<u>May 1, 2007</u>	<u>Additions</u>	<u>Retirements/ adjustments</u>	<u>April 30, 2008</u>
Depreciable assets:				
Sewerage treatment plant and other facilities	\$ 275,997,896	1,452,542	—	277,450,438
Sewer lines	458,547,899	53,527,040	(267)	512,074,672
Equipment	45,955,274	2,176,485	(537,034)	47,594,725
Total depreciable assets	<u>780,501,069</u>	<u>57,156,067</u>	<u>(537,301)</u>	<u>837,119,835</u>
Accumulated depreciation:				
Sewerage treatment plant and other facilities	(183,498,668)	(6,910,115)	856,942	(189,551,841)
Sewer lines	(25,604,086)	(6,098,366)	—	(31,702,452)
Equipment	(20,049,829)	(2,554,643)	468,963	(22,135,509)
Total accumulated depreciation	<u>(229,152,583)</u>	<u>(15,563,124)</u>	<u>1,325,905</u>	<u>(243,389,802)</u>
Total depreciable assets, net	<u>551,348,486</u>	<u>41,592,943</u>	<u>788,604</u>	<u>593,730,033</u>
Nondepreciable assets:				
Land	8,472,122	305,586	—	8,777,708
Construction in process	75,782,369	28,670,077	(9,912,281)	94,540,165
Total nondepreciable assets	<u>84,254,491</u>	<u>28,975,663</u>	<u>(9,912,281)</u>	<u>103,317,873</u>
Total capital assets, net	<u>\$ 635,602,977</u>	<u>70,568,606</u>	<u>(9,123,677)</u>	<u>697,047,906</u>

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

Capital asset activity for the year ended April 30, 2007 is as follows:

	<u>May 1, 2006</u>	<u>Additions</u>	<u>Retirements/ adjustments</u>	<u>April 30, 2007</u>
Depreciable assets:				
Sewerage treatment plant and other facilities	\$ 273,982,189	2,015,707	—	275,997,896
Sewer lines	434,974,058	23,573,841	—	458,547,899
Equipment	44,187,978	3,174,923	(1,407,627)	45,955,274
Total depreciable assets	<u>753,144,225</u>	<u>28,764,471</u>	<u>(1,407,627)</u>	<u>780,501,069</u>
Accumulated depreciation:				
Sewerage treatment plant and other facilities	(176,954,546)	(6,725,530)	181,408	(183,498,668)
Sewer lines	(20,028,350)	(5,582,458)	6,722	(25,604,086)
Equipment	(19,565,619)	(2,019,825)	1,535,615	(20,049,829)
Total accumulated depreciation	<u>(216,548,515)</u>	<u>(14,327,813)</u>	<u>1,723,745</u>	<u>(229,152,583)</u>
Total depreciable assets, net	<u>536,595,710</u>	<u>14,436,658</u>	<u>316,118</u>	<u>551,348,486</u>
Nondepreciable assets:				
Land	8,348,119	124,003	—	8,472,122
Construction in process	57,735,472	33,671,365	(15,624,468)	75,782,369
Total nondepreciable assets	<u>66,083,591</u>	<u>33,795,368</u>	<u>(15,624,468)</u>	<u>84,254,491</u>
Total capital assets, net	<u>\$ 602,679,301</u>	<u>48,232,026</u>	<u>(15,308,350)</u>	<u>635,602,977</u>

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

(5) Revenue Bonds, Notes Payable, and Restricted Assets

Revenue bonds and notes payable outstanding consist of the following at April 30, 2008 and 2007:

<u>Issue</u>	<u>Interest rates</u>	<u>Maturing through</u>	<u>2008</u>	<u>2007</u>
State Series 1992B	6.10% – 6.55%	July 2013	\$ 555,000	630,000
State Series 1995B	5.25% – 7.75%	January 2015	9,570,000	10,795,000
State Series 1996A	4.80% – 7.00%	January 2016	12,845,000	14,055,000
State Series 1997A	4.875% – 5.750%	January 2017	11,210,000	12,330,000
State Series 1998A	4.10% – 5.25%	January 2019	6,070,000	6,480,000
State Series 1999A	3.80% – 5.25%	January 2020	4,140,000	4,390,000
State Series 2000A	4.60% – 5.75%	July 2020	9,000,000	9,600,000
State Series 2000B	4.400% – 5.625%	July 2020	8,110,000	8,650,000
Stormwater 2000	1.70%	December 2020	875,900	935,700
Series 2001A	3.75% – 4.25%	March 2012	2,655,000	3,255,000
Stormwater 2001	2.90%	December 2021	4,284,000	4,556,000
State Series 2001C	3.00% – 5.38%	July 2022	13,405,000	14,145,000
Series 2002D-1	4.000% – 5.375%	January 2022	8,550,000	8,750,000
Series 2002D-2	4.00% – 6.00%	January 2012	1,095,000	1,360,000
State Series 2002J	2.00% – 5.50%	July 2022	7,970,000	8,420,000
Series 2004A	2.00% – 4.88%	January 2024	16,805,000	17,585,000
Series 2004C	3.00% – 5.25%	January 2025	9,145,000	9,600,000
Series 2005B	3.00% – 5.00%	January 2025	13,905,000	14,465,000
Sewer Energy Loan	4.60%	October 2007	—	11,124
Stormwater 2007	1.40%	June 2027	517,300	—
Series 2007A	4.00% – 5.00%	January 2032	40,000,000	40,000,000
			<u>180,707,200</u>	<u>190,012,824</u>
Add premiums			2,829,120	3,007,292
Less:				
Current portion			(11,166,700)	(9,822,924)
Discount			(20,418)	(373,254)
Deferred loss on refunding			(354,284)	(25,745)
Long-term revenue bonds and notes payable			<u>\$ 171,994,918</u>	<u>182,798,193</u>

Changes in revenue bonds payable and notes payable during the year ended April 30, 2008 are as follows:

	<u>May 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>April 30, 2008</u>
Revenue bonds and notes payable	\$ 190,012,824	517,300	(9,822,924)	180,707,200
Less current portion	<u>(9,822,924)</u>			<u>(11,166,700)</u>
Total	<u>\$ 180,189,900</u>			<u>169,540,500</u>

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

Changes in revenue bonds payable and notes payable during the year ended April 30, 2007 are as follows:

	<u>May 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>April 30, 2007</u>
Revenue bonds and notes payable	\$ 159,584,613	40,000,000	(9,571,789)	190,012,824
Less current portion	<u>(9,571,789)</u>			<u>(9,822,924)</u>
Total	<u>\$ 150,012,824</u>			<u>180,189,900</u>

The annual requirements to retire the bonds outstanding as of April 30, 2008 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending April 30:			
2009	\$ 11,166,700	8,561,587	19,728,287
2010	11,520,900	8,042,702	19,563,602
2011	11,890,900	7,510,204	19,401,104
2012	12,313,000	6,941,809	19,254,809
2013	11,988,100	6,804,758	18,792,858
2014 – 2018	55,907,400	23,159,485	79,066,885
2019 – 2023	41,044,800	9,971,232	51,016,032
2024 – 2028	15,075,400	3,824,664	18,900,064
2029 – 2032	<u>9,800,000</u>	<u>1,098,363</u>	<u>10,898,363</u>
	<u>\$ 180,707,200</u>	<u>75,914,804</u>	<u>256,622,004</u>

In September 2007, the City received a Stormwater Loan 2007 from the State of Missouri of \$517,300 for the purpose of improvements to the stormwater system. The interest rate is 1.4% with annual maturities ranging from \$23,000 to \$29,000 during fiscal years 2009 to 2028.

On April 26, 2007, the City issued \$40,000,000 (Series 2007A) City of Kansas City, Missouri Sewer Revenue Bonds. The bond proceeds will be used to provide funds for the purpose of extending and improving the City's sanitary sewer system. The interest rates on Series 2007A range from 4.0% to 5.0% and mature annually in amounts ranging from \$1,000,000 to \$1,760,000 during fiscal years 2009 through 2023. Term bonds due in 2026, 2029, and 2032 range from \$5,770,000 to \$7,510,000.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

All funds raised through the issuance of sewer revenue bonds are restricted for the purpose of extending or improving the sewerage system. All debt service requirements of these bonds are payable solely from revenues generated by the Sewer Fund. The revenue bond ordinances require the Sewer Fund to maintain adequate insurance coverage and employ an independent consulting engineer to evaluate the physical condition and operation of the sewerage system on a periodic basis. In addition, the ordinance establishes the priority for the allocation of revenue generated by the sewerage system. After meeting normal operating and maintenance expenses, all remaining moneys are to be allocated to the following accounts in the order listed below:

<u>Account</u>	<u>Restriction</u>
Principal and interest	For the monthly accumulation of moneys to meet the maturing revenue bond principal and interest requirements. Each month, the Sewer Fund is to set aside 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment.
Depreciation and replacement	For the monthly accumulation of moneys, up to a maximum of \$63,250, to pay for the operating and maintenance expenses and replacements necessary to keep the system operating efficiently.
Construction	For recording bond proceeds to be used to finance construction.

The bond ordinance of the 1992 Series revenue bonds requires that the Sewer Fund establish an additional reserve account for the retirement of the bonds in an amount equal to \$3,507,157. However, in lieu of setting aside cash, the ordinance allows the Sewer Fund to obtain insurance policies. The Sewer Fund has chosen to obtain insurance policies.

Restricted accounts and special reserves are reported on the accompanying statements of net assets as restricted assets as follows:

<u>Account</u>	<u>Restricted assets</u>	
	<u>2008</u>	<u>2007</u>
Principal and interest	\$ 7,704,985	6,803,282
Depreciation and replacement	63,250	63,250
Construction	21,727,103	37,451,538
	<u>\$ 29,495,338</u>	<u>44,318,070</u>

(6) Pledged Revenues

The City has pledged revenues of the Sewer Fund, net of specified operating expenses, to repay sewer system revenue bonds and loans. The bonds were issued to provide improvements to the sewer system and facilities. The loans were issued to fund stormwater basin studies and improvements. The various issues and maturity dates are listed in Footnote 5.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

The sewer bonds through and including 1998A are senior bonds that have claim to both sewer and stormwater revenue. Those bonds will be paid off in 2019. Total principal and interest on those bonds is \$51,431,103 which is expected to require 16 percent of net sewer and stormwater revenues. The remaining sewer bonds are subordinate bonds that have claim to only sewer revenues. Total principal and interest on those bonds is \$198,800,615 and is expected to require 34 percent of net sewer revenues. The stormwater loans are payable from stormwater revenues. Total principal and interest on those loans is \$6,390,286 and is expected to require 6 percent of net stormwater revenues. Principal and interest paid for the year ended April 30, 2008 and total net revenues were \$14,986,198 and \$30,023,913, respectively.

(7) Due to/from Other Funds

Amounts due to/from other funds at April 30, 2008 and 2007 were as follows:

	2008		2007	
	Due from	Due to	Due from	Due to
Water fund	\$ 49,214	829,231	59,122	66,999
General fund	342,035	210,130	537,760	210,130
	\$ 391,249	1,039,361	596,882	277,129

Amounts due from and due to the Water fund represent reimbursement of operating costs between the two funds. Amounts due from and due to the General fund represent reimbursement of operating costs between the funds.

(8) Administrative Service Fees

Payments to the general fund of the City for certain administrative, data processing, and accounting services for the years ended April 30, 2008 and 2007 are presented as administrative and general expenses and are as follows:

	2008	2007
Administrative, data processing, and accounting	\$ 4,346,237	4,754,443

Payments to the City of Kansas City, Missouri Water Fund for billing, collecting, and accounting services were \$2,494,871 and \$1,658,350 for the years ended April 30, 2008 and 2007, respectively.

(9) Employee Retirement Plan

The City sponsors a contributory, single-employer, defined benefit pension plan, The Employees' Retirement System (the Plan), covering substantially all employees of the Sewer Fund. Contributions to the Plan are made by the City and covered employees. The contributions are calculated to fund normal cost and amortization of unfunded prior service costs. The City receives an annual actuarial report on the actuarial accrued liability and net assets available for benefits.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

At May 1, 2008, the actuarial accrued liability of the Plan was approximately \$934,334,000, and the net assets available for benefits of the Plan was approximately \$873,680,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$7,322,000 to each participating fund. The Sewer Fund's allocation was approximately \$809,000. Contributions to the Plan made by the Sewer Fund during the year ended April 30, 2008, were approximately \$1,883,000.

At May 1, 2007, the actuarial accrued liability of the Plan was approximately \$847,393,000, and the net assets available for benefits of the Plan were approximately \$914,460,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$13,000,000 to each participating fund. The Sewer Fund's allocation was approximately \$1,291,000. Contributions to the Plan made by the Sewer Fund during the year ended April 30, 2007, were approximately \$1,697,000.

A stand-alone financial report is issued for the Plan. The report may be obtained from the City's Retirement Division.

(10) Other Postemployment Benefits

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (GASB 45), other postemployment benefits (OPEB's) are recorded in the financial statements as noncurrent accrued payroll on the statement of net assets and are included as an operating expense in salaries and wages and employee benefits on the statement of revenues, expenses, and changes in net assets.

The City sponsors a single-employer, defined benefit healthcare plan that provides healthcare benefits to retirees' and their dependents, including medical, dental, and vision coverage. The City requires the retirees to pay 100% of the same medical premium charged to active participants. The rates being paid by retirees for benefits are typically lower than those for individual health insurance policies. The difference between these amounts is the implicit rate subsidy, which is considered OPEB under GASB 45.

Retirees and spouses have the same benefits as active employees. Retiree coverage terminates either when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. Spousal coverage is available until the retiree becomes covered under another employer health plan, attains Medicare eligibility age, or dies.

As of April 30, 2006, the most recent (initial) actuarial valuation date, the OPEB plan was 0.0% funded. The actuarial accrued liability for benefits was \$150.4 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$150.4 million.

Although determinations of the actuarial status were not made for individual funds, the City has allocated its overall net OPEB obligation of approximately \$13,916,000 to each participating fund. The Sewer Fund's allocation was approximately \$845,000.

CITY OF KANSAS CITY, MISSOURI
SEWER FUND

Notes to Financial Statements

April 30, 2008 and 2007

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented in the City's comprehensive annual financial report as required supplementary information following the notes to the financial statements and presents multi-year trend information over time relative to the actuarial accrued liabilities for benefits.

(11) Commitments

At April 30, 2008, the City had made purchase commitments, primarily for additions to plant, on behalf of the Sewer Fund of approximately \$12.6 million. These commitments will be funded by a combination of existing resources and future debt issuances.

(12) Risk Management

The Sewer Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is entitled to the defense of sovereign immunity against tort action that provides immunity except in two areas, motor vehicles and condition of City property; however, plaintiffs are limited to a maximum of \$250,000 per person and \$1,000,000 per occurrence in these two areas. The City has retained the risk for these amounts and the deductibles on commercial insurance for other risks of loss. Settled claims have not exceeded commercial insurance coverage for the past three years. The claims liability for the Sewer Fund, which includes an estimate of claims incurred but not reported (IBNR), totaled \$3,384,930 and \$2,979,053 for the fiscal years ended April 30, 2008 and 2007, respectively. The IBNR liability was determined based upon historical claims experience.

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

(13) Net Assets

Invested in capital assets, net of related debt is comprised of the following:

	April 30	
	2008	2007
Capital assets:		
Land	\$ 8,777,708	8,472,122
Construction in progress	94,540,165	75,782,369
Sewerage treatment plant and other facilities	277,450,438	275,997,896
Sewer lines	512,074,672	458,547,899
Equipment	47,594,725	45,955,274
	940,437,708	864,755,560
Less accumulated depreciation	(243,389,802)	(229,152,583)
Capital assets, net	697,047,906	635,602,977
Bond issuance cost, net	2,549,677	2,780,281
Total capital assets	699,597,583	638,383,258
Less related liabilities:		
Current portion, bonds payable	11,166,700	9,822,924
Bonds payable, net of premium, discount, and unspent proceeds	151,140,099	146,023,743
Total liabilities	162,306,799	155,846,667
Invested in capital assets, net of related debt	\$ 537,290,784	482,536,591

Restricted net assets at April 30, 2008 and 2007 are as follows:

	2008		2007	
Restricted assets:				
Cash and cash equivalents and investments, restricted	\$ 29,282,245		44,082,377	
Interest receivable, restricted	213,093		235,693	
	29,495,338		44,318,070	
Less liabilities from restricted assets:				
Contracts and retainages payable	872,284		677,088	
Debt related to unspent bond proceeds	20,854,819		36,774,450	
Accrued interest and fiscal agent fees	2,860,447		2,402,412	
	24,587,550		39,853,950	
Restricted net assets	\$ 4,907,788		4,464,120	

**CITY OF KANSAS CITY, MISSOURI
SEWER FUND**

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year ended April 30, 2008

	<u>Wastewater</u>	<u>Stormwater</u>	<u>Total</u>
Operating revenues:			
Retail sewer charges	\$ 46,125,920	—	46,125,920
Intermunicipal sewer charges	18,722,855	—	18,722,855
Stormwater fees	—	11,210,134	11,210,134
Other operating revenue	3,613,321	256,910	3,870,231
Total operating revenues	<u>68,462,096</u>	<u>11,467,044</u>	<u>79,929,140</u>
Operating expenses:			
Sewerage treatment and pumping	17,931,832	66,330	17,998,162
Sewer maintenance	13,419,209	3,647,038	17,066,247
Administrative and general	13,193,053	3,094,745	16,287,798
Industrial and household hazardous waste control	2,021,275	—	2,021,275
Depreciation and amortization	14,072,644	1,664,330	15,736,974
Total operating expenses	<u>60,638,013</u>	<u>8,472,443</u>	<u>69,110,456</u>
Operating income	<u>7,824,083</u>	<u>2,994,601</u>	<u>10,818,684</u>
Nonoperating revenues (expenses):			
Interest income	2,779,229	689,026	3,468,255
Interest expense and fiscal agent fees	(4,847,657)	(137,115)	(4,984,772)
Loss on disposal of capital assets	(18,389)	(4,361)	(22,750)
Total nonoperating revenues (expenses), net	<u>(2,086,817)</u>	<u>547,550</u>	<u>(1,539,267)</u>
Net income before capital contributions	5,737,266	3,542,151	9,279,417
Capital contributions	<u>10,749,379</u>	<u>36,820,611</u>	<u>47,569,990</u>
Change in net assets	<u>\$ 16,486,645</u>	<u>40,362,762</u>	<u>56,849,407</u>

See accompanying independent auditors' report.