The following Water System Report
is dated as of December 30, 2008 and was submitted to the
NRMSIR as of the same date.

THE WATER SYSTEM

The Water Services Department's activities consist of obtaining, purifying and delivering potable water for domestic, commercial and industrial use and for fire protection within the City and surrounding areas.

Primary Water System

The primary Water System includes a 240 million gallon per day treatment plant, four major pump stations, 14 repump stations, numerous water storage facilities, and about 2,700 miles of water mains. Treated water service is provided to approximately 153,000 retail customers inside and outside the City and 32 active wholesale customers. There are also connections with the transmission systems of six other regional water suppliers that can be activated in case of an emergency.

The City obtains its raw water for the primary System from a combination of surface and ground water sources. Surface water comes from the Missouri River and accounts for approximately 80% of the raw water. Ground water comes from a well field in the Missouri River aquifer and accounts for the remaining 20% of raw water. Water treatment is a four-step process that consists of clarification, softening, stabilization and filtration. The treated water produced by the Water Services Department meets current federal and state requirements for drinking water.

Water is pumped into the transmission system from storage reservoirs located at the primary water treatment plant, which is located on the north side of the Missouri River. The primary water transmission system is comprised of two essentially separate systems, one serving customers located north of the Missouri River and the other serving customers located south of the Missouri River. Water is delivered to the southern water transmission system through two tunnels located under the Missouri River. The transmission systems include booster pumping stations and both elevated and ground level water storage reservoirs. The existing treated water storage capacity is now 128.2 million gallons. The average daily flow during Fiscal Year 2008 was 109 million gallons per day with a peak day demand of 180 million gallons, which is about 75% of the primary treatment plant's design capacity.

The Corps of Engineers plans to maintain releases from upstream reservoirs in the near future; thus, the City anticipates that the elevation of the Missouri River water surface will remain at lower than normal levels. In addition, the river bed is degrading due to flood scour and changes in sediment transport patterns, which is also contributing to the lowering of water levels in the Missouri River.

With the lowering of the Missouri River water surface, it is possible that the existing Intake Structure would not be able to take raw water out of the river this winter and pump it to the City's Water Treatment Plant. To avoid this possibility, the City has made additions and modifications to the equipment at the Intake Structure.

The City has continued to file comments on the Corps' plan and is participating in the Missouri River Recovery Implementation Committee (MRRIC) discussions for Missouri River management. The City is a member of the MO-ARK Association, a voluntary non-profit corporation which promotes flood control, navigation, irrigation, recreation, fish and wildlife, the environment, conservation and the beneficial use of land and water resources within the Missouri River Basin and the portion of the Arkansas River Basin that runs through Kansas and Missouri. MO-ARK is involved in litigation disputing the Corps' plan.

Atherton Water System

The Atherton Water System provides wholesale service to two wholesale water districts. The Atherton System consists of two wells located near the Missouri River and a small treatment plant with a rated capacity of approximately 0.6 million gallons per day. The treatment plant consists of an aerator, solids contact unit, filters, pumps, chemical feeders, and clearwell. The distribution system includes an underground booster pumping station and approximately 7 miles of 8-inch or 10-inch water mains.

Additional Information

The following table shows revenues generated by retail and wholesale customers of the Water System for the past five years

Water Revenues by Retail and Wholesale Customers (in 1,000s)

Fiscal Year Ended April 30

	2004	2005	2006	2007	2008
Retail Customers	$55,081	$53,982	$55,593	$61,267	$65,126
Wholesale Customers	10,964	7,771	11,391	13,122	13,125
Total	$66,045	$61,753	$66,984	$74,389	$78,251

The following table shows the number of retail Water System customers for the past five years

Number of Water System Customers

Fiscal Year Ended April 30

	2004	2005*	2006	2007	2008
Residential	146,140	136,357	136,735	136,860	137,650
Commercial/Industrial	17,042	18,267	18,277	15,170	15,354
Wholesale	51	55	55	32	32
Total	163,233	154,679	155,067	152,062	153,036

Note: Numbers exclude those used to provide City services

**Restated from prior year*

Because of the system conversion from Legacy to Banner in April 2004, the FY2005 numbers were calculated based on previous projections because of data clean-up from the old system that needed verification FY2005 and FY2006 track each other and are reasonably in line from year to year. The customer numbers in the old legacy system had to be calculated based on the number of bills issued and was not as accurate as the new system

In 2005 and 2006 service connections were counted and reported FY2007 reflects a count of accounts which more closely correlates to the number of water system customers

Management Initiatives

The Water Services Department continues its efforts to improve operating efficiencies, customer service, and service reliability. In 2007, the Department began installation work associated with a new Automatic Meter Reading (AMR) system Installation of the AMR system is scheduled over three years. Improved accuracy, operating efficiencies, and enhanced revenue recovery will result from this undertaking At present, approximately 71,600 of the approximately 160,000 meters in the water system have been equipped with AMR

The Department will require significant capital additions to the water system to meet infrastructure renewal and replacement needs That consideration is one of several that caused the Department to begin developing an Asset Management Program (the Program). Beginning with the sewer utility, the Program will establish levels of service, best management practices, and an implementation plan that is aimed at minimizing the life cycle costs of the Department's assets. The Program will ultimately be expanded to include the water utility

In response to community expectations, the Department initiated a reengineering effort to match its organizational structure and functions with changing business needs Specifically, strategies are being developed to address succession planning,

organizational structure and function, and internal delivery of capital projects These initiatives are aimed at helping the Department achieve best of class delivery of essential services.

Security of the System

As a result of the terrorist attacks of September 11, 2001, the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, commonly known as the Bioterrorism Act, was signed into law on June 12, 2002 This law requires all community water systems serving more than 3,300 people to (1) conduct a vulnerability assessment; (2) certify to the United States Environmental Protection Agency ("USEPA") that the vulnerability assessment was completed by a date specified in the law; (3) submit a paper copy of the assessment to USEPA; (4) prepare or revise their emergency response plan based on the results of the vulnerability assessment; and (5) certify to USEPA that the emergency response plan has been developed or revised by a certain date The Water Services Department has focused much attention on securing the Water System Under the requirements of the Bioterrorism Act, the City has conducted appropriate security activities and provided all required certifications to appropriate federal authorities, by the prescribed deadlines, concerning assessments and response planning In addition, the City carries property insurance for Water Services Department property that includes the terrorism coverage referred to in the Terrorism Risk Insurance Act of 2002

Capital Improvement Program

In January 2007, the City's Water Services Department identified a Capital Improvement Program through Fiscal Year 2012 which is intended to provide facilities to meet existing and anticipated federal and state water quality standards and to maintain a reliable water transmission system that can respond to changing patterns of water use throughout the City's service area The Capital Improvement Program identifies an estimated $200 million of specific major capital improvements, which are expected to be financed primarily through a combination of annual System revenues, contributions from local sources, available fund balances, and bond proceeds

It is projected then that additional water revenue bond issues totaling $200 million will be sold during the Fiscal Years ended 2008 through 2012 A question to increase the water revenue bond authorization by $250 million was presented to the voters on August 2, 2005 The voters approved the additional bond authorization by nearly a three to one margin. Therefore, with the new 2005 authorization, adequate authorization is available for the $200 million of revenue bonds projected through 2012 and subsequent years

Overflow Control Program

The City's Water Services Department is finalizing a plan to control overflows from the City's combined and sanitary sewer systems The control plan is being driven by requirements of the Clean Water Act and by policies of the Environmental Protection Agency ("**EPA**") The City is required to submit the plan to the EPA and Missouri Department of Natural Resources in January 2009. Failure to resolve the overflows could result in an enforcement action against the City by the Environmental Protection Agency, the Missouri Department of Natural Resources or an individual citizen

The current estimated capital cost of this control plan is $2 4 billion (2008 dollars) over twenty-five years In addition, once implementation begins, there will be a substantial increase in annual expenditures for operation and maintenance It is anticipated that this plan will be funded primarily from the City's sewer fund At this stage of the process it is unlikely that the general fund of the City will be relied upon to assist in the financing of the control plan

Regulatory Requirements

General

The City's water supply operations must comply with the federal Safe Drinking Water Act, 42 USC Sec 300f et seq., and its amendments, including the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 The City is also subject to the federal regulations (40 CFR Part 141 et seq.) promulgated under the Safe Drinking Water Act and its amendments. These statutory and regulatory requirements are administered by the USEPA through the Missouri Department of Natural Resources ("MDNR") Regulations of these agencies pertain to the treatment and distribution of the City's drinking water

In addition to federal requirements, the City must comply with State of Missouri requirements. The primary State laws concerned with water supply operations are found in the Missouri Safe Drinking Water Act (Sections 640.100 – 640 140, RSMo) The State's Public Drinking Water Program is contained in state regulations at 10 CSR 60 and is also adhered to by the City

As a public water system, the City's water treatment facility operates under a permit from MDNR and must comply with rigorous drinking water standards The City is in full compliance with its permit requirements

The City has never been cited for a violation of federal or state drinking water laws and regulations The City is in compliance with the Public Health Security and Bioterrorism Preparedness and Response Act of 2002

Evolving Regulations

The EPA is poised to promulgate two rules under its Microbial and Disinfection Byproduct Rules: the Long Term 2 Enhanced Surface Water Treatment Rule and the Stage 2 Disinfectants and Disinfection Byproducts Rule The City does not anticipate any operational changes will be needed to comply with these rules

Largest Users of the System

The following table sets forth the ten largest users of the City's Water System and the percentage of total consumption applicable to each for Fiscal Year 2008:

User	Type of Business	Annual Consumption (100 cu. ft.)	Percentage of Total Consumption
City of Lee's Summit	Wholesale Water	1,979,085	5 02%
Jackson County Public Water Supply District No. 1	Wholesale Water	1,279,430	3 25
City of Belton	Wholesale Water	996,027	2.53
City of Raymore	Wholesale Water	680,215	1 73
City of Blue Springs	Wholesale Water	662,115	1 68
Raytown Water Company	Wholesale Water	619,636	1 57
Kansas City Power & Light	Utility	533,567	1 35
Ford Motor Company	Manufacturer	444,268	1 13
Public Water District #2 of Cass Counts	Wholesale Water	345,298	88
City of Platte City	Wholesale Water	325,505	83

Billing Procedures and Collections

Water rates are reviewed annually by the City to determine if rate adjustments are required Water rates are developed based on total costs of service and customer service requirements The rate schedule for customers outside the City is designed to reimburse the City for operation and maintenance expense, depreciation expense, and to provide a reasonable rate of return on the plant investment serving these customers. Water rates were most recently increased on May 1, 2008 for Fiscal Year 2009

Charges for water services are combined on a single bill with applicable wastewater and stormwater charges. A late payment service charge of 5% of the unpaid delinquent balance is applied to all metered water service, sanitary sewer service and stormwater fee bills remaining unpaid after the delinquent date Water and wastewater services are subject to termination without

further notice if a bill remains unpaid 20 days after the delinquent date For one and two family dwellings, unpaid charges become a lien on the property if the account is six or more months delinquent, or the total amount of the delinquency is $500 or more For all other property classifications, unpaid charges become a lien on the property if the account is three or more months delinquent, or the total amount of the delinquency is $1,000 or more Water and wastewater service can be restored upon payment of the unpaid bills and a service restoration charge

Rate Structure

On March 27, 2008, the City approved the following water rates, to be effective as of May 1, 2008:

Service Charge

Meter Size (inches)	Inside City Billed Monthly	Inside City Billed Bi-Monthly	Outside City Billed Monthly	Outside City Billed Bi-Monthly
5/8	$ 9.00	$ 13.36	$ 10.00	$ 14.08
3/4	9.50	14.70	10.50	15.92
1	12.00	19.00	12.50	19.60
1-1/2	18.00	31.82	18.50	32.44
2	23.50	43.45	24.00	44.10
3	50.50	96.50	52.50	101.50
4	63.00	122.00	66.00	128.00
6	92.50	180.50	97.00	189.50
8	142.00	280.00	144.00	282.00
10	195.00	386.00	201.00	399.00
12	227.00	451.00	235.00	466.00

Seasonal Off-Peak Commodity Charge

$1.51 per 100 Cubic Feet

Fire Protection Charge

Connection Size	Rate per Annum
4 inch and less	72.00
6 inch	177.00
8 inch	334.00
10 inch	546.00
12 inch	818.00
16 inch	1545.00

Commodity Charge

Inside City Cubic Feet	Charge/100 Cubic Feet
First 600	2.16
Next 4,400	2.40
Next 995,000	2.10
> 1,000,000	1.51

Outside City Cubic Feet	Charge/100 Cubic Feet
First 600	2.25
Next 4,400	2.50
Over 5,000	2.10

Wholesale	Charge/100 Cubic Feet
Unrestricted - No Repump	1.45
Restricted - No Repump	1.40
Repump Charge	
First Repump	0.12
Second Repump	0.23

The City is not required to raise rates annually The City makes no representation as to whether either a rate increase will be approved in any future Fiscal Years, or, if a rate increase is approved in any Fiscal Year, as to the nature and extent of any such rate increase Nevertheless, the City's debt service coverage requirement described under the Bond Ordinance "Rate Covenant" will be maintained

WATER SYSTEM FINANCIAL INFORMATION AND COVERAGE STATEMENT

Operating Revenues and Expenses

About 83% of water sales revenues are derived from charges to retail customers The remaining water revenues are from water provided on a wholesale basis under interjurisdictional agreements with 32 surrounding cities and water districts The total number of customers in Fiscal Year 2008 is approximately 153,000

Operation and maintenance expenses include the cost of labor, materials, supplies and contractual services, and represent the normal everyday cost of System operation Operation and maintenance expenses are assumed to increase during Fiscal Years 2009 through 2012 The projected increases in operation and maintenance expenses take into consideration growth in the Water System and price inflation as well as the offsetting effects of staff reductions and improvements in cost efficiencies

Accounting, Budgeting and Auditing Procedures

The Water Services Department is an enterprise activity whose financial records are audited annually and financial results reported in conformity with generally accepted accounting principles for governmentally-owned water utilities. The Department operates the Water System on the accrual basis system of accounting, where revenues are recorded when earned and expenses are recorded when incurred

An annual budget of estimated receipts and disbursements for the coming Fiscal Year is prepared by the Director of Water Services under the direction of the City Manager and is presented to the City Council in March for approval after a public hearing. The Fiscal Year of the Water System is May 1 through April 30 The budget lists estimated receipts by funds and sources and estimated disbursements by funds and purposes and includes a statement of the rates required to raise each amount shown on the budget as coming from Water System revenues

The financial records of the Water System are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. For the past five years, the annual audit has been performed by KPMG, LLP, Kansas City, Missouri Copies of the audit reports of the past five years are on file in the City Clerk's office and are available for review

Financial Statements

The City maintains its financial records on the basis of a Fiscal Year ending April 30. Such financial statements have been examined by KPMG, LLP, Kansas City, Missouri, independent certified public accountants The City did not ask KPMG, LLP, to perform any additional work or any post-audit procedures more recently than the April 30, 2008 audit

Beginning with the Fiscal Year ended April 30, 2003, the City has implemented the requirements of the Governmental Accounting Standards Board (GASB) Statement No 34 (*Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments*)

The tables on the following pages provide the Water Fund's balance sheets and income statements for the Fiscal Years ended April 30, 2004 through 2008 and the debt service coverage statement

CITY OF KANSAS CITY, MISSOURI
WATER FUND
Statement of Net Assets
Audited For Fiscal Years Ending April 30, 2004-2008

Assets	2004	2005	2006	2007	2008
Current assets:					
Cash and cash equivalents	$23,383,201	$18,157,920	$17,377,865	$617,474	$863,408
Investments				1,857,854	3,242,332
Accounts receivable, net	12,104,314	11,115,317	10,760,483	11,471,065	12,585,884
Accrued interest receivable	288,079	247,006	233,874	278,680	150,231
Current portion of notes receivable			179,313	275,319	291,259
Inventories	2,114,983	2,637,575	2,480,838	2,051,419	2,153,974
Prepaid expenses		400,636	375,325	418,801	507,026
Due from other funds	890,362	1,500,036	1,037,389	197,943	937,498
Total unrestricted current assets	38,780,939	34,058,490	32,445,087	17,168,555	20,731,612
Restricted assets:					
Cash and cash equivalents	14,993,215	32,664,338	49,332,235	1,063,517	2,840,402
Investments				6,546,624	4,733,889
Accrued interest receivable	87,243	388,422	703,449	502,637	564,074
Total restricted current assets	15,080,458	33,052,760	50,035,684	8,112,778	8,138,365
Investments				14,407,650	11,137,898
Restricted assets-investments				23,167,502	50,045,238
Special assessments receivable, net of allowance	321,650	397,593	281,204	183,220	73,131
Notes Receivable	5,302,528	5,168,543	4,835,404	6,953,351	6,801,602
Debt issuance costs, net	1,179,161	1,484,235	1,828,353	1,653,980	1,505,353
Capital assets, net	455,511,549	470,422,570	492,101,537	521,530,227	551,989,770
Total assets	$516,176,285	$544,584,191	$581,527,269	$593,177,263	$650,422,969
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	$3,341,907	$1,847,524	$3,014,240	$2,150,289	$4,615,634
Water main extensions -- City Share	132,337	132,337	132,337		
Current portion of compensated absences	2,249,877	2,524,022	128,979	136,017	152,954
Accrued payroll and related expenses	955,118	1,232,667	1,200,539	1,202,914	1,645,411
Contracts and retainage payable	202,674	306,921	264,630	220,591	196,187
Other liabilities	608,477	477,655	609,815	650,037	114,064
Current portion of due to other funds	3,087,396	3,696,851	2,059,264	166,213	541,304
Current portion of claims liability				1,216,108	1,448,311
Total current liabilities	10,577,786	10,217,977	7,409,804	5,742,169	8,713,865
Liabilities payable from restricted assets:					
Accrued interest and fiscal agent fees	2,821,577	3,055,200	3,662,058	3,135,725	2,900,730
Current portion of revenue bonds payable	10,100,000	10,600,000	11,140,000	11,945,000	12,728,329
Contracts and retainage payable	40,634	211,468	578,166	1,214,775	719,478
Customer deposits	2,102,187	1,127,308	1,284,248	1,079,877	1,169,518
Total liabilities payable from restricted assets	15,064,398	14,993,976	16,664,472	17,375,377	17,518,055
Total current liabilities	25,642,184	25,211,953	24,074,276	23,117,546	26,231,920
Claims liability				3,106,000	3,799,194
Compensated absences			2,369,000	2,511,547	2,795,992
Due to other funds			3,019,953	0	0
Pension liability			1,587,785	1,782,720	1,057,828
Postretirement liability					1,105,266
Revenue bonds payable	122,656,042	137,644,230	157,366,409	145,675,345	179,008,953
Total liabilities	148,298,226	162,856,183	186,048,423	176,193,158	213,999,153
Net assets:					
Invested in capital assets, net of related debt	329,791,127	347,904,690	365,924,456	386,436,712	406,638,846
Restricted	4,291,678	4,416,669	3,812,937	4,977,053	8,512,872
Unrestricted	33,795,254	29,406,649	23,372,453	25,570,340	21,272,098
Total net assets	367,878,059	381,728,008	393,109,846	416,984,105	436,423,816

CITY OF KANSAS CITY, MISSOURI
WATER FUND

Statement of Revenues, Expenses and Changes in Fund Net Assets
Audited For Fiscal Years ending April 30, 2004-2008

	2004	2005	2006	2007	2008
Operating revenues:					
Water sales	$66,045,464	$61,753,054	$66,984,040	$74,389,304	$78,251,144
Other water revenue	3,110,268	1,420,998	1,200,295	1,408,475	1,802,063
Income from jobbing and contract work and miscellaneous revenues	5,213,476	5,293,959	3,674,677	3,713,807	3,986,649
Total operating revenues	74,369,208	68,468,011	71,859,012	79,511,586	84,039,856
Operating expenses:					
Power and pumping	4,866,224	4,015,062	4,574,845	4,851,937	5,417,959
General and electrical maintenance	1,934,447	2,215,067	2,809,195	2,871,968	3,019,538
Purification	8,855,118	9,626,152	9,894,561	10,083,236	10,971,583
Laboratory services	2,117,244	2,215,754	2,384,187	2,520,654	2,605,167
Transmission and distribution	9,158,896	6,949,935	8,535,138	10,362,196	10,242,782
Customer service	6,018,200	6,318,971	6,759,421	6,433,359	7,574,259
Mechanical maintenance	4,179,944	4,416,018	1,592,726	2,788,477	2,916,693
Customer accounting and collection	4,294,273	3,648,911	4,132,276	3,850,764	4,331,504
Administrative and general	11,448,579	11,108,115	11,939,536	12,815,929	14,278,131
Depreciation and amortization	9,332,088	10,371,231	10,502,247	9,961,277	10,181,650
Total operating expenses	$62,205,013	$60,885,216	$63,124,132	$66,539,797	$71,539,266
Operating income	$12,164,195	$7,582,795	$8,734,880	$12,971,789	$12,500,590
Nonoperating revenues (expenses):					
Interest on investments	$850,227	$1,808,514	$2,149,540	$3,243,943	$2,949,674
Grant revenue					
Interest expense and fiscal agent fees	(7,201,476)	(6,236,663)	(6,354,077)	(5,863,253)	(5,998,133)
Gain on disposal of fixed assets	16,860	33,428	(16,152)	(18,732)	(27,291)
Total nonoperating revenues (expenses)	(6,334,389)	(4,394,721)	(4,220,689)	(2,638,042)	(3,075,750)
Net income before capital contributions	5,829,806	3,188,074	4,514,191	10,333,747	9,424,840
Capital contributions	6,476,044	10,661,875	6,867,647	13,540,512	10,014,871
Change in net assets	12,305,850	13,849,949	11,381,838	23,874,259	19,439,711
Total net assets - beginning of the year	355,572,209	367,878,059	381,728,008	393,109,846	416,984,105
Total net assets - end of the year	$367,878,059	$381,728,008	$393,109,846	$416,984,105	$436,423,816

CITY OF KANSAS CITY, MISSOURI

WATER SYSTEM

Debt Service Coverage Calculation

	2004	2005	2006	2007	2008
Revenues:					
Water Sales	$66,045,464	$61,753,054	$66,984,040	$74,389,304	$78,251,144
Other water revenue	3,110,268	1,420,998	1,200,295	1,408,475	1,802,063
Income from jobbing and contract work and misc. revenues	5,213,476	5,293,959	3,674,677	3,713,807	3,986,649
Total Revenues	$74,369,208	$68,468,011	$71,859,012	$79,511,586	$84,039,856
Less: Total operating expenses	(62,205,013)	(60,885,216)	(63,124,132)	(66,539,797)	(71,539,266)
Add back depreciation	9,332,088	10,371,231	10,502,247	9,961,277	10,181,650
Add principal portion of contract payments received from other governmental units	6,476,044	133,984	153,240	296,555	211,940
Less: One time contract prepayment from Lee's Summit	(6,235,151)	-	-		
Add non-operating revenues (Interest on Investments)	850,227	1,808,514	2,149,540	3,243,943	2,949,674
Net Revenues Available for Debt Service	$22,587,403	$19,896,524	$21,539,907	$26,473,564	$25,843,854
Current Year Debt Service	$16,851,113	$17,272,681	$17,947,910	$19,564,810	$19,906,343
Coverage (Times)	1.34	1.15	1.20	1.35	1.30