

# **City of Kansas City, Missouri Water Fund**

Independent Accountants' Reports and Financial Statements

April 30, 2012 and 2011



**City of Kansas City, Missouri Water Fund**  
**April 30, 2012 and 2011**

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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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*BKD, LLP*

Kansas City, Missouri  
October 25, 2012

# **City of Kansas City, Missouri Water Fund**

## **Management's Discussion and Analysis**

### **April 30, 2012 and 2011**

Management's discussion and analysis (MD&A) of the City of Kansas City, Missouri's Water Fund (the Water Fund) provides readers a narrative overview and analysis of the Water Fund's financial statements and activities for the fiscal years ended April 30, 2012 and 2011. The Water 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 Water 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, 2012 and 2011.

#### ***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 Water 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 Water 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 Water 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          |                   |                   |
|---|-------------------|-------------------|-------------------|
|   | 2012              | 2011              | 2010              |
| <b>Assets</b>                                   |                   |                   |                   |
| Current assets - unrestricted                   | \$ 29,575         | \$ 23,588         | \$ 15,879         |
| Current assets - restricted                     | 21,435            | 12,967            | 15,910            |
| Noncurrent investments - unrestricted           | 43,459            | 28,077            | 10,623            |
| Noncurrent investments - restricted             | 59,262            | 50,191            | 83,086            |
| Capital assets                                  | 681,377           | 650,325           | 612,998           |
| Other assets                                    | 13,104            | 13,392            | 14,214            |
|   | <u>848,212</u>    | <u>778,540</u>    | <u>752,710</u>    |
| Total assets                                    | <u>\$ 848,212</u> | <u>\$ 778,540</u> | <u>\$ 752,710</u> |
| <b>Liabilities</b>                              |                   |                   |                   |
| Current liabilities                             | \$ 9,798          | \$ 10,702         | \$ 9,193          |
| Liabilities payable from restricted assets      | 25,152            | 24,231            | 22,161            |
| Long-term liabilities                           | 276,077           | 240,632           | 255,304           |
|   | <u>311,027</u>    | <u>275,565</u>    | <u>286,658</u>    |
| Total liabilities                               | <u>311,027</u>    | <u>275,565</u>    | <u>286,658</u>    |
| <b>Net Assets</b>                               |                   |                   |                   |
| Invested in capital assets, net of related debt | 470,155           | 455,705           | 438,188           |
| Restricted                                      | 10,009            | 11,382            | 12,704            |
| Unrestricted                                    | 57,021            | 35,888            | 15,160            |
|   | <u>537,185</u>    | <u>502,975</u>    | <u>466,052</u>    |
| Total net assets                                | <u>537,185</u>    | <u>502,975</u>    | <u>466,052</u>    |
| Total liabilities and net assets                | <u>\$ 848,212</u> | <u>\$ 778,540</u> | <u>\$ 752,710</u> |

In FY 2012, total assets increased by \$69.7 million or 8.9% from the previous year. Greater inflows of cash were generated from bond proceeds and increased water service fees. Accordingly, cash, cash equivalents and investments accounted for most of the 25.4% increase in unrestricted current assets and 65.3% increase in restricted current assets. Similarly, investments accounted for most of the 54.8% increase in unrestricted noncurrent assets and 18.1% increase in restricted noncurrent assets. Capital assets increased by \$31.1 million or 4.8% as expected from the ongoing capital improvements program.

Total liabilities increased by \$35.5 million or 12.9%. During the year, the City issued \$47.7 million of Water Revenue Bonds, Series 2012A, the proceeds from which will finance various improvements to the water system. The increase in debt was offset by the scheduled \$17.4 million retirement of other water revenue bonds. The pension liability increased by \$0.9 million and other post-employment benefits liability increased by \$0.3 million. Claims liability decreased by \$0.9 million. Increased construction activity was accompanied by a \$0.4 million increase in contract retainage payable.

At the close of FY 2012, total assets exceeded total liabilities resulting in net assets of \$537.2 million. Of this amount, \$57.0 million is considered unrestricted. The unrestricted net assets may be used to meet ongoing business activities of the Water Fund and may not be used to fund the City's governmental activities. Total net assets increased by \$34.2 million or 6.8% from the previous year indicating that the Water Fund improved its financial position. The largest portion of net assets, \$470.2 million or 87.5%, 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 2011, 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 Water 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 Water 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.

### Summary of Revenues, Expenses and Changes in Fund Net Assets

*(In thousands)*

|  | Year Ended April 30 |            |            |
|--|---------------------|------------|------------|
|  | 2012                | 2011       | 2010       |
| Operating revenues                       | \$ 125,248          | \$ 115,209 | \$ 88,184  |
| Operating expenses                       | (87,044)            | (75,201)   | (73,016)   |
| Operating income                         | 38,204              | 40,008     | 15,168     |
| Nonoperating expenses, net               | (8,509)             | (7,693)    | (4,661)    |
| Net income before capital contributions  | 29,695              | 32,315     | 10,507     |
| Capital contributions                    | 4,515               | 4,608      | 7,859      |
| Change in net assets                     | 34,210              | 36,923     | 18,366     |
| Total net assets - beginning of the year | 502,975             | 466,052    | 447,686    |
| Total net assets - end of the year       | \$ 537,185          | \$ 502,975 | \$ 466,052 |

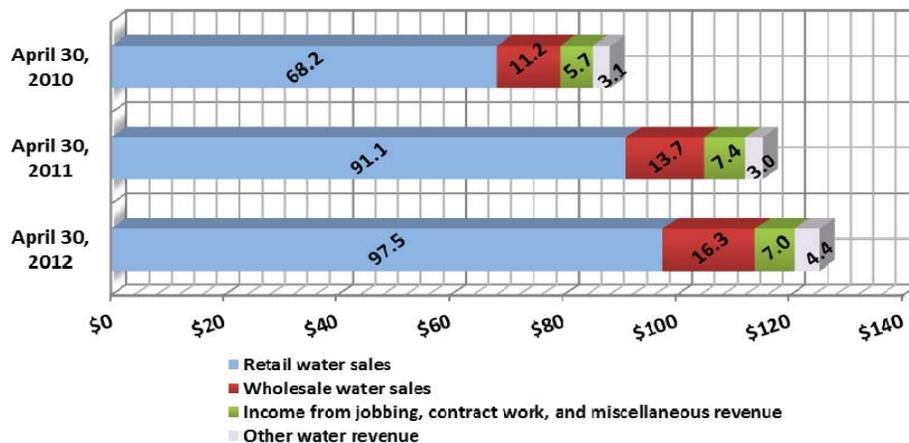
**Summary of Operating Revenues**  
(In thousands)

|   | Year Ended April 30 |                   |                  |
|---|---------------------|-------------------|------------------|
|   | 2012                | 2011              | 2010             |
| Retail water sales  | \$ 97,503           | \$ 91,073         | \$ 68,197        |
| Wholesale water sales   | 16,292              | 13,737            | 11,206           |
| Other water revenue   | 4,426               | 3,043             | 3,051            |
| Income from jobbing, contract work<br>and miscellaneous revenue | 7,027               | 7,356             | 5,730            |
| <b>Total operating revenues</b>                                 | <b>\$ 125,248</b>   | <b>\$ 115,209</b> | <b>\$ 88,184</b> |

In FY 2012, total operating revenues increased by \$10.0 million or 8.7%. Additional sales of \$6.4 million to retail customers, reduced by bad debt expense, and additional sales of \$2.6 million to wholesale customers was attributable to increased water usage, as well as the scheduled 10% rate increase during the year. Other water revenue consists primarily of interest received on inter-governmental construction cost sharing notes receivable. Other water revenue increased revenue by \$1.4 million or 45.4%. Income from jobbing, contract work, and miscellaneous sources, decreased slightly by approximately 4.5%.

At the close of FY 2011, total operating revenues increased by \$27.0 million or 30.6%. 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 customer 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.

**Summary of Operating Revenues**  
(In millions)



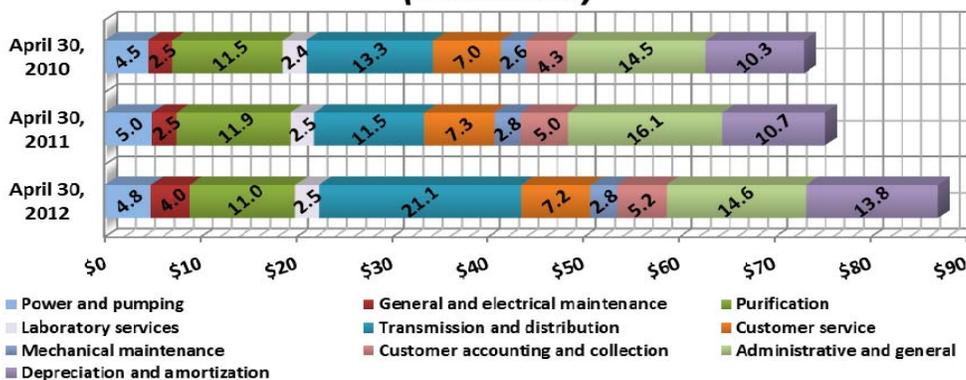
**Summary of Operating Expenses**  
(In thousands)

|                                    | Year Ended April 30 |                  |                  |
|------------------------------------|---------------------|------------------|------------------|
|                                    | 2012                | 2011             | 2010             |
| Power and pumping                  | \$ 4,845            | \$ 4,955         | \$ 4,541         |
| General and electrical maintenance | 4,034               | 2,542            | 2,517            |
| Purification                       | 11,021              | 11,891           | 11,549           |
| Laboratory services                | 2,472               | 2,478            | 2,433            |
| Transmission and distribution      | 21,122              | 11,489           | 13,303           |
| Customer service                   | 7,237               | 7,296            | 7,041            |
| Mechanical maintenance             | 2,751               | 2,755            | 2,635            |
| Customer accounting and collection | 5,184               | 4,964            | 4,258            |
| Administrative and general         | 14,585              | 16,123           | 14,478           |
| Depreciation and amortization      | 13,793              | 10,708           | 10,261           |
| <b>Total operating expenses</b>    | <b>\$ 87,044</b>    | <b>\$ 75,201</b> | <b>\$ 73,016</b> |

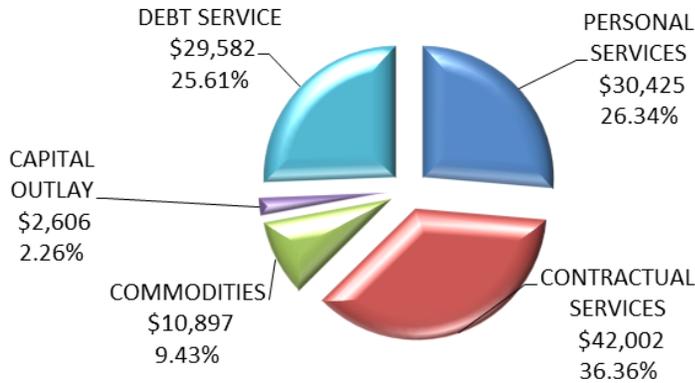
In FY 2012, total operating expenses increased by \$11.8 million or 15.7% over the previous year. Three cost centers incurred the most significant expenses or approximately 83.3% of the total increase in operating expenses. General and electrical maintenance expense increased by \$1.5 million or 58.7% primarily due to statutory pay adjustments made pursuant to the Memorandum of Understanding between local unions and the City. Transmission and distribution expense increased by \$9.6 million or 83.8% due to an historic number of main breaks in the City’s water distribution system. The concomitant costs to restore water mains, streets, and sidewalks increased by \$6.5 million. Supplemental workforce contracts to perform emergency main repairs increased by \$2.3 million, and other operating materials and supplies increased by \$0.8 million. Depreciation and amortization expense increased by \$3.1 million or 28.8% because more construction projects were completed and transferred to depreciable capital assets.

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 street restoration. Administrative and general incurred \$1.6 million in additional expenses. The largest contributing factor was \$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.

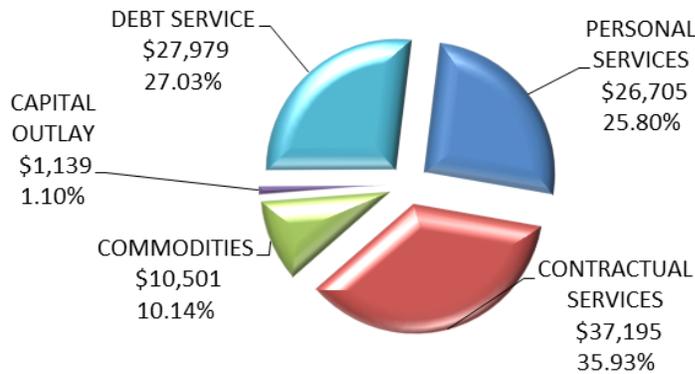
**Summary of Operating Expenses**  
(In millions)



**BUDGETED EXPENDITURES  
(IN THOUSANDS)  
2011-12**



**ACTUAL EXPENDITURES  
(IN THOUSANDS)  
2011-12**



**Capital Assets**

Capital assets totaled \$681.4 million (net of accumulated depreciation) and accounted for 80.3% of total assets at April 30, 2012. Construction continues to: replace undersized water mains throughout the City, upgrade and improve water treatment plant operations, and modernize infrastructure. During the year, projects totaling \$28.3 million were completed. They included \$24.7 million of constructed water mains and appurtenances, \$0.7 million for pumping stations and equipment, and \$2.8 million for treatment plant and equipment upgrades. In addition to completed projects, there was \$2.8 million in contributed assets from property developers, and \$0.4 million of motorized vehicles and equipment transferred from Public Works. Additions and replacements of machinery and equipment totaled \$4.6 million. The increases in depreciable capital assets were offset by disposals and retirements of \$8.1 million.

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 Water Fund's continued capital improvements program, capital assets increased \$37.3 million over the previous year. While construction increased by \$45.3 million, 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.

**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 \$212.5 million of senior lien debt outstanding, including the Series 2012A Water Revenue Bonds issued in February 2012. 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

| <b>Credit Rating Agencies</b> | <b>Water Revenue Bonds Credit Rating</b> |
|-------------------------------|--|
| Moody’s                       | Aa2                                      |
| Standard & Poor’s             | AA+                                      |

The Standard & Poor’s Ratings Services has affirmed the AA+ rating on the City’s Series 2012A Water Revenue Bonds issued in February 2012, and other outstanding water revenue bonds. The rating reflects the:

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

In August 2005, citizens voted to authorize \$250 million in additional water revenue bonds to be issued annually through 2012. Following the Series 2012A bond issue, the City will have approximately \$108 million remaining from its original bond authorization.

The Water 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 Water Fund is required to meet an earnings test before issuing any additional bonds on parity with existing debt. See the notes to the financial statements.

**Request for Information**

This financial report is designed to provide the Water Fund’s management, investors, creditors and customers with a general view of the Water Fund’s finances and to demonstrate the Water 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>2012</u>           | <u>2011</u>           |
|---|-----------------------|-----------------------|
| <b>Liabilities and Net Assets</b>   |                       |                       |
| Current liabilities   |                       |                       |
| Accounts payable  | \$ 5,279,562          | \$ 5,868,776          |
| Current portion of compensated absences                                       | 607,774               | 688,391               |
| Accrued payroll and related expenses  | 675,111               | 551,350               |
| Contracts and retainage payable   | 465,394               | 275,274               |
| Other liabilities   | 863,980               | 863,979               |
| Current portion of due to other funds   | 388,286               | 787,148               |
| Current portion of claims liability   | <u>1,518,013</u>      | <u>1,667,197</u>      |
| Total current liabilities, less liabilities payable<br>from restricted assets | <u>9,798,120</u>      | <u>10,702,115</u>     |
| Liabilities payable from restricted assets                                    |                       |                       |
| Accrued interest and fiscal agent fees  | 4,079,950             | 3,939,588             |
| Current portion of revenue bonds and<br>capital leases payable                | 18,100,341            | 17,384,537            |
| Contracts and retainage payable   | 1,760,833             | 1,542,874             |
| Customer deposits   | <u>1,211,247</u>      | <u>1,364,165</u>      |
| Total liabilities payable from restricted assets                              | <u>25,152,371</u>     | <u>24,231,164</u>     |
| Total current liabilities   | <u>34,950,491</u>     | <u>34,933,279</u>     |
| Claims liability  | 4,469,352             | 5,235,283             |
| Compensated absences  | 2,213,803             | 1,944,252             |
| Pension liability   | 4,310,573             | 3,363,131             |
| Other post-employment benefit obligation                                      | 4,525,571             | 4,178,628             |
| Revenue bonds and capital leases payable,<br>net of current portion           | <u>260,557,305</u>    | <u>225,911,050</u>    |
| Total liabilities   | <u>311,027,095</u>    | <u>275,565,623</u>    |
| Net assets  |                       |                       |
| Invested in capital assets, net of related debt                               | 470,155,178           | 455,704,677           |
| Restricted  | 10,008,982            | 11,382,337            |
| Unrestricted  | <u>57,021,378</u>     | <u>35,888,149</u>     |
| Total net assets  | <u>537,185,538</u>    | <u>502,975,163</u>    |
| Total liabilities and net assets  | <u>\$ 848,212,633</u> | <u>\$ 778,540,786</u> |

**City of Kansas City, Missouri Water Fund**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended April 30, 2012 and 2011**

|  | <u>2012</u>           | <u>2011</u>           |
|--|-----------------------|-----------------------|
| <b>Operating Revenues</b>  |                       |                       |
| Water sales  | \$ 113,795,787        | \$ 104,809,250        |
| Other water revenue  | 4,425,641             | 3,043,482             |
| Income from jobbing and contract work and<br>miscellaneous revenues  | <u>7,026,768</u>      | <u>7,355,893</u>      |
| Total operating revenues   | <u>125,248,196</u>    | <u>115,208,625</u>    |
| <b>Operating Expenses</b>  |                       |                       |
| Power and pumping  | 4,844,668             | 4,955,130             |
| General and electrical maintenance                                   | 4,034,162             | 2,541,658             |
| Purification   | 11,020,685            | 11,892,058            |
| Laboratory services  | 2,470,682             | 2,477,521             |
| Transmission and distribution  | 21,122,053            | 11,488,867            |
| Customer service   | 7,236,663             | 7,295,986             |
| Mechanical maintenance   | 2,751,426             | 2,754,732             |
| Customer accounting and collection                                   | 5,184,265             | 4,963,537             |
| Administrative and general   | 14,585,368            | 16,123,070            |
| Depreciation and amortization  | <u>13,793,442</u>     | <u>10,708,385</u>     |
| Total operating expenses   | <u>87,043,414</u>     | <u>75,200,944</u>     |
| <b>Operating Income</b>  | <u>38,204,782</u>     | <u>40,007,681</u>     |
| <b>Nonoperating Revenues (Expenses)</b>                              |                       |                       |
| Interest income  | 1,457,756             | 1,625,220             |
| Interest expense and fiscal agent fees                               | (9,774,619)           | (9,103,896)           |
| Other  | <u>(192,146)</u>      | <u>(214,237)</u>      |
| Total nonoperating expenses, net                                     | <u>(8,509,009)</u>    | <u>(7,692,913)</u>    |
| <b>Excess of Revenues Over Expenses Before Capital Contributions</b> | 29,695,773            | 32,314,768            |
| <b>Capital Contributions</b>   | <u>4,514,602</u>      | <u>4,608,332</u>      |
| <b>Increase in Net Assets</b>  | 34,210,375            | 36,923,100            |
| <b>Net Assets, Beginning of Year</b>                                 | <u>502,975,163</u>    | <u>466,052,063</u>    |
| <b>Net Assets, End of Year</b>                                       | <u>\$ 537,185,538</u> | <u>\$ 502,975,163</u> |

**City of Kansas City, Missouri Water Fund**  
**Statements of Cash Flows**  
**Years Ended April 30, 2012 and 2011**

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| <b>Operating Activities</b>  |                     |                     |
| Cash received from customers   | \$ 126,378,535      | \$ 111,136,234      |
| Cash paid to employees, including benefits   | (26,043,368)        | (25,636,521)        |
| Cash paid to suppliers   | <u>(50,675,536)</u> | <u>(36,597,568)</u> |
| Net cash provided by operating activities  | <u>49,659,631</u>   | <u>48,902,145</u>   |
| <b>Capital and Related Financing Activities</b>  |                     |                     |
| Acquisition and construction of capital assets   | (35,638,852)        | (37,946,705)        |
| Proceeds from issuance of revenue bonds and capital leases,<br>net of premium and discount | 52,462,382          | -                   |
| Principal payments on revenue bonds and capital leases                                     | (17,384,537)        | (16,539,098)        |
| Fiscal agent fees and interest paid on revenue bonds<br>and capital leases                 | (10,594,654)        | (12,199,917)        |
| Debt issuance costs  | (435,027)           | -                   |
| Proceeds from sale of capital assets   | 58,126              | -                   |
| Proceeds from notes receivable   | <u>484,370</u>      | <u>585,791</u>      |
| Net cash used in capital and related<br>financing activities                               | <u>(11,048,192)</u> | <u>(66,099,929)</u> |
| <b>Investing Activities</b>  |                     |                     |
| Investment purchases   | (104,206,386)       | (68,789,009)        |
| Investment maturities and sales  | 63,472,176          | 84,386,595          |
| Interest received on investments   | <u>1,331,592</u>    | <u>1,746,707</u>    |
| Net cash provided by (used in) investing activities  | <u>(39,402,618)</u> | <u>17,344,293</u>   |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                                | (791,179)           | 146,509             |
| <b>Cash and Cash Equivalents, Beginning of Year</b>  | <u>9,668,628</u>    | <u>9,522,119</u>    |
| <b>Cash and Cash Equivalents, End of Year</b>  | <u>\$ 8,877,449</u> | <u>\$ 9,668,628</u> |

**City of Kansas City, Missouri Water Fund**  
**Statements of Cash Flows (Continued)**  
**Years Ended April 30, 2012 and 2011**

|  | <b>2012</b>                 | <b>2011</b>                 |
|--|-----------------------------|-----------------------------|
| <b>Reconciliation of Operating Income to Net Cash</b>                                  |                             |                             |
| <b>Provided by Operating Activities</b>  |                             |                             |
| Operating income   | <u>\$ 38,204,782</u>        | <u>\$ 40,007,681</u>        |
| Adjustments to reconcile operating income to net cash provided by operating activities |                             |                             |
| Depreciation and amortization  | 13,793,442                  | 10,708,385                  |
| Changes in assets and liabilities  |                             |                             |
| Accounts receivable and special assessments receivable                                 | 922,327                     | (4,223,695)                 |
| Inventories  | (74,279)                    | (278,944)                   |
| Due from other funds   | 360,930                     | (347,256)                   |
| Accounts payable   | (3,687,757)                 | (1,173,615)                 |
| Compensated absences   | 188,934                     | (63,237)                    |
| Accrued payroll and related expenses   | 123,761                     | 131,448                     |
| Other liabilities  | 1                           | 601,796                     |
| Due to other funds   | (398,862)                   | 293,446                     |
| Claims liability   | (915,115)                   | 1,267,479                   |
| Customer deposits  | (152,918)                   | 498,560                     |
| Pension liability  | 947,442                     | 1,111,550                   |
| Other post-employment benefit obligation   | <u>346,943</u>              | <u>368,547</u>              |
| Total adjustments  | <u>11,454,849</u>           | <u>8,894,464</u>            |
| Net cash provided by operating activities  | <u><u>\$ 49,659,631</u></u> | <u><u>\$ 48,902,145</u></u> |
| <b>Components of Cash and Cash Equivalents at End of Year</b>                          |                             |                             |
| Unrestricted   | \$ 3,173,573                | \$ 1,650,868                |
| Restricted   | <u>5,703,876</u>            | <u>8,017,760</u>            |
|  | <u><u>\$ 8,877,449</u></u>  | <u><u>\$ 9,668,628</u></u>  |
| <b>Noncash Activities</b>  |                             |                             |
| Contributions of capital assets  | \$ 4,514,602                | \$ 4,608,332                |
| Increase in fair value of investments  | 203,224                     | 159,002                     |
| Accounts payable incurred for purchase of capital assets                               | 5,051,738                   | 2,636,347                   |

# **City of Kansas City, Missouri Water Fund**

## **Notes to Financial Statements**

**April 30, 2012 and 2011**

### **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, 2012 and 2011, 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.

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2012 and 2011

### ***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.

### ***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 ranging from 40 to 100 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, 2012 and 2011 totaled \$1,244,611 and \$3,187,214, respectively.

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2012 and 2011

### ***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.

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, 2012 and 2011, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately \$43,534,000 and \$39,099,000, 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. The Water Fund's allocation of deposits was \$5,262,465 and \$1,263,184 at April 30, 2012 and 2011, respectively.

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

### April 30, 2012 and 2011

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, 2012 and 2011

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, 2012, 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          |                   |                                  |                   |                  |                   |                  |
| Municipal securities        | \$ 2,072          | \$ 2,072                         | \$ -              | \$ -             | \$ -              | 0.76             |
| U.S. Treasury bills         | 19,998            | 19,998                           | -                 | -                | -                 | 0.12             |
| U.S. Treasury notes/bonds   | 138,667           | 65,578                           | 31,005            | 31,664           | 10,420            | 1.49             |
| U.S. agency discounts       | 4,994             | 4,994                            | -                 | -                | -                 | 0.76             |
| U.S. agencies – noncallable | 401,250           | 151,140                          | 131,965           | 13,455           | 104,690           | 1.78             |
| U.S. agencies – callable    | 105,341           | 45,215                           | 30,165            | 9,999            | 19,962            | 1.80             |
| Mortgage-backed agency      | 9,513             | 9,513                            | -                 | -                | -                 | 0.41             |
| Total pooled                | <u>681,835</u>    | <u>298,510</u>                   | <u>193,135</u>    | <u>55,118</u>    | <u>135,072</u>    | <u>1.59</u>      |
| Non-pooled investments      |                   |                                  |                   |                  |                   |                  |
| U.S. agencies – noncallable | 219,759           | 77,734                           | 109,561           | 24,540           | 7,924             | 1.35             |
| U.S. agencies – callable    | 53,155            | 46,635                           | -                 | 3,001            | 3,519             | 0.70             |
| Total non-pooled            | <u>272,914</u>    | <u>124,369</u>                   | <u>109,561</u>    | <u>27,541</u>    | <u>11,443</u>     | <u>1.22</u>      |
|                             | <u>\$ 954,749</u> | <u>\$ 422,879</u>                | <u>\$ 302,696</u> | <u>\$ 82,659</u> | <u>\$ 146,515</u> | <u>1.53</u>      |

The Water Fund's allocation of pooled investments at April 30, 2012 was \$82,568,844. The Water Fund's non-pooled investments at April 30, 2012 were \$44,240,005.

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

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 \$3,857,261 at April 30, 2012 and consisted primarily of money market funds.

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             |
|                             | <u>\$ 785,546</u> | <u>\$ 303,110</u>                | <u>\$ 175,375</u> | <u>\$ 153,271</u> | <u>\$ 153,790</u> | <u>1.80</u>      |

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.

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 \$5,647,187 at April 30, 2011 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, 2012 and 2011, the total fair value of the City's callable bond portfolio (pooled and non-pooled) is \$158,495,887 and \$146,438,810, respectively.

**Mortgage-Backed Securities.** The City has invested in a collateralized mortgage obligation security issued by the Federal National Mortgage Association (FNMA). Details of that security are as follows:

**FNR 2006-17 A, \$100,000,000 original par value.** The security has a fixed coupon rate of 5.50% and pays principal and interest monthly. The security was purchased on January 12, 2012 and, although has a stated final maturity of April 25, 2033, the security is the first tranche that began receiving principal payments. Based on current prepayment speeds using industry-standard modeling, the City's principal amount should be fully retired by April 30, 2013. At April 30, 2012, the security had a remaining face value of \$9,425,782, a book value of \$9,613,931, and a fair market value of \$9,514,196.

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2012 and 2011

### **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:

| <b>Investment Type</b>   | <b>Maximum</b> |
|--|----------------|
| U.S. Treasury securities and government<br>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%            |
| Qualified municipal obligations                                  | 10%            |

As of April 30, 2012, 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):

|                          | <b>Fair<br/>Value</b> | <b>Moody's/<br/>S&amp;P<br/>Ratings</b> |
|--------------------------|-----------------------|---|
| U.S. Treasury securities | \$ 158,665            | Aaa/AA+                                 |
| U.S. agency securities   | 794,012               | Aaa/AA+                                 |
| Municipal obligations    | 2,072                 | Aa2/AA                                  |
|                          | \$ 954,749            |   |

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):

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

# **City of Kansas City, Missouri Water Fund**

## **Notes to Financial Statements**

### **April 30, 2012 and 2011**

#### ***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, 2012 and 2011, 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, 2012 and 2011, 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/AA+ 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 at April 30, 2011, 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, 2012, 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%, 24%, 21% and 26%, respectively, of the City's total investments.

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.

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.

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

**Summary**

The following is a complete listing of cash and investments held by the Water Fund at April 30, 2012 and 2011:

|                        | <u>2012</u>           | <u>2011</u>          |
|------------------------|-----------------------|----------------------|
| Deposits               | \$ 5,262,465          | \$ 1,263,184         |
| Pooled investments     | 82,568,844            | 78,887,787           |
| Non-pooled investments | 44,240,005            | 9,984,162            |
| Trustee accounts       | <u>3,857,261</u>      | <u>5,647,187</u>     |
| Total                  | <u>\$ 135,928,575</u> | <u>\$ 95,782,320</u> |

The deposits and investments of the Water Fund at April 30, 2012 and 2011 are reflected in the statements of net assets as follows:

|                           | <u>2012</u>           | <u>2011</u>          |
|---------------------------|-----------------------|----------------------|
| Current assets            |                       |                      |
| Unrestricted              |                       |                      |
| Cash and cash equivalents | \$ 3,173,573          | \$ 1,650,868         |
| Investments               | 8,850,612             | 3,225,858            |
| Restricted                |                       |                      |
| Cash and cash equivalents | 5,703,876             | 8,017,760            |
| Investments               | 15,478,885            | 4,619,490            |
| Investments               | 43,459,349            | 28,077,160           |
| Restricted investments    | <u>59,262,280</u>     | <u>50,191,184</u>    |
| Total                     | <u>\$ 135,928,575</u> | <u>\$ 95,782,320</u> |

**Note 3: Accounts Receivable**

A summary of accounts receivable at April 30, 2012 and 2011 is as follows:

|                                      | <u>2012</u>          | <u>2011</u>          |
|--------------------------------------|----------------------|----------------------|
| Water customers                      | \$ 16,655,404        | \$ 15,055,505        |
| Unbilled utility revenue             | <u>7,413,700</u>     | <u>5,536,453</u>     |
|                                      | 24,069,104           | 20,591,958           |
| Less allowance for doubtful accounts | <u>9,687,773</u>     | <u>5,291,171</u>     |
| Net accounts receivable              | <u>\$ 14,381,331</u> | <u>\$ 15,300,787</u> |

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2012 and 2011

### 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, 2012 and 2011:

| Customer                | Interest Rates | Loan Completion Date | 2012                | 2011                |
|-------------------------|----------------|----------------------|---------------------|---------------------|
| Dogwood Energy          | 5.565%         | February 2023        | \$ 2,755,809        | \$ 2,920,591        |
| City of Kearney         | 5.565          | November 2023        | 952,709             | 1,009,171           |
| Platte County PWSD #2   | 4.126          | April 2026           | 331,490             | 348,638             |
| Platte County PWSD #9   | 4.126          | April 2026           | 1,005,855           | 1,064,673           |
| City of Dearborn        | 4.126          | April 2026           | 546,789             | 575,074             |
| Cass County PWSD #3     | 4.394          | January 2028         | 132,166             | 137,864             |
| Jackson County PWSD #12 | 5.565          | March 2029           | 206,196             | 214,093             |
| City of Harrisonville   | 4.238          | March 2028           | 2,701,501           | 2,818,812           |
| Cass County PWSD #10    | 4.238          | November 2029        | 745,484             | 773,453             |
|                         |                |                      | <u>9,377,999</u>    | <u>9,862,369</u>    |
| Less current portion    |                |                      | (550,240)           | (504,919)           |
|                         |                |                      | <u>\$ 8,827,759</u> | <u>\$ 9,357,450</u> |
| Noncurrent portion      |                |                      |                     |                     |

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

**Note 5: Capital Assets**

Capital asset activity for the year ended April 30, 2012 is as follows:

|                                  | May 1,<br>2011        | Additions            | Retirements/<br>Adjustments | Transfers   | April 30,<br>2012     |
|----------------------------------|-----------------------|----------------------|-----------------------------|-------------|-----------------------|
| Depreciable assets               |                       |                      |                             |             |                       |
| Buildings                        | \$ 150,998,951        | \$ 2,220,709         | \$ (201,720)                | \$ -        | \$ 153,017,940        |
| Utility lines and improvements   | 533,504,225           | 28,187,823           | (1,561,231)                 | -           | 560,130,817           |
| Machinery and equipment          | 52,092,963            | 5,041,662            | (6,331,957)                 | -           | 50,802,668            |
| Total depreciable assets         | <u>736,596,139</u>    | <u>35,450,194</u>    | <u>(8,094,908)</u>          | <u>-</u>    | <u>763,951,425</u>    |
| Accumulated depreciation         |                       |                      |                             |             |                       |
| Buildings                        | (77,536,274)          | (2,266,702)          | 201,720                     | -           | (79,601,256)          |
| Utility lines and improvements   | (63,466,190)          | (8,519,343)          | 1,561,231                   | -           | (70,424,302)          |
| Machinery and equipment          | (31,919,597)          | (2,816,310)          | 6,189,025                   | -           | (28,546,882)          |
| Total accumulated depreciation   | <u>(172,922,061)</u>  | <u>(13,602,355)</u>  | <u>7,951,976</u>            | <u>-</u>    | <u>(178,572,440)</u>  |
| Total depreciable assets, net    | <u>563,674,078</u>    | <u>21,847,839</u>    | <u>(142,932)</u>            | <u>-</u>    | <u>585,378,985</u>    |
| Nondepreciable assets            |                       |                      |                             |             |                       |
| Land and permanent right of ways | 3,966,449             | 5,500                | -                           | -           | 3,971,949             |
| Construction in process          | 82,684,614            | 41,176,191           | (31,834,538)                | -           | 92,026,267            |
| Total nondepreciable assets      | <u>86,651,063</u>     | <u>41,181,691</u>    | <u>(31,834,538)</u>         | <u>-</u>    | <u>95,998,216</u>     |
| Capital assets, net              | <u>\$ 650,325,141</u> | <u>\$ 63,029,530</u> | <u>\$ (31,977,470)</u>      | <u>\$ -</u> | <u>\$ 681,377,201</u> |

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

|                                  | May 1,<br>2010        | Additions             | Retirements/<br>Adjustments | Transfers    | April 30,<br>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> |

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

**Note 6: Revenue Bonds, Capital Leases and Restricted Assets**

Revenue bonds and capital leases outstanding consist of the following issues at April 30, 2012 and 2011:

| Issue   | Interest Rates | Maturity Through | 2012                  | 2011                  |
|---|----------------|------------------|-----------------------|-----------------------|
| 2008 Series A   | 4.66%          | December 2027    | \$ 31,355,000         | \$ 32,655,000         |
| 2009 Series A   | 2.00 - 5.25%   | December 2032    | 164,725,000           | 177,465,000           |
| 2012 Series A   | 1.00 - 5.00%   | December 2036    | 47,725,000            | -                     |
| AMR Capital Lease-2008                                      | 3.44%          | December 2017    | 7,477,139             | 8,652,080             |
| AMR Capital Lease-2009                                      | 4.06%          | December 2019    | 19,905,795            | 22,075,391            |
|   |                |                  | <u>271,187,934</u>    | <u>240,847,471</u>    |
| Add premiums  |                |                  | 12,841,428            | 8,531,217             |
| Less  |                |                  |                       |                       |
| Current portion   |                |                  | (18,100,341)          | (17,384,537)          |
| Deferred loss on refunding, net of accumulated amortization |                |                  | (5,371,716)           | (6,083,101)           |
|   |                |                  | <u>(23,472,057)</u>   | <u>(23,467,648)</u>   |
| Noncurrent revenue bonds and capital leases payable         |                |                  | <u>\$ 260,557,305</u> | <u>\$ 225,911,050</u> |

Changes in revenue bonds and capital leases payable during the year ended April 30, 2012 are as follows:

|                                  | May 1, 2011           | Additions            | Retirements            | April 30, 2012        |
|----------------------------------|-----------------------|----------------------|------------------------|-----------------------|
| Revenue bonds and capital leases | \$ 240,847,471        | <u>\$ 47,725,000</u> | <u>\$ (17,384,537)</u> | \$ 271,187,934        |
| Less current portion             | <u>(17,384,537)</u>   |                      |                        | <u>(18,100,341)</u>   |
| Total noncurrent                 | <u>\$ 223,462,934</u> |                      |                        | <u>\$ 253,087,593</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> |

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

The annual requirements to retire the bonds and capital leases outstanding as of April 30, 2012 are as follows:

| <b>Year Ending April 30</b> | <b>Principal</b>      | <b>Interest</b>       | <b>Total</b>          |
|-----------------------------|-----------------------|-----------------------|-----------------------|
| 2013                        | \$ 18,100,341         | \$ 11,293,315         | \$ 29,393,656         |
| 2014                        | 18,236,292            | 11,120,053            | 29,356,345            |
| 2015                        | 19,052,596            | 10,397,146            | 29,449,742            |
| 2016                        | 17,009,461            | 9,664,146             | 26,673,607            |
| 2017                        | 17,707,109            | 8,931,552             | 26,638,661            |
| 2018 – 2022                 | 75,972,135            | 33,901,159            | 109,873,294           |
| 2023 – 2027                 | 52,710,000            | 19,050,818            | 71,760,818            |
| 2028 – 2032                 | 34,230,000            | 9,009,340             | 43,239,340            |
| 2033 – 2037                 | 18,170,000            | 2,113,163             | 20,283,163            |
|                             | <u>\$ 271,187,934</u> | <u>\$ 115,480,692</u> | <u>\$ 386,668,626</u> |

The amount of outstanding advance refunding of insubstance defeased debt as of April 30, 2012 and 2011 was a total of \$49,840,000 and \$63,840,000, 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, the 2009A and 2012A bonds (Senior Bonds) share equal claim to the revenue generated by the Water Fund. The pledge of revenue is senior to the pledge of such revenues for the payment of the 2008A bonds (Subordinate Bond). The AMR capital leases, which are payable from the revenues of the Water Fund on a subordinate basis to the Senior and Subordinate Bonds, are secured by the equipment under the leases. 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:

| <b>Account</b>         | <b>Restriction</b>   |
|------------------------|--|
| 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 Water Fund establish additional reserve accounts for the retirement of the bonds totaling \$18,361,452 at April 30, 2012. However, in lieu of setting aside cash, the ordinances allow the Water Fund to obtain insurance policies. The Water Fund has obtained insurance policies to satisfy \$15,304,827 of the reserve requirements. As of April 30, 2012, the Water Fund's debt service coverage ratio was above the 130% threshold, so the remaining bond reserve account was not required to be funded.

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2012 and 2011

Restricted accounts are reported on the accompanying statements of net assets as restricted assets for 2012 and 2011 as follows:

|                        | 2012          | 2011          |
|------------------------|---------------|---------------|
| Principal and interest | \$ 10,010,739 | \$ 9,841,022  |
| Construction           | 69,471,478    | 52,393,467    |
| Customer deposits      | 1,215,045     | 924,045       |
|                        | \$ 80,697,262 | \$ 63,158,534 |

### Note 7: Pledged Revenues

The City has pledged revenues of the Water Fund, net of specified operating expenses, to repay \$271,187,934 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 and capital leases are expected to require 19% of net revenues on average over the next 25 years. The total principal and interest remaining to be paid on the bonds and capital leases is \$386,668,626. Principal and interest paid for the year ended April 30, 2012 and total net revenues were \$27,974,953 and \$58,628,095, respectively.

### Note 8: Due to/from Other Funds

Amounts due to/from other funds at April 30, 2012 and 2011 were as follows:

|              | 2012      |            | 2011       |            |
|--------------|-----------|------------|------------|------------|
|              | Due from  | Due to     | Due from   | Due to     |
| Sewer fund   | \$ 29,620 | \$ 3,286   | \$ 7,870   | \$ 402,148 |
| General fund | 532       | 385,000    | 383,212    | 385,000    |
|              | \$ 30,152 | \$ 388,286 | \$ 391,082 | \$ 787,148 |

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**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

**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, 2012 and 2011 are presented as administrative and general expenses and are as follows:

|  | <b>2012</b>  | <b>2011</b>  |
|--|--------------|--------------|
| Administrative, data processing and accounting | \$ 5,111,980 | \$ 5,653,176 |

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 \$4,230,372 and \$4,157,691 for these services for the years ended April 30, 2012 and 2011, 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, 2011, the actuarial accrued liability of the Plan was approximately \$1,010,996,000 and the actuarial value of assets of the Plan was approximately \$806,793,000; 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 \$35,564,000 to each participating fund. The Water Fund's allocation was approximately \$4,311,000 as of April 30, 2012. Contributions to the Plan made by the Water Fund during the year ended April 30, 2012 were approximately \$2,190,000.

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.

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, 12<sup>th</sup> Floor, City Hall, 414 East 12<sup>th</sup> Street, Kansas City, Missouri 64106 or by calling (816) 513-1928.

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

**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 May 1, 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. The covered payroll (annual payroll of active employees covered by the OPEB plan) was \$205.9 million, and the ratio of UAAL to the covered payroll was 37 percent.

Although determinations of the actuarial status were not made for individual funds, the City has allocated its 2012 and 2011 overall net OPEB obligation of approximately \$60,820,000 and \$55,668,000, respectively, to each participating fund. For the years ended April 30, 2012 and 2011, the Water Fund's allocation was approximately \$4,526,000 and \$4,179,000, 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.

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

**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 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 3.0% inflation rate, 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 two-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  |
|   |    | 41  |
| Total   | \$ | 144 |

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

**Note 12: Commitments**

At April 30, 2012 and 2011, the City had made purchase commitments, primarily for additions to utility lines and improvements on behalf of the Water Fund of approximately \$30,762,000 and \$30,569,000, respectively. 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. Settled claims have not exceeded the self-insured retention in any of the past three fiscal years.

The City also maintains commercial insurance coverage for those areas not covered by the City's self-insurance programs, such as general liability, property, law enforcement and auto. Settled claims have not exceeded commercial insurance coverage for the past three 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, 2012 and 2011 is summarized as follows:

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| Balance, beginning of the year   | \$ 6,902,480        | \$ 5,635,001        |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 1,780,168           | 3,552,913           |
| Claims and expenses paid   | <u>(2,695,283)</u>  | <u>(2,285,434)</u>  |
| Balance, end of the year   | 5,987,365           | 6,902,480           |
| Less current portion   | <u>(1,518,013)</u>  | <u>(1,667,197)</u>  |
| Noncurrent portion   | <u>\$ 4,469,352</u> | <u>\$ 5,235,283</u> |

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

**Note 14: Net Assets**

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

|  | <b>2012</b>    | <b>2011</b>    |
|--|----------------|----------------|
| Capital Related Assets   |                |                |
| Land   | \$ 3,971,949   | \$ 3,966,449   |
| Construction in progress   | 92,026,267     | 82,684,614     |
| Buildings  | 153,017,940    | 150,998,951    |
| Utility line and improvements  | 560,130,817    | 533,504,225    |
| Machinery and equipment  | 50,802,668     | 52,092,963     |
|  | 859,949,641    | 823,247,202    |
| Less accumulated depreciation  | (178,572,440)  | (172,922,061)  |
| Capital assets, net  | 681,377,201    | 650,325,141    |
| Bond issuance cost, net  | 4,264,767      | 4,020,827      |
| Total capital related assets   | 685,641,968    | 654,345,968    |
| Less Related Liabilities   |                |                |
| Current portion, bonds and capital leases payable                                  | 18,100,341     | 17,384,537     |
| Bonds and capital leases payable, net of premium,<br>discount and unspent proceeds | 195,160,222    | 179,438,606    |
| Contracts and retainages payable   | 2,226,227      | 1,818,148      |
| Total capital related liabilities  | 215,486,790    | 198,641,291    |
| Invested in Capital Assets, Net of Related Debt                                    | \$ 470,155,178 | \$ 455,704,677 |

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
**April 30, 2012 and 2011**

Restricted net assets at April 30, 2012 and 2011 are as follows:

|   | <b>2012</b>          | <b>2011</b>          |
|---|----------------------|----------------------|
| Restricted Assets                       |                      |                      |
| Cash and cash equivalents               | \$ 5,703,876         | \$ 8,017,760         |
| Investments                             | 74,741,165           | 54,810,674           |
| Interest receivable                     | 252,221              | 330,100              |
|   | 80,697,262           | 63,158,534           |
| Less Liabilities from Restricted Assets |                      |                      |
| Debt related to unspent bond proceeds   | 65,397,083           | 46,472,444           |
| Accrued interest and fiscal agent fees  | 4,079,950            | 3,939,588            |
| Customer deposits                       | 1,211,247            | 1,364,165            |
|   | 70,688,280           | 51,776,197           |
| Restricted Net Assets                   | <u>\$ 10,008,982</u> | <u>\$ 11,382,337</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.