

City of Kansas City, Missouri Water Fund
Independent Accountants' Reports and Financial Statements
April 30, 2011 and 2010



City of Kansas City, Missouri Water Fund
April 30, 2011 and 2010

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Independent Accountants' 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) Water Fund (the Water Fund) as of and for the years ended April 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Water 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Water 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, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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 Water Fund as of April 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BKD, LLP

Kansas City, Missouri
October 11, 2011

City of Kansas City, Missouri Water Fund
Management's Discussion and Analysis
April 30, 2011 and 2010

Management's discussion and analysis (MD&A) of the City of Kansas City, Missouri's Water Fund (the Fund) provides readers a narrative overview and analysis of the Fund's financial statements and activities for the fiscal years ended April 30, 2011 and 2010. The Fund is an enterprise fund of the City of Kansas City, Missouri (the City) and is supported entirely by water service fees collected from residential, business and wholesale customers. The Fund is responsible for the operation and maintenance of the water collection, processing and distribution systems.

Readers are encouraged to consider the information presented here 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, 2011 and 2010.

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 as set forth by the Governmental Accounting Standards Board (GASB). Revenues and expenses are recognized when earned and incurred, not when received or paid. Capital assets include land, buildings, improvements, equipment and infrastructure assets, such as water mains, pumping stations and treatment plants. Capital assets, except land, are depreciated over their estimated useful lives. Major outlays for capital improvements are capitalized as projects are constructed. Capital assets not completed by year-end have been reported as construction-in-progress. (See the notes to the financial statements for significant accounting policies).

The statements of net assets present information on the Fund's assets and liabilities, with the difference between the two reported as net assets.

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.

Financial Position and Assessment

Summary of Net Assets (In thousands)

	April 30		
	2011	2010	2009
Assets			
Current assets - unrestricted	\$ 23,588	\$ 15,879	\$ 18,558
Current assets - restricted	12,967	15,910	29,483
Noncurrent investments - unrestricted	28,077	10,623	11,613
Noncurrent investments - restricted	50,191	83,086	63,600
Capital assets	650,325	612,998	583,668
Other assets	13,392	14,214	11,183
Total assets	<u>\$ 778,540</u>	<u>\$ 752,710</u>	<u>\$ 718,105</u>
Liabilities			
Current liabilities	\$ 10,702	\$ 9,193	\$ 10,473
Liabilities payable from restricted assets	24,231	22,161	14,879
Long-term liabilities	240,632	255,304	245,067
Total liabilities	<u>275,565</u>	<u>286,658</u>	<u>270,419</u>
Net Assets			
Invested in capital assets, net of related debt	455,705	438,188	428,340
Restricted	11,382	12,704	4,887
Unrestricted	35,888	15,160	14,459
Total net assets	<u>502,975</u>	<u>466,052</u>	<u>447,686</u>
Total liabilities and net assets	<u>\$ 778,540</u>	<u>\$ 752,710</u>	<u>\$ 718,105</u>

Total assets increased by \$25.8 million or 3.4% from the previous year. Higher accounts receivable and greater inflows of cash invested in pooled securities contributed most to the 48.5% increase in unrestricted current assets. Restricted current assets decreased by 18.5%, and restricted noncurrent assets decreased 39.6% due to the liquidation of investments and increased capital expenditures. On the other hand, there was a \$17.5 million or 164.3% increase in unrestricted noncurrent investments due to the increase in cash generated from operations during the year. Capital assets increased by \$37.3 million or 6.1% as expected from the ongoing capital improvements program. Total liabilities decreased by \$11.0 million or 3.9%. The largest component of change was the \$16.5 million retirement of long-term debt. However, the decrease in long-term debt was offset by increases in other debt. Pension liability increased by \$1.1 million, other post-employment benefits liability by \$0.4 million and claims liability by \$1.3 million. Investment transactions resulted in an increase of \$0.7 million in arbitrage liability during the economic climate of fluctuating interest rates. Also, higher accounts receivable were accompanied by \$0.5 million in additional customer deposits payable. Increased construction activity was also accompanied by \$1.1 million in contract retainage payable. At the close of FY 2011, total assets exceeded total liabilities resulting in net assets of \$503.0 million. Of this amount, \$35.9 million is considered unrestricted. The unrestricted net assets may be used to meet ongoing business activities of the Fund and may not be used to fund the City's governmental activities. Total net assets increased by \$36.9 million or 8.0% from the previous year indicating that the Fund maintained its financial position. The largest portion of net assets, \$455.7 million or 90.6%, consists of investment in capital assets (e.g., land, buildings, treatment facilities, water utility lines and improvements, machinery and equipment) less any outstanding debt related to those assets. Capital assets were used to provide services to customers of the water collection, processing and distribution systems.

In FY 2010, total assets increased by \$34.6 million or 4.8% from the previous year. The increase was primarily due to ongoing capital improvements. Total liabilities increased by \$16.2 million or 6%. The \$28.2 million increase in certain liabilities was offset by the \$12 million retirement of long-term debt. The increases include \$24.8 million of additional financing received under the AMR (automated meter reading system) Master Equipment Lease/Purchase Agreement. Pension and other post-employment benefit obligations increased by \$2.5 million due to a market value decline in the assets funding those liabilities. Additionally, there was an increase of approximately \$1.7 million payable under construction contracts for the continued capital improvements program. At the close of FY 2010, total assets exceeded total liabilities, resulting in net assets of \$466.1 million. Of this amount, \$15.2 million is considered unrestricted. The unrestricted net assets may be used to meet ongoing business activities of the Fund and may not be used to fund the City's governmental activities. Total net assets increased by \$18.4 million or 4.1% from the previous year, indicating that the Fund maintained its financial position. The largest portion of net assets, \$438.2 million or 94%, consists of investment in capital assets (e.g., land, buildings, treatment facilities, water utility lines and improvements, machinery and equipment) less any outstanding debt related to those assets. Capital assets were used to provide services to customers of the water collection, processing and distribution systems.

Summary of Revenues, Expenses and Changes in Fund Net Assets
(In thousands)

	Year Ended April 30		
	2011	2010	2009
Operating revenues	\$ 115,209	\$ 88,184	\$ 86,131
Operating expenses	(75,201)	(73,016)	(73,805)
Operating income	40,008	15,168	12,326
Nonoperating expenses, net	(7,693)	(4,661)	(4,586)
Net income before capital contributions	32,315	10,507	7,740
Capital contributions	4,608	7,859	3,522
Change in net assets	36,923	18,366	11,262
Total net assets - beginning of the year	466,052	447,686	436,424
Total net assets - end of the year	<u>\$ 502,975</u>	<u>\$ 466,052</u>	<u>\$ 447,686</u>

Summary of Operating Revenues
(In thousands)

	Year Ended April 30		
	2011	2010	2009
Retail water sales	\$ 91,073	\$ 68,197	\$ 67,164
Wholesale water sales	13,737	11,206	12,205
Other water revenue	3,043	3,051	2,402
Income from jobbing, contract work and miscellaneous revenue	<u>7,356</u>	<u>5,730</u>	<u>4,360</u>
Total operating revenues	<u>\$ 115,209</u>	<u>\$ 88,184</u>	<u>\$ 86,131</u>

Total operating revenues increased by \$27.0 million or 30.6% overall at the close of FY 2011. The primary source of increased revenue was \$22.9 million from retail water sales. Several factors contributed to the increase. The 10% water rate increase contributed approximately \$10.0 million. The full year effect of converting 144,000 accounts from bi-monthly to monthly billing contributed \$5.0 million in service charges. Increased usage contributed \$7.9 million. Another source of increased revenue was \$2.5 million from wholesale customers due to the water rate increase and higher usage. Revenue increased by \$1.4 million from income from jobbing, contract work and miscellaneous sources due to increased billings to the Sewer Fund for its share of debt service on the AMR (automated meter reading system) Master Equipment Lease/Purchase Agreement.

At the close of FY 2010, total operating revenues increased \$2.1 million or 2.4% overall. Revenue from retail water sales increased by only 1.5%, while revenue from wholesale customers decreased by 8.2% due to lower demand during a rainier than usual season. Other water revenue increased 27.1% due to the agreements with two new customers, Cass County, Missouri #10 and the City of Harrisonville, who reimbursed the Fund for their portion of the construction costs associated with the water distribution system that services their communities. Income from jobbing, contract work and miscellaneous sources increased 31.4%, primarily because of higher revenue from snow plowing during a winter of unusually high snowfall. Snow plowing service is reimbursable to the Fund. Traditionally, Water Services provides workers and equipment to assist Public Works in snow plowing public streets. In turn, Public Works reimburses the Fund.

Summary of Operating Expenses
(In thousands)

	Year Ended April 30		
	2011	2010	2009
Power and pumping	\$ 4,955	\$ 4,541	\$ 5,065
General and electrical maintenance	2,542	2,517	2,282
Purification	11,891	11,549	11,079
Laboratory services	2,478	2,433	2,961
Transmission and distribution	11,489	13,303	13,925
Customer service	7,296	7,041	7,157
Mechanical maintenance	2,755	2,635	3,122
Customer accounting and collection	4,964	4,258	4,520
Administrative and general	16,123	14,478	13,423
Depreciation and amortization	10,708	10,261	10,271
Total operating expenses	\$ 75,201	\$ 73,016	\$ 73,805

In FY 2011, total operating expenses increased by \$2.2 million or 3.0% overall. The primary sources of increased expenses occurred in three cost centers. Customer accounting and collection incurred \$0.7 million of additional expenses in billing services, postage and bank fees due to the conversion of customer accounts from bi-monthly to monthly billing. Transmission and distribution expense was \$1.8 million lower primarily because of the decreased spending in street restoration charges. During the prior year, there was a backlog of work orders that gave rise to higher spending on streets, sewers, and sidewalks restoration. Administrative and general incurred \$1.6 million in additional expenses. The largest contributing factor was an additional \$1.3 million paid to settle claims. Additionally, depreciation and amortization expense increased by \$0.5 million due to the addition of more capital assets from completed projects. Collectively, the other cost centers contributed \$1.2 million to the increase in total operating expenses.

In FY 2010, total operating expenses decreased \$0.8 million or 1.1% overall. As previously mentioned, the rainier than usual season caused lower water demand. As a result, power and pumping expense decreased by approximately 10.3%. Laboratory services decreased overall by 17.8%, primarily due to the 31.2% reduction in full-time labor and 94.2% reduction in temporary labor. Similarly, mechanical maintenance decreased overall by 15.6%, primarily due to the 68.6% reduction in full-time labor. Budget reduction measures adopted in the previous year contributed to the reductions in labor costs. Administrative and general expenses increased by approximately 7.9% due to the addition of a new division with the responsibility over revenue protection, expansion of the building maintenance responsibilities to include all buildings owned by the Fund, and the additional costs of merging former security guards of the Municipal Correctional Institute (MCI).

Capital Assets

At April 30, 2011, capital assets totaled \$650.3 million (net of accumulated depreciation) and accounted for 83.5% of total assets. As a result of the Fund's continued capital improvements program, capital assets increased \$37.3 million over the previous year. While construction in process added \$45.3 million of additions, there was \$82.6 million in projects completed during the year. Completed projects included \$63.3 million of constructed water mains and appurtenances, \$1.9 million for pumping stations and \$15.7 million for treatment plant improvements. In addition to completed projects, there was \$1.6 million in contributed assets from property developers and \$1.0 million transferred from Public Works.

Additions and replacements of machinery and equipment totaled \$7.2 million. The increases in depreciable capital assets were offset by disposals and retirements of \$11.8 million.

Capital assets as of April 30, 2010 totaled \$613 million (net of accumulated depreciation) and accounted for 81.4% of total assets. As a result of the Fund's continued capital improvements program, capital assets increased \$29.3 million from the previous year. The primary increase was due to \$36.2 million in additional construction-in-progress, of which \$14.3 million was completed. Completed projects included \$10.1 million of constructed water mains and appurtenances, \$1.5 million for pumping stations, treatment plant improvements and machinery and equipment, net of disposals. In addition to completed projects, there was \$2.6 million in contributed assets from property developers. The increases in depreciable capital assets were offset by the \$9 million net increase in accumulated depreciation and \$1.2 million of retirements.

Debt Administration

Debt Administration provides long-term debt planning, issuance and administration in accordance with the approved Capital Improvement Program to meet the City's capital infrastructure needs. The City promotes effective communication with bond rating agencies in order to maintain its high credit rating and manages debt in accordance with established debt policies. Water revenue bond proceeds are used to finance improvements to the water collection, processing and distribution systems. The Fund's outstanding debt is aligned in such a manner to meet the most stringent debt service requirements. In addition, water system revenues secure outstanding bonds.

Moody's Investors Service has affirmed the Aa2 rating of the City's \$189.5 million outstanding Water Revenue Bonds. The Series 2009A bonds refunded all of the system's outstanding senior lien debt. The City sold \$35 million of privately placed, unrated Series 2008A bonds in April 2008, which represent the only subordinate lien debt outstanding. The rating affirmation reflects the:

- Large service area that covers the greatest part of the Kansas City, Missouri, metropolitan area
- Stable regional economy
- Debt service coverage levels that have improved following consecutive rate increases
- Adequate working capital
- Favorable debt profile with future borrowing expected
- Satisfactory legal protection for bondholders

Credit Rating Agencies	Water Revenue Bonds Credit Rating
Moody's	Aa2
Standard & Poor's	AA+

The Standard & Poor's Ratings Services 'AA+' standard long-term rating on the City's water refunding and improvement revenue bonds series 2009A and other outstanding water revenue bonds reflects the:

- Strong and diverse service area economy
- Moderate rates with timely rate increases
- Low debt to plant ratio
- Strong financial management

The Fund has the right under the bond ordinances to issue additional bonds payable from the same sources and secured by the same revenues, but only in accordance with and subject to the terms and conditions set forth in the bond ordinances. The Fund is required to meet an earnings test before issuing any additional bonds on parity with existing debt. See notes to financial statements.

Request for Information

This financial report is designed to provide the Fund's management, investors, creditors and customers with a general view 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:

Sean P. Hennessy
Assistant Director, Finance & Business Support
Water Services Department
4800 East 63rd Street
Kansas City, Missouri 64130

	<u>2011</u>	<u>2010</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 5,868,776	\$ 5,778,591
Current portion of compensated absences	688,391	677,366
Accrued payroll and related expenses	551,350	419,902
Contracts and retainage payable	275,274	170,753
Other liabilities	863,979	262,183
Current portion of due to other funds	787,148	493,702
Current portion of claims liability	<u>1,667,197</u>	<u>1,390,512</u>
 Total current liabilities, less liabilities payable from restricted assets	 <u>10,702,115</u>	 <u>9,193,009</u>
Liabilities payable from restricted assets		
Accrued interest and fiscal agent fees	3,939,588	4,164,511
Current portion of revenue bonds and capital leases payable	17,384,537	16,539,098
Contracts and retainage payable	1,542,874	591,626
Customer deposits	<u>1,364,165</u>	<u>865,605</u>
 Total liabilities payable from restricted assets	 <u>24,231,164</u>	 <u>22,160,840</u>
 Total current liabilities	 <u>34,933,279</u>	 <u>31,353,849</u>
Claims liability		
Claims liability	5,235,283	4,244,489
Compensated absences	1,944,252	2,018,514
Pension liability	3,363,131	2,251,581
Other post employment benefit obligation	4,178,628	3,810,081
Revenue bonds and capital leases payable, net of current portion	<u>225,911,050</u>	<u>242,979,471</u>
 Total liabilities	 <u>275,565,623</u>	 <u>286,657,985</u>
Net assets		
Invested in capital assets, net of related debt	455,704,677	438,188,214
Restricted	11,382,337	12,703,629
Unrestricted	<u>35,888,149</u>	<u>15,160,220</u>
 Total net assets	 <u>502,975,163</u>	 <u>466,052,063</u>
 Total liabilities and net assets	 <u>\$ 778,540,786</u>	 <u>\$ 752,710,048</u>

City of Kansas City, Missouri Water Fund
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended April 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Water sales	\$ 104,809,250	\$ 79,402,865
Other water revenue	3,043,482	3,051,231
Income from jobbing and contract work and miscellaneous revenues	<u>7,355,893</u>	<u>5,729,988</u>
Total operating revenues	<u>115,208,625</u>	<u>88,184,084</u>
Operating Expenses		
Power and pumping	4,955,130	4,540,886
General and electrical maintenance	2,541,658	2,517,212
Purification	11,892,058	11,549,618
Laboratory services	2,477,521	2,433,467
Transmission and distribution	11,488,867	13,303,041
Customer service	7,295,986	7,040,500
Mechanical maintenance	2,754,732	2,634,981
Customer accounting and collection	4,963,537	4,258,158
Administrative and general	16,123,070	14,477,547
Depreciation and amortization	<u>10,708,385</u>	<u>10,260,837</u>
Total operating expenses	<u>75,200,944</u>	<u>73,016,247</u>
Operating Income	<u>40,007,681</u>	<u>15,167,837</u>
Nonoperating Revenues (Expenses)		
Interest income	1,625,220	2,555,115
Interest expense and fiscal agent fees	(9,103,896)	(7,208,735)
Other	<u>(214,237)</u>	<u>(7,600)</u>
Total nonoperating expenses, net	<u>(7,692,913)</u>	<u>(4,661,220)</u>
Excess of Revenues Over Expenses Before Capital Contributions	32,314,768	10,506,617
Capital Contributions	<u>4,608,332</u>	<u>7,858,986</u>
Increase in Net Assets	36,923,100	18,365,603
Net Assets, Beginning of Year	<u>466,052,063</u>	<u>447,686,460</u>
Net Assets, End of Year	<u>\$ 502,975,163</u>	<u>\$ 466,052,063</u>

City of Kansas City, Missouri Water Fund
Statements of Cash Flows
Years Ended April 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Cash received from customers	\$ 111,136,234	\$ 90,437,088
Cash paid to employees, including benefits	(25,636,521)	(28,285,972)
Cash paid to suppliers	(36,597,568)	(32,550,939)
	<u>48,902,145</u>	<u>29,600,177</u>
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(37,946,705)	(30,783,715)
Proceeds from issuance of revenue bonds and capital leases, net of premium and discount	-	24,845,896
Principal payments on revenue bonds and capital leases	(16,539,098)	(12,058,588)
Fiscal agent fees and interest paid on revenue bonds and capital leases	(12,199,917)	(9,507,456)
Proceeds from notes receivable	585,791	555,312
	<u>(66,099,929)</u>	<u>(26,948,551)</u>
Net cash used in capital and related financing activities		
Investing Activities		
Investment purchases	(68,789,009)	(51,761,060)
Investment maturities and sales	84,386,595	53,741,983
Interest received on investments	1,746,707	2,048,683
	<u>17,344,293</u>	<u>4,029,606</u>
Net cash provided by investing activities		
Net Increase in Cash and Cash Equivalents	146,509	6,681,232
Cash and Cash Equivalents, Beginning of Year	<u>9,522,119</u>	<u>2,840,887</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,668,628</u>	<u>\$ 9,522,119</u>

City of Kansas City, Missouri Water Fund
Statements of Cash Flows (Continued)
Years Ended April 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 40,007,681	\$ 15,167,837
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	10,708,385	10,260,837
Changes in assets and liabilities		
Accounts receivable and special assessments receivable	(4,223,695)	2,204,579
Inventories	(278,944)	253,976
Prepaid expense	-	484,671
Due from other funds	(347,256)	185,867
Accounts payable	(1,173,615)	1,260,803
Compensated absences	(63,237)	(351,547)
Accrued payroll and related expenses	131,448	(2,155,893)
Other liabilities	601,796	(188,414)
Due to other funds	293,446	(85,968)
Claims liability	1,267,479	170,882
Customer deposits	498,560	(137,442)
Pension liability	1,111,550	1,290,258
Other post employment benefit obligation	368,547	1,239,731
Total adjustments	<u>8,894,464</u>	<u>14,432,340</u>
Net cash provided by operating activities	<u>\$ 48,902,145</u>	<u>\$ 29,600,177</u>
Components of Cash and Cash Equivalents at End of Year		
Unrestricted	\$ 1,650,868	\$ 581,914
Restricted	<u>8,017,760</u>	<u>8,940,205</u>
	<u>\$ 9,668,628</u>	<u>\$ 9,522,119</u>
Noncash Activities		
Contributions of capital assets	\$ 4,608,332	\$ 7,858,986
Increase in fair value of investments	159,002	109,463
Accounts payable incurred for purchase of capital assets	2,636,347	-

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

The City of Kansas City, Missouri Water Fund (the Water 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 Water Fund and are not intended to present fairly the financial position of the City, and the respective changes in its financial position and cash flows as of April 30, 2011 and 2010, and for the years then ended in conformity with accounting principles generally accepted in the United States of America. The Water Fund is supported wholly by water service charges and is responsible for the administration, promotion, operation and maintenance of the water system.

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting using the economic resources measurement focus, wherein revenues (including unbilled revenue) are recorded when earned and expenses are recorded when incurred. In reporting its financial activity, the Water Fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Water 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.

Investments

All investments are reported at fair value. The fair value of marketable securities is based on quotations from that are generally obtained from national securities exchanges. Where marketable securities are not listed on an exchange, quotations are obtained from brokerage firms or pricing services.

Accounts Receivable

Accounts receivable balances are recorded at the invoiced amount. The Water Fund provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Revenue Recognition

Revenues are recognized when 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 Water Fund.

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

Inventories

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

Debt Issuance Costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Capital Assets and Depreciation/Amortization

Capital assets are stated at cost, including capitalized interest on construction, or estimated historical cost. These include assets funded by revenue and general obligation bonds, contributions and special assessments. Contributed assets are valued at fair value at the date of contribution.

Depreciation is provided on the straight-line method. Buildings, water lines and improvements are depreciated on a composite basis over 75 years. Machinery and equipment are depreciated on a unit basis over useful lives of three to 20 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, are removed from the asset and accumulated depreciation accounts and no retirement gain or loss is recorded. For retirements or dispositions 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 are reviewed by the Water 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.

Interest costs capitalized on project-related debt for the years ended April 30, 2011 and 2010 totaled \$3,187,214 and \$4,897,547, respectively.

Compensated Absences

Under the terms of the City's personnel policy, Water 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, which is accrued in the Water Fund, is two times the amount earned in a year. 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 four hours of sick leave to one hour of vacation leave credit.

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

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 two hours of sick leave to one hour of vacation leave credit.

Operating vs. Nonoperating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the Water Fund's ongoing operations. The principal operating revenues are charges to customers for services. Operating expenses include the cost of service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Restricted Net Assets

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

Use of Estimates

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

Note 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. As of April 30, 2011 and 2010, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately \$39,099,000 and \$42,216,000, respectively, which was covered by federal depository insurance or by collateral held by the City's agents under joint custody agreements in accordance with the City's administrative code except for the deposits at one bank summarized under *Custodial Credit Risk*. The Water Fund's allocation of deposits was \$1,263,184 and \$977,347 at April 30, 2011 and 2010, respectively.

City of Kansas City, Missouri Water Fund
Notes to Financial Statements
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The City of Kansas City, Missouri 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 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) that has a liquid market and a readily determinable market value that are described as follows:
 - a. U.S. Government Agency Coupon and Zero Coupon Securities.
 - b. U.S. Government Agency Callable Securities. Restricted to securities callable at par only.
 - c. U.S. Government 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. Government 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 tri-party.
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 dollars (\$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'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.

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

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.

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, 2011, 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						
U.S. Treasury notes/bonds	\$ 134,946	\$ 53,219	\$ 10,027	\$ 30,417	\$ 41,283	2.13
U.S. agency discounts	22,995	22,995	-	-	-	0.27
U.S. agencies - noncallable	404,039	102,434	148,354	122,854	30,397	1.75
U.S. agencies - callable	127,249	53,096	5,092	-	69,061	2.66
Total pooled	689,229	231,744	163,473	153,271	140,741	1.88
Non-pooled investments						
U.S. agency discounts	3,249	3,249	-	-	-	0.33
U.S. agencies - noncallable	73,878	56,393	9,872	-	7,613	1.07
U.S. agencies - callable	19,190	11,724	2,030	-	5,436	1.68
Total non-pooled	96,317	71,366	11,902	-	13,049	1.17
	\$ 785,546	\$ 303,110	\$ 175,375	\$ 153,271	\$ 153,790	1.80

The Water Fund's allocation of pooled investments at April 30, 2011 was \$78,887,787. The Water Fund's non-pooled investments at April 30, 2011 were \$9,984,162.

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

Some of the restricted assets are held by a trustee associated with the proceeds from a capital lease. The amount held by the trustee includes investments that are insured or registered or for which the securities are held by the Water Fund or its agent in the Water Fund's name or under joint agreements. Restricted assets held by the trustee were \$5,647,187 at April 30, 2011 and consisted primarily of money market funds.

As of April 30, 2010, 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						
U.S. Treasury Bills	\$ 9,999	\$ 9,999				0.07
U.S. Treasury notes/bonds	152,387	114,222	\$ 23,066		\$ 15,099	1.13
U.S. agency discounts	9,985	9,985	-		-	0.55
U.S. agencies - noncallable	351,363	106,502	75,386	\$ 87,731	81,744	1.90
U.S. agencies - callable	181,164	39,341	4,831	13,010	123,982	3.23
Mortgage-backed agency	33,112	11,636	7,788	13,688	-	1.48
Total pooled	738,010	291,685	111,071	114,429	220,825	2.00
Non-pooled investments						
U.S. agencies - noncallable	75,596	40,646	24,205	10,745	-	0.96
U.S. agencies - callable	25,175	13,205	-	-	11,970	2.45
Total non-pooled	100,771	53,851	24,205	10,745	11,970	1.33
	\$ 838,781	\$ 345,536	\$ 135,276	\$ 125,174	\$ 232,795	1.92

The Water Fund's allocation of pooled investments at April 30, 2010 was \$62,945,032. The Water Fund's non-pooled investments at April 30, 2010 were \$40,542,336.

Some of the restricted assets are held by a trustee associated with the proceeds from a capital lease. The amount held by the trustee includes investments that are insured or registered or for which securities are held by the Water Fund or its agent in the Water Fund's name or under joint agreements. Restricted assets held by the trustee were \$6,609,680 at April 30, 2010 and consisted primarily of money market funds.

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, 2011 and 2010, the total fair value of the City's callable bond portfolio (pooled and non-pooled) is \$146,438,810 and \$206,338,625, respectively.

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

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 guaranteed securities	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%
Certificate of deposit	25%
Qualified municipal obligations	10%

As of April 30, 2011, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard & Poor's (amounts are in thousands):

	Fair Value	Moody's/ S&P Ratings
U.S. Treasury securities	\$ 134,946	Aaa/AAA
U.S. agency securities	650,600	Aaa/AAA
	<u>\$ 785,546</u>	

As of April 30, 2010, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard & Poor's (amounts are in thousands):

	Fair Value	Moody's/ S&P Ratings
U.S. Treasury securities	\$ 162,386	Aaa/AAA
U.S. agency securities	676,395	Aaa/AAA
	<u>\$ 838,781</u>	

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

On August 5, 2011, Standard & Poor's Rating Services (S&P) lowered its long-term sovereign credit rating on the United States of America from AAA to AA+. At the same time, S&P affirmed its A-1+ short-term rating. According to the ratings report, "The downgrade reflects our (S&P) opinion that the fiscal consolidation plan that Congress and the Administration recently agreed to falls short of what, in our view, would be necessary to stabilize the government's medium-term debt dynamics". On August 8, 2011, S&P also lowered its long-term credit ratings on the U.S. Government Sponsored Enterprises - the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), the Federal Home Loan Banks (FHLB), the Federal Farm Credit Banks (FFCB) and all other such U.S. Government Sponsored Enterprises - from AAA to AA+. The other two primary rating services, Moody's Investor Services and Fitch, have not lowered their ratings on the United States of America, and both of those services continue to give the United States their top ratings.

As a result of the downgrade by S&P, the Federal Deposit Insurance Corporation (FDIC) issued a statement on August 5, 2011, addressing risk weights of securities with respect to capital rules for all banks, savings associations, credit unions and bank and savings and loan holding companies. Specifically, the statement states, "For risk-based capital purposes, the risk weights for Treasury Securities and other securities issued or guaranteed by the U.S. Government, government agencies and government-sponsored entities will not change." On August 8, 2011, the office of the Federal Housing Finance Agency (FHFA) - the agency that was appointed conservator of both FNMA and FHLMC - adopted and affirmed the FDIC's position in its statement addressing risk-based capital rules for the Federal Home Loan Banks.

Instruments of this nature are key assets of the City's investment portfolio. Although the federal banking regulators continue to accept these instruments as top-tiered, risk-based capital assets, these downgrades could adversely affect the market value of these securities and subject the City to other risks that we are not able to predict.

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 percent 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, 2011 and 2010, all deposits were adequately and fully collateralized except for the account at Bank of America as of April 30, 2010. On April 30, 2010, the City received into its account at Bank of America an unexpected ACH credit in the amount of \$6,442,423 for the Revenue division. The resulting overnight balance of \$8,735,134 was secured by \$250,000 FDIC Insurance and collateral securities with a collateral value of \$2,568,495, resulting in a collateral deficiency of (\$5,916,639). An \$8,000,000 FHLMC security was immediately purchased the next business morning to return the account to a fully collateralized level.

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

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, 2011 and 2010, 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, with the exception of an irrevocable Letter of Credit issued in the City's favor by the Federal Home Loan Bank in the amount of \$50,000,000 and \$20,000,000 at April 30, 2011 and 2010, respectively, to secure the City's deposits at Commerce Bank. The Letter of Credit is safe kept in the City's cash vault in the Cash Operations section of the Treasury Division.

Concentration of Credit Risk

At April 30, 2011, more than five percent of the City's investments are in the following U.S. Agency discount note/securities: Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 10%, 37%, 12% and 21%, respectively, of the City's total investments.

At April 30, 2010, more than five percent of the City's investments are in the following U.S. Agency discount note/securities: Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 11%, 40%, 12% and 14%, respectively, of the City's total investments.

In the City's opinion, the debt securities issued by these agencies do not have an explicit government guarantee, but rather an implied guarantee and, therefore, the City does not impose limits as to the concentration of any one agency. However, total agency securities in the portfolio are limited by the investment policy to 80% of the total portfolio value.

Summary

The following is a complete listing of cash and investments held by the Water Fund at April 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Deposits	\$ 1,263,184	\$ 977,347
Pooled investments	78,887,787	62,945,032
Non-pooled investments	9,984,162	40,542,336
Trustee accounts	5,647,187	6,609,680
Total	<u>\$ 95,782,320</u>	<u>\$111,074,395</u>

City of Kansas City, Missouri Water Fund
Notes to Financial Statements
April 30, 2011 and 2010

The deposits and investments of the Water Fund at April 30, 2011 and 2010 are reflected in the statements of net assets as follows:

	<u>2011</u>	<u>2010</u>
Current assets		
Unrestricted		
Cash and cash equivalents	\$ 1,650,868	\$ 581,914
Investments	3,225,858	1,567,142
Restricted		
Cash and cash equivalents	8,017,760	8,940,205
Investments	4,619,490	6,276,304
Investments	28,077,160	10,622,813
Restricted investments	<u>50,191,184</u>	<u>83,086,017</u>
Total	<u>\$ 95,782,320</u>	<u>\$111,074,395</u>

Note 3: Accounts Receivable

A summary of accounts receivable at April 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Water customers	\$ 15,055,505	\$ 10,892,099
Unbilled utility revenue	5,536,453	6,684,183
	<u>20,591,958</u>	<u>17,576,282</u>
Less allowance for doubtful accounts	5,291,171	6,519,640
Net accounts receivable	<u>\$ 15,300,787</u>	<u>\$ 11,056,642</u>

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

Note 4: Notes Receivable

The Water Fund has built several major transmission mains to reach wholesale customers. These customers agree to pay for a proportionate share of the main based on their projected use of the capacity. At the time they start using the main, they can either pay the entire amount or pay the Water Fund over a time period at an interest rate tied to the bond interest rate. The monthly payment is included in their water billing.

Notes receivable outstanding consists of the following issues at April 30, 2011 and 2010:

Customer	Interest Rates	Loan Completion Date	2011	2010
Dogwood Energy	5.565%	February 2023	\$ 2,920,591	\$ 3,120,940
City of Kearney	5.565	November 2023	1,009,171	1,062,594
Platte County PWSD #2	4.126	April 2026	348,638	365,094
Platte County PWSD #9	4.126	April 2026	1,064,673	1,193,338
City of Dearborn	4.126	April 2026	575,074	602,218
Cass County PWSD #3	4.394	January 2028	137,864	143,318
Jackson County PWSD #12	5.565	March 2029	214,093	229,132
City of Harrisonville	4.238	March 2028	2,818,812	2,931,262
Cass County PWSD #10	4.238	November 2029	773,453	800,264
			<u>9,862,369</u>	<u>10,448,160</u>
Less current portion			<u>(504,919)</u>	<u>(477,148)</u>
Noncurrent portion			<u>\$ 9,357,450</u>	<u>\$ 9,971,012</u>

City of Kansas City, Missouri Water Fund
Notes to Financial Statements
April 30, 2011 and 2010

Note 5: Capital Assets

Capital asset activity for the year ended April 30, 2011 is as follows:

	May 1, 2010	Additions	Retirements/ Adjustments	Transfers	April 30, 2011
Depreciable assets					
Buildings	\$ 136,003,278	\$ 12,281,708	\$ (1,067,301)	\$ 3,781,266	\$ 150,998,951
Utility lines and improvements	468,959,620	65,724,295	(1,179,690)	-	533,504,225
Machinery and equipment	58,185,564	7,219,782	(9,531,117)	(3,781,266)	52,092,963
Total depreciable assets	<u>663,148,462</u>	<u>85,225,785</u>	<u>(11,778,108)</u>	<u>-</u>	<u>736,596,139</u>
Accumulated depreciation					
Buildings	(75,740,818)	(1,768,396)	1,065,398	(1,092,458)	(77,536,274)
Utility lines and improvements	(58,323,506)	(6,322,374)	1,179,690	-	(63,466,190)
Machinery and equipment	(40,028,596)	(2,248,551)	9,265,092	1,092,458	(31,919,597)
Total accumulated depreciation	<u>(174,092,920)</u>	<u>(10,339,321)</u>	<u>11,510,180</u>	<u>-</u>	<u>(172,922,061)</u>
Total depreciable assets, net	<u>489,055,542</u>	<u>74,886,464</u>	<u>(267,928)</u>	<u>-</u>	<u>563,674,078</u>
Nondepreciable assets					
Land and permanent right of ways	3,966,449	-	-	-	3,966,449
Construction in process	119,975,922	45,321,530	(82,612,838)	-	82,684,614
Total nondepreciable assets	<u>123,942,371</u>	<u>45,321,530</u>	<u>(82,612,838)</u>	<u>-</u>	<u>86,651,063</u>
Capital assets, net	<u>\$ 612,997,913</u>	<u>\$ 120,207,994</u>	<u>\$ (82,880,766)</u>	<u>\$ -</u>	<u>\$ 650,325,141</u>

Capital asset activity for the year ended April 30, 2010 is as follows:

	May 1, 2009	Additions	Retirements/ Adjustments	Transfers	April 30, 2010
Depreciable assets					
Buildings	\$ 134,676,347	\$ 1,326,931	\$ -	\$ -	\$ 136,003,278
Utility lines and improvements	454,738,091	14,520,999	(299,470)	-	468,959,620
Machinery and equipment	57,595,453	1,489,293	(899,182)	-	58,185,564
Total depreciable assets	<u>647,009,891</u>	<u>17,337,223</u>	<u>(1,198,652)</u>	<u>-</u>	<u>663,148,462</u>
Accumulated depreciation					
Buildings	(73,425,420)	(2,315,398)	-	-	(75,740,818)
Utility lines and improvements	(54,246,903)	(4,376,073)	299,470	-	(58,323,506)
Machinery and equipment	(37,432,255)	(3,407,015)	810,674	-	(40,028,596)
Total accumulated depreciation	<u>(165,104,578)</u>	<u>(10,098,486)</u>	<u>1,110,144</u>	<u>-</u>	<u>(174,092,920)</u>
Total depreciable assets, net	<u>481,905,313</u>	<u>7,238,737</u>	<u>(88,508)</u>	<u>-</u>	<u>489,055,542</u>
Nondepreciable assets					
Land and permanent right of ways	3,771,111	195,338	-	-	3,966,449
Construction in process	97,991,158	36,241,371	(14,256,607)	-	119,975,922
Total nondepreciable assets	<u>101,762,269</u>	<u>36,436,709</u>	<u>(14,256,607)</u>	<u>-</u>	<u>123,942,371</u>
Capital assets, net	<u>\$ 583,667,582</u>	<u>\$ 43,675,446</u>	<u>\$ (14,345,115)</u>	<u>\$ -</u>	<u>\$ 612,997,913</u>

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

Note 6: Revenue Bonds, Capital Leases and Restricted Assets

Revenue bonds and capital leases outstanding consist of the following issues at April 30, 2011 and 2010:

Issue	Interest Rates	Maturity Through	2011	2010
2008 Series A	4.66%	December 2027	\$ 32,655,000	\$ 33,900,000
2009 Series A	2.00 - 5.25%	December 2032	177,465,000	189,510,000
AMR Capital Lease-2008	3.44%	December 2017	8,652,080	9,817,761
AMR Capital Lease-2009	4.06%	December 2019	22,075,391	24,158,808
			<u>240,847,471</u>	<u>257,386,569</u>
Add premiums			8,531,217	8,926,486
Less				
Current portion			(17,384,537)	(16,539,098)
Deferred loss on refunding, net of accumulated amortization			(6,083,101)	(6,794,486)
			<u>(23,467,638)</u>	<u>(23,333,584)</u>
Noncurrent revenue bonds and capital leases payable			<u>\$ 225,911,050</u>	<u>\$ 242,979,471</u>

Changes in revenue bonds and capital leases payable during the year ended April 30, 2011 are as follows:

	May 1, 2010	Additions	Retirements	April 30, 2011
Revenue bonds and capital leases	\$ 257,386,569	<u>\$ -</u>	<u>\$ (16,539,098)</u>	\$ 240,847,471
Less current portion	<u>(16,539,098)</u>			<u>(17,384,537)</u>
Total noncurrent	<u>\$ 240,847,471</u>			<u>\$ 223,462,934</u>

Changes in revenue bonds and capital leases payable during the year ended April 30, 2010 are as follows:

	May 1, 2009	Additions	Retirements	April 30, 2010
Revenue bonds and capital leases	\$ 244,599,261	<u>\$ 24,845,896</u>	<u>\$ (12,058,588)</u>	\$ 257,386,569
Less current portion	<u>(11,290,104)</u>			<u>(16,539,098)</u>
Total noncurrent	<u>\$ 233,309,157</u>			<u>\$ 240,847,471</u>

City of Kansas City, Missouri Water Fund
Notes to Financial Statements
April 30, 2011 and 2010

The annual requirements to retire the bonds and capital leases outstanding as of April 30, 2011 are as follows:

Year Ending April 30	Principal	Interest	Total
2012	\$ 17,384,537	\$ 10,590,416	\$ 27,974,953
2013	16,435,340	9,902,181	26,337,521
2014	16,956,293	9,348,103	26,304,396
2015	17,732,596	8,663,596	26,396,192
2016	15,649,461	7,970,196	23,619,657
2017 – 2021	73,484,244	29,499,256	102,983,500
2022 – 2026	49,010,000	14,857,015	63,867,015
2027 – 2031	24,905,000	5,881,872	30,786,872
2032 – 2033	9,290,000	737,888	10,027,888
	<u>\$ 240,847,471</u>	<u>\$ 97,450,523</u>	<u>\$ 338,297,994</u>

The amount of outstanding advance refunding of insubstance defeased debt as of April 30, 2011 and 2010 was a total of \$63,840,000 and \$82,830,000, respectively.

All funds obtained through the issuance of water revenue bonds are restricted for the purpose of extending and improving the facilities of the Water Fund. All debt service requirements are payable solely from revenues generated by the Water Fund. Under the terms of the ordinances enacted at the time of the issuance of the revenue bonds, all bond issues share equal claim to the revenue generated by the Water Fund. The ordinances require the City to maintain adequate insurance coverage and establish the priority for the allocation of revenue generated by the Water Fund. After meeting normal operating and maintenance expenses, all remaining moneys are to be allocated to the following accounts in the order listed below:

Account	Restriction
Principal and interest	For the monthly accumulation of moneys to meet the maturing revenue bond principal and interest requirement. Each month, the City is to set aside 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment.
Construction	For recording bond proceeds to be used to finance construction.

The bond ordinances also require that the City establish a reserve account for the retirement of the bonds in an amount equal to \$5,500,000. However, in lieu of setting aside cash, the ordinances allow the City to obtain insurance policies to satisfy this requirement. The City has chosen to obtain insurance policies.

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

Restricted accounts are reported on the accompanying statements of net assets as restricted assets for 2011 and 2010 as follows:

	2011	2010
Principal and interest	\$ 9,841,022	\$ 9,770,468
Construction	52,393,467	88,492,087
Customer deposits	924,045	733,582
	\$ 63,158,534	\$ 98,996,137

Note 7: Pledged Revenues

The City has pledged revenues of the Water Fund, net of specified operating expenses, to repay \$240,847,471 in water revenue bonds and capital leases. The bonds were issued to provide improvements to the water system and facilities. Capital leases were issued to cover the installation of an automated meter reading (AMR) system and lab equipment. The various issues and maturity dates are listed in Note 6. The bonds and capital lease payments are payable solely from the revenues derived by the Water Fund. Annual principal and interest payments on the bonds are expected to require 17% of net revenues on average over the next 23 years. The total principal and interest remaining to be paid on the bonds is \$338,297,994. Principal and interest paid for the year ended April 30, 2011 and total net revenues were \$27,795,184 and \$60,380,701, respectively.

Note 8: Due to/from Other Funds

Amounts due to/from other funds at April 30, 2011 and 2010 were as follows:

	2011		2010	
	Due from	Due to	Due from	Due to
Sewer fund	\$ 7,870	\$ 402,148	\$ 37,101	\$ 108,702
General fund	383,212	385,000	6,725	385,000
	\$ 391,082	\$ 787,148	\$ 43,826	\$ 493,702

Amounts due from and due to the Sewer 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.

City of Kansas City, Missouri Water Fund
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Note 9: Administrative Service Fees

Payments to the General fund of the City for office space and certain administrative, data processing and accounting services for the years ended April 30, 2011 and 2010 are presented as administrative and general expenses and are as follows:

	2011	2010
Administrative, data processing and accounting	\$ 5,653,176	\$ 5,609,127

The Water Fund provides billing and collection services for the City of Kansas City, Missouri Sewer Fund and charged the City of Kansas City, Missouri Sewer Fund \$4,157,691 and \$3,209,535 for these services for the years ended April 30, 2011 and 2010, respectively.

Note 10: 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 Water 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.

At May 1, 2010, the actuarial accrued liability of the Plan was approximately \$994,768,000 and the actuarial value of assets of the Plan was approximately \$749,552,000; 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 \$27,593,000 to each participating fund. The Water Fund's allocation was approximately \$3,363,000 as of April 30, 2011. Contributions to the Plan made by the Water Fund during the year ended April 30, 2011 were approximately \$2,235,000.

At May 1, 2009, the actuarial accrued liability of the Plan was approximately \$966,779,000, and the actuarial value of assets of the Plan was approximately \$704,069,000; 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 \$18,348,000 to each participating fund. The Water Fund's allocation was approximately \$2,252,000 as of April 30, 2010. Contributions to the Plan made by the Water Fund during the year ended April 30, 2010 were approximately \$2,313,000.

A stand-alone financial report is issued for the Plan. The report may be obtained by writing to The Retirement Division of the City of Kansas City, Missouri, 12th Floor, City Hall, 414 East 12th Street, Kansas City, Missouri 64106 or by calling (816) 513-1928.

City of Kansas City, Missouri Water Fund

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Note 11: Other Post-Employment 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 post-employment benefits (OPEB) are recorded in the financial statements as non-current liabilities on the statements of net assets and are included as an operating expense in salaries and wages and employee benefits on the statements of revenues, expenses and changes in net assets.

Plan Description

The City sponsors a single-employer, defined benefit health care plan that provides health care 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, 2010, the most recent actuarial valuation date, the OPEB plan was 0.0% funded. The actuarial accrued liability for benefits was \$76.6 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$76.6 million.

Although determinations of the actuarial status were not made for individual funds, the City has allocated its 2011 and 2010 overall net OPEB obligation of approximately \$55,668,000 and \$50,440,000, respectively, to each participating fund. For the years ended April 30, 2011 and 2010, the Water Fund's allocation was approximately \$4,179,000 and \$3,810,000, respectively.

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 health care 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.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the

City of Kansas City, Missouri Water Fund

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employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2010 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets (of which there are none) and on the employer's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of 9-10 percent annually, reduced by decrements to an ultimate rate of 4.5% after 11 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at April 30, 2011 was 30 years.

The May 1, 2010 actuarial valuation included the following changes in assumptions:

1. Medicare eligibility: In the prior valuation, it was assumed that 25% of firefighter retirees hired before 1987 would not be eligible for Medicare. It was determined that this assumption was not holding true for the current retirees (all were Medicare eligible). For the current valuation, all retirees are assumed to be eligible for Medicare at attainment of age 65.
2. Participation and election assumptions: In the prior valuation, it was assumed that 90% of eligible retirees would elect coverage at retirement and that 100% of those electing would elect 2-person coverage. This was determined to be overly conservative for an access only plan (a plan where the retiree pays the full blended premium), and was not being observed in the actual retiree elections. For the current valuation, 50% participation was assumed with 85% of males participating electing 2-person coverage and 55% of females participating electing 2-person coverage.

The plan has also had favorable claims experience during the period since the previous valuation. The premiums charged have been the same for fiscal years 2010 through 2012, while standard medical trend assumptions are 9-10% per year. This favorable claims experience, along with the assumption changes mentioned above, substantially reduced the plan's liabilities and annual required contribution. The following summarizes the actuarial gain of each of the changes mentioned above for the Plan at the City-wide level (*in millions*):

Removing 25% Medicare ineligible assumption	\$	18
Changing participation and election assumptions		85
Favorable claims experience		41
		<hr/>
Total	\$	<u>144</u>

City of Kansas City, Missouri Water Fund
Notes to Financial Statements
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Note 12: Commitments

At April 30, 2011, the City had made purchase commitments, primarily for additions to utility lines and improvements on behalf of the Water Fund of approximately \$30,569,000. These commitments will be funded by a combination of existing resources and future debt issuances.

Note 13: Risk Management

The Water 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 Water Fund is self-insured for workers' compensation and general liability exposures and participates in the City's self-insurance programs. The City has purchased insurance to limit the exposure to \$1,000,000 on workers' compensation claims per occurrence occurring prior to fiscal year 1997, \$500,000 exposure for all claims originating in fiscal year 1997, \$400,000 exposure for all claims originating in fiscal year 1998, \$2,000,000 exposure for all claims originating in fiscal years 2003 through 2007 and \$1,000,000 exposure for all claims originating thereafter. The City also purchases an excess liability policy to cover torts, which are not barred by sovereign immunity. The policy has a \$2,600,000 retention and a \$5,000,000 loss limit. Current sovereign tort immunity statutes and law limit general liability and automobile claim exposure to a maximum of \$378,814 per person and \$2,525,423 per occurrence. Property claim exposure is \$150,000 per claim. Settled claims have not exceeded the self-insured retention in any of the past three fiscal years.

All funds of the City participate in the program and make payments based on estimates of the amounts needed to pay prior and current year claims. The claims liability for the Water Fund includes an estimate of claims incurred but not reported (IBNR), which was determined based upon historical claims experience.

Activity in the Water Fund's claims liability for the years ended April 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Balance, beginning of the year	\$ 5,635,001	\$ 5,464,119
Current year claims incurred and changes in estimates for claims incurred in prior years	3,552,913	1,355,833
Claims and expenses paid	<u>(2,285,434)</u>	<u>(1,184,951)</u>
Balance, end of the year	6,902,480	5,635,001
Less current portion	<u>(1,667,197)</u>	<u>(1,390,512)</u>
Noncurrent portion	<u>\$ 5,235,283</u>	<u>\$ 4,244,489</u>

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

Note 14: Net Assets

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

	2011	2010
Capital Related Assets		
Land	\$ 3,966,449	\$ 3,966,449
Construction in progress	82,684,614	119,975,922
Buildings	150,998,951	136,003,278
Utility line and improvements	533,504,225	468,959,620
Machinery and equipment	52,092,963	58,185,564
	823,247,202	787,090,833
Less accumulated depreciation	(172,922,061)	(174,092,920)
Capital assets, net	650,325,141	612,997,913
Bond issuance cost, net	4,020,827	4,208,857
Total capital related assets	654,345,968	617,206,770
Less Related Liabilities		
Current portion, bonds and capital leases payable	17,384,537	16,539,098
Bonds and capital leases payable, net of premium, discount and unspent proceeds	179,438,606	161,717,079
Contracts and retainages payable	1,818,148	762,379
Total capital related liabilities	198,641,291	179,018,556
Invested in Capital Assets, Net of Related Debt	\$ 455,704,677	\$ 438,188,214

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2011 and 2010

Restricted net assets at April 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Restricted Assets		
Cash and cash equivalents	\$ 8,017,760	\$ 8,940,205
Investments	54,810,674	89,362,321
Interest receivable	330,100	693,611
	<u>63,158,534</u>	<u>98,996,137</u>
Less Liabilities from Restricted Assets		
Debt related to unspent bond proceeds	46,472,444	81,262,392
Accrued interest and fiscal agent fees	3,939,588	4,164,511
Customer deposits	1,364,165	865,605
	<u>51,776,197</u>	<u>86,292,508</u>
Restricted Net Assets	<u>\$ 11,382,337</u>	<u>\$ 12,703,629</u>

Note 15: Current Economic Conditions

The current protracted economic decline continues to present governments with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in government support and tax revenues, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Water Fund.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for accounts receivable that could negatively impact the Water Fund's ability to maintain sufficient liquidity.