



**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Financial Statements

April 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



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

## **Independent Auditors' Report**

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

We have audited the accompanying 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, 2008 and 2007. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the 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, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

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

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

Kansas City, Missouri  
October 31, 2008

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

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

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

**Overview of the Financial Statements**

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

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

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

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

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

**Financial Position and Assessment**

**Summary of Net Assets**

(In thousands)

|   | <b>April 30, 2008</b> | <b>April 30, 2007</b> | <b>April 30, 2006</b> |
|---|-----------------------|-----------------------|-----------------------|
| <b>Assets:</b>                                  |                       |                       |                       |
| Current assets – unrestricted                   | \$ 20,732             | 17,168                | 18,131                |
| Current assets – restricted                     | 8,138                 | 8,113                 | 7,475                 |
| Noncurrent – unrestricted                       | 11,138                | 14,408                | 14,314                |
| Noncurrent – restricted                         | 50,045                | 23,167                | 42,560                |
| Capital assets                                  | 551,990               | 521,530               | 492,102               |
| Other assets                                    | 8,380                 | 8,791                 | 6,945                 |
| Total assets                                    | \$ 650,423            | 593,177               | 581,527               |
| <b>Liabilities:</b>                             |                       |                       |                       |
| Current liabilities                             | \$ 8,714              | 5,742                 | 7,410                 |
| Liabilities payable from restricted assets      | 17,518                | 17,375                | 16,664                |
| Long-term liabilities                           | 187,767               | 153,076               | 164,343               |
| Total liabilities                               | 213,999               | 176,193               | 188,417               |
| <b>Net assets:</b>                              |                       |                       |                       |
| Invested in capital assets, net of related debt | 406,639               | 386,437               | 365,925               |
| Restricted                                      | 8,513                 | 4,977                 | 3,813                 |
| Unrestricted                                    | 21,272                | 25,570                | 23,372                |
| Total net assets                                | 436,424               | 416,984               | 393,110               |
| Liabilities and net assets                      | \$ 650,423            | 593,177               | 581,527               |

In FY2008, the Fund's assets exceeded its liabilities by \$436 million, an increase of \$19.4 million, or 4.7%, from the previous year. The largest portion of net assets (93.2%) was invested in capital assets (for example, land, buildings, treatment facilities, water mains, machinery, and equipment) less any outstanding debt related to those assets. These assets are used to provide water and related services to the customers.

In FY2007, the Fund's assets exceeded its liabilities by \$417 million, an increase of \$23.9 million, or 6.1%, from the previous year. The largest portion of net assets (92.7%) was invested in capital assets (for example, land, buildings, treatment facilities, water mains, machinery, and equipment) less any outstanding debt related to those assets. These assets are used to provide water and related services to the customers.

In FY2008, total assets increased by \$57.2 million, or 9.7%. Capital assets increased \$30.5 million (5.8%) due to our capital improvements program. Other assets decreased \$.4 million (4.7%) due to collections on notes receivable from wholesale customers that are repaying the Fund for the transmission main built to serve them.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

Restricted assets increased \$26.9 million due to additional construction funds resulting from the issuance of new bonds.

In FY2007, total assets increased by \$11.7 million, or 2.0%. Capital assets increased \$29.4 million (6.0%) due to our capital improvements program. Other assets increased \$1.8 million (23.4%) due to an increase in notes receivable from two wholesale customers that will repay the Fund for the transmission main built to serve them. Restricted assets decreased \$18.8 million due to a decrease in construction funds as a result of bond funds spent on construction.

In FY2008, total liabilities increased \$37.8 million (21.5%). Long-term bonds payable increased \$33.3 million, representing 88.0% of the increase related to issuing new bonds.

In FY2007, total liabilities decreased \$12.2 million (6.5%). Long-term bonds payable decreased \$11.7 million, representing 95.6% of the decrease as a result of our annual principal payment.

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

(In thousands)

|  | <b>Year ended</b>     |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | <u>April 30, 2008</u> | <u>April 30, 2007</u> | <u>April 30, 2006</u> |
| Operating revenues                       | \$ 84,040             | 79,512                | 71,859                |
| Operating expenses                       | <u>(71,539)</u>       | <u>(66,540)</u>       | <u>(63,124)</u>       |
| Operating income                         | 12,501                | 12,972                | 8,735                 |
| Nonoperating expenses, net               | <u>(3,076)</u>        | <u>(2,638)</u>        | <u>(4,221)</u>        |
| Net income before capital contributions  | 9,425                 | 10,334                | 4,514                 |
| Capital contributions                    | <u>10,015</u>         | <u>13,540</u>         | <u>6,868</u>          |
| Change in net assets                     | 19,440                | 23,874                | 11,382                |
| Total net assets – beginning of the year | <u>416,984</u>        | <u>393,110</u>        | <u>381,728</u>        |
| Total net assets – end of the year       | <u>\$ 436,424</u>     | <u>416,984</u>        | <u>393,110</u>        |

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

**Summary of Operating Revenues**

(In thousands)

|  | <b>Year ended</b>     |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | <u>April 30, 2008</u> | <u>April 30, 2007</u> | <u>April 30, 2006</u> |
| Retail water sales   | \$ 65,126             | 61,267                | 56,685                |
| Wholesale water sales  | 13,125                | 13,122                | 10,299                |
| Other water revenue  | 1,802                 | 1,409                 | 1,200                 |
| Income from jobbing, contract work,<br>and miscellaneous revenue | <u>3,987</u>          | <u>3,714</u>          | <u>3,675</u>          |
| Total operating revenues   | <u>\$ 84,040</u>      | <u>79,512</u>         | <u>71,859</u>         |

In FY2008, operating revenues increased \$4.5 million, or 5.7%, over the previous year. Retail and wholesale water sales increased \$3.9 million, or 5.2%. Due to weather, metered water sales were down 3.0% from FY2007. Water rates increased 8.0% on May 1, 2007.

In FY2007, operating revenues increased \$7.7 million, or 10.7%, over the previous year. Retail and wholesale water sales increased \$7.4 million, or 11.1%. Due to dry weather, metered water sales were up 4.8% from FY2006. Water rates increased 6.0% on May 1, 2006.

**Summary of Operating Expenses**

(In thousands)

|                                    | <b>Year ended</b>     |                       |                       |
|------------------------------------|-----------------------|-----------------------|-----------------------|
|                                    | <u>April 30, 2008</u> | <u>April 30, 2007</u> | <u>April 30, 2006</u> |
| Power and pumping                  | \$ 5,418              | 4,852                 | 4,575                 |
| General and electrical maintenance | 3,019                 | 2,872                 | 2,809                 |
| Purification                       | 10,971                | 10,083                | 9,895                 |
| Laboratory services                | 2,605                 | 2,521                 | 2,384                 |
| Transmission and distribution      | 10,243                | 10,362                | 8,535                 |
| Customer service                   | 7,574                 | 6,433                 | 6,759                 |
| Mechanical maintenance             | 2,917                 | 2,789                 | 1,593                 |
| Customer accounting and collection | 4,332                 | 3,851                 | 4,132                 |
| Administrative and general         | 14,278                | 12,816                | 11,940                |
| Depreciation and amortization      | <u>10,182</u>         | <u>9,961</u>          | <u>10,502</u>         |
| Total operating expenses           | <u>\$ 71,539</u>      | <u>66,540</u>         | <u>63,124</u>         |

In FY2008, operating expenses increased \$5.0 million, or 7.5%. Various expense categories fluctuated as follows:

- Power and pumping increased \$566,000, or 11.7%, due to higher utility costs.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

- Purification increased \$888,000, or 8.8%, due to increases in costs of utilities and chemicals of \$738,000 and the allocation of other postemployment benefits (OPEB) of \$150,000.
- Customer service costs increased \$1,141,000, or 17.7%, due to \$265,000 in salaries, \$246,000 in the allocation of OPEB, \$167,000 in utility locates, \$140,000 in supplies, and \$80,000 in data transmission costs related to the new automated meter reading installations.
- Mechanical maintenance increased \$128,000, or 4.6%, due to increased fuel costs.
- Customer accounting and collection increased \$481,000, or 12.5%. Salary costs increased \$200,000 due to changes in the City's pay scales for many positions, \$102,000 in the allocation of OPEB, \$86,000 in bank fees from increased credit card payments resulting from customers being able to make payments by phone, and \$66,000 in postage increases.
- Administrative and general increased \$1.5 million, or 11.4%, due to \$864,000 in increased liability insurance and claims liability, \$188,000 in the allocation of OPEB, and \$162,000 increase in professional and consulting services.

In FY2007, operating expenses increased \$3.4 million, or 5.4%. Various expense categories fluctuated as follows:

- Power and pumping increased \$277,000, or 6.1%, due to higher power costs as a result of 4.8% more water being pumped as a result of drier weather and the lower Missouri river stage.
- Laboratory services increased \$137,000, or 5.7%, due to increases of \$59,000 in outside laboratory services and \$44,000 in laboratory supplies and chemicals.
- Transmission and distribution costs increased \$1.8 million, or 21.0%. The increase was due to higher street repair costs and higher cost for materials and supplies.
- Mechanical maintenance increased \$1.2 million, or 75.0% due to corrections of vehicle expenses made during the current year.
- Customer accounting and collection decreased \$281,000, or 6.8%. Pension expense decreased \$103,530 due to a smaller allocation of the pension liability to the Fund. Salary costs decreased \$157,055 due to position vacancies.
- Administrative and general increased \$876,000, or 7.3%, due to increased claims expense related to a water main break.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

**Capital Assets**

Capital assets as of April 30, 2008 totaled \$552.0 million (net of accumulated depreciation) and accounted for 84.9% of total assets. Capital assets increased \$30.5 million from the previous year as a result of our capital improvements program. Completed projects included \$15.5 million in utility line improvements, \$1.0 million in buildings, \$1.6 million in equipment, and \$21.7 million in construction work in process, offset by an increase in accumulated depreciation of \$8.9 million and retirements of \$0.5 million.

Capital assets as of April 30, 2007 totaled \$521.5 million (net of accumulated depreciation) and accounted for 87.9% of total assets. Capital assets increased \$29.4 million from the previous year as a result of our capital improvements program. Completed projects included \$16.8 million in utility line improvements, \$2.8 million in buildings, \$1.6 million in equipment, and \$19.6 million in construction work in process, offset by an increase in accumulated depreciation of \$8.9 million and retirements of \$2.5 million.

**Debt Administration**

The change in long-term debt during the year ended April 30, 2008 was due to the issuance of \$35.0 million in Series 2008A Subordinate Water Revenue Bonds in April 2008 and a \$10.8 million capital lease. These were offset by required debt service payments of \$11.9 million.

The change in long-term debt during the year ended April 30, 2007 was due to the required debt service payments of \$11.1 million.

The Series 2008A Subordinate issue was a private sale and as a result was not rated by the rating agencies.

The Fund has \$225 million in bonding authority remaining from the 2005 authorization.

The Fund has the right under the bond ordinances to issue additional bonds payable from the same sources and secured by the same revenues, but only in accordance with and subject to the terms and conditions set forth in the bond ordinances. The Fund is required to meet an earnings test before issuing any additional bonds on parity with those mentioned above (note 6).

**Request for Information**

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

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

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Statements of Net Assets

April 30, 2008 and 2007

| <b>Assets</b>  | <u><b>2008</b></u>    | <u><b>2007</b></u> |
|--|-----------------------|--------------------|
| <b>Current assets:</b>   |                       |                    |
| Cash and cash equivalents  | \$ 863,408            | 617,474            |
| Investments  | 3,242,332             | 1,857,854          |
| Accounts receivable, net   | 12,585,884            | 11,471,065         |
| Accrued interest receivable  | 150,231               | 278,680            |
| Current portion of notes receivable  | 291,259               | 275,319            |
| Inventories  | 2,153,974             | 2,051,419          |
| Prepaid expense  | 507,026               | 418,801            |
| Due from other funds   | 937,498               | 197,943            |
| Total unrestricted current assets  | <u>20,731,612</u>     | <u>17,168,555</u>  |
| <b>Restricted assets:</b>  |                       |                    |
| Cash and cash equivalents  | 2,840,402             | 1,063,517          |
| Investments  | 4,733,889             | 6,546,624          |
| Accrued interest receivable  | 564,074               | 502,637            |
| Total restricted current assets  | <u>8,138,365</u>      | <u>8,112,778</u>   |
| Total current assets   | <u>28,869,977</u>     | <u>25,281,333</u>  |
| Investments  | 11,137,898            | 14,407,650         |
| Restricted assets—investments  | 50,045,238            | 23,167,502         |
| Special assessments receivable, net  | 73,131                | 183,220            |
| Notes receivable   | 6,801,602             | 6,953,351          |
| Debt issuance costs, net   | 1,505,353             | 1,653,980          |
| Capital assets, depreciable, net   | 483,133,559           | 474,417,297        |
| Capital assets, nondepreciable   | 68,856,211            | 47,112,930         |
| Total assets   | <u>\$ 650,422,969</u> | <u>593,177,263</u> |
| <b>Liabilities and Net Assets</b>  |                       |                    |
| <b>Current liabilities:</b>  |                       |                    |
| Accounts payable   | \$ 4,615,634          | 2,150,289          |
| Current portion of compensated absences                                    | 152,954               | 136,017            |
| Accrued payroll and related expense:                                       | 1,645,411             | 1,202,914          |
| Contracts and retainage payable  | 196,187               | 220,591            |
| Other liabilities  | 114,064               | 650,037            |
| Due to other funds   | 541,304               | 166,213            |
| Current portion of claims liability  | 1,448,311             | 1,216,108          |
| Total current liabilities, less liabilities payable from restricted assets | <u>8,713,865</u>      | <u>5,742,169</u>   |
| <b>Liabilities payable from restricted assets:</b>                         |                       |                    |
| Accrued interest and fiscal agent fees                                     | 2,900,730             | 3,135,725          |
| Current portion of revenue bonds and capital leases payable                | 12,728,329            | 11,945,000         |
| Contracts and retainage payable  | 719,478               | 1,214,775          |
| Customer deposits  | 1,169,518             | 1,079,877          |
| Total liabilities payable from restricted assets                           | <u>17,518,055</u>     | <u>17,375,377</u>  |
| Total current liabilities  | <u>26,231,920</u>     | <u>23,117,546</u>  |
| Claims liability   | 3,799,194             | 3,106,000          |
| Compensated absences   | 2,795,992             | 2,511,547          |
| Pension liability  | 1,057,828             | 1,782,720          |
| Other post employment benefit obligation                                   | 1,105,266             | —                  |
| Revenue bonds and capital leases payable, net of current portion           | 179,008,953           | 145,675,345        |
| Total liabilities  | <u>213,999,153</u>    | <u>176,193,158</u> |
| <b>Net assets:</b>   |                       |                    |
| Invested in capital assets, net of related debt                            | 406,638,846           | 386,436,712        |
| Restricted   | 8,512,872             | 4,977,053          |
| Unrestricted   | 21,272,098            | 25,570,340         |
| Total net assets   | <u>436,423,816</u>    | <u>416,984,105</u> |
| Total liabilities and net assets   | <u>\$ 650,422,969</u> | <u>593,177,263</u> |

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended April 30, 2008 and 2007

|  | <b>2008</b>    | <b>2007</b> |
|--|----------------|-------------|
| Operating revenues:  |                |             |
| Water sales  | \$ 78,251,144  | 74,389,304  |
| Other water revenue  | 1,802,063      | 1,408,475   |
| Income from jobbing and contract work and miscellaneous revenues | 3,986,649      | 3,713,807   |
| Total operating revenues   | 84,039,856     | 79,511,586  |
| Operating expenses:  |                |             |
| Power and pumping  | 5,417,959      | 4,851,937   |
| General and electrical maintenance                               | 3,019,538      | 2,871,968   |
| Purification   | 10,971,583     | 10,083,236  |
| Laboratory services  | 2,605,167      | 2,520,654   |
| Transmission and distribution                                    | 10,242,782     | 10,362,196  |
| Customer service   | 7,574,259      | 6,433,359   |
| Mechanical maintenance   | 2,916,693      | 2,788,477   |
| Customer accounting and collection                               | 4,331,504      | 3,850,764   |
| Administrative and general                                       | 14,278,131     | 12,815,929  |
| Depreciation and amortization                                    | 10,181,650     | 9,961,277   |
| Total operating expenses   | 71,539,266     | 66,539,797  |
| Operating income   | 12,500,590     | 12,971,789  |
| Nonoperating revenues (expenses):                                |                |             |
| Interest income  | 2,949,674      | 3,243,943   |
| Interest expense and fiscal agent fees                           | (5,998,133)    | (5,863,253) |
| Loss on disposal of capital assets                               | (27,291)       | (18,732)    |
| Total nonoperating expenses, net                                 | (3,075,750)    | (2,638,042) |
| Net income before capital contributions                          | 9,424,840      | 10,333,747  |
| Capital contributions  | 10,014,871     | 13,540,512  |
| Change in net assets   | 19,439,711     | 23,874,259  |
| Total net assets – beginning of the year                         | 416,984,105    | 393,109,846 |
| Total net assets – end of the year                               | \$ 436,423,816 | 416,984,105 |

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Statements of Cash Flows

Years ended April 30, 2008 and 2007

|   | <b>2008</b>   | <b>2007</b>  |
|---|---------------|--------------|
| Cash flows from operating activities:   |               |              |
| Cash received from customers  | \$ 82,385,212 | 79,534,063   |
| Cash paid to employees, including benefits  | (25,906,076)  | (26,809,079) |
| Cash paid to suppliers  | (31,288,205)  | (30,583,565) |
| Net cash provided by operating activities   | 25,190,931    | 22,141,419   |
| Cash flows from capital and related financing activities:                               |               |              |
| Acquisition and construction of capital assets  | (33,558,646)  | (29,984,088) |
| Proceeds from issuance of revenue bonds/capital leases                                  | 45,808,000    | —            |
| Principal payments on revenue bonds   | (11,945,000)  | (11,140,000) |
| Interest paid on revenue bonds  | (3,511,749)   | (3,823,182)  |
| Proceeds from notes receivable  | 290,558       | 356,423      |
| Debt issuance costs   | (28,344)      | —            |
| Net cash used in capital and related financing activities                               | (2,945,181)   | (44,590,847) |
| Cash flows from investing activities:   |               |              |
| Investment purchases  | (99,644,901)  | (47,125,694) |
| Investment maturities and sales   | 76,465,174    | 63,977,732   |
| Interest received on investments  | 2,956,796     | 3,399,949    |
| Net cash provided by (used in) investing activities                                     | (20,222,931)  | 20,251,987   |
| Net increase (decrease) in cash and cash equivalents                                    | 2,022,819     | (2,197,441)  |
| Cash and cash equivalents at beginning of year  | 1,680,991     | 3,878,432    |
| Cash and cash equivalents at end of year  | \$ 3,703,810  | 1,680,991    |
| Reconciliation of operating income to net cash provided by operating activities:        |               |              |
| Operating income  | \$ 12,500,590 | 12,971,789   |
| Adjustments to reconcile operating income to net cash provided by operating activities: |               |              |
| Depreciation and amortization   | 10,181,650    | 9,961,277    |
| Changes in assets and liabilities:  |               |              |
| Accounts receivable and special assessments receivable                                  | (1,004,730)   | (612,598)    |
| Inventories   | (102,555)     | 429,419      |
| Prepaid expense   | (88,225)      | (43,476)     |
| Due from other funds  | (739,555)     | 839,446      |
| Accounts payable  | 2,465,345     | (863,951)    |
| Water main extensions – City’s share  | —             | (132,337)    |
| Compensated absences  | 301,382       | 149,585      |
| Accrued payroll and related expenses  | 442,497       | 2,375        |
| Other liabilities   | (535,971)     | 40,222       |
| Due to other funds  | 375,091       | (692,736)    |
| Claims liability  | 925,397       | 101,840      |
| Customer deposits   | 89,641        | (204,371)    |
| Pension liability   | (724,892)     | 194,935      |
| Other postretirement liability  | 1,105,266     | —            |
| Total adjustments   | 12,690,341    | 9,169,630    |
| Net cash provided by operating activities   | \$ 25,190,931 | 22,141,419   |
| Components of cash and cash equivalents at end of year:                                 |               |              |
| Unrestricted  | \$ 863,408    | 617,474      |
| Restricted  | 2,840,402     | 1,063,517    |
|   | \$ 3,703,810  | 1,680,991    |
| Noncash capital and related financing activity:   |               |              |
| Contributions of capital assets   | \$ 10,014,871 | 13,540,512   |
| Increase (decrease) in fair value of investments  | 207,932       | (41,819)     |

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(1) Summary of Significant Accounting Policies**

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, 2008 and 2007, and for the years then ended in conformity with U.S. generally accepted accounting principles. The following is a summary of the more significant accounting policies.

**(a) Basis of Accounting**

The accompanying financial statements are prepared on the accrual basis of accounting, wherein revenues (including unbilled 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 the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

**(b) Cash and Cash Equivalents**

For purposes of the statements of cash flows, the 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.

**(c) Accounts Receivable**

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

**(d) 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.

**(e) Inventories**

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

**(f) Debt Issuance Costs**

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

**(g) 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.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

Depreciation is provided on the straight-line method. Buildings, water lines, and improvements are depreciated on a composite basis over 75 years. Machinery and equipment are depreciated on a unit basis over useful lives of 3 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, is 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 is 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. Renewals and betterments that increase the life of the asset, but not the value, are charged as a reduction to accumulated depreciation.

Interest costs capitalized on project-related debt for the years ended April 30, 2008 and 2007 totaled \$2,407,552 and \$2,312,468, respectively.

**(h) *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, with the exception of firefighters, who accumulate 5.5 hours for the same 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.

**(i) *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.

**(j) *Restricted Assets***

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

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(k) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(l) New Accounting Pronouncements**

On May 1, 2007, the City adopted Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. The City and the Water Fund measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired City employees in future years. The City and the Water Fund are also required to record a net OPEB obligation, which is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan. See note 11 for additional disclosure.

Effective May 1, 2007, the Water Fund adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB 48). This statement establishes criteria for governments to use to account for the exchange of an interest in their expected receivables or specific future revenues for immediate cash payments. This statement also requires disclosures pertaining to future revenues that have been pledged or sold. This statement does not impact the financial statements as it only involves disclosures. See note 7 for additional information.

**(m) Reclassifications**

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

**(2) Deposits and Investments**

The City maintains a cash and investment pool that is available for use by all funds. The pool is comprised of demand and time deposits, repurchase agreements, and other investments with maturities of less than five years. At April 30, 2008 and 2007, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately \$76,412,000 and \$54,503,000, 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 \$478,245 and \$1,710,737 at April 30, 2008 and 2007, respectively.

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

1. *United States Treasury Securities (Bills, Notes, Bonds, and Strips)*. The City may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. *United States Agency/GSE Securities*. The City may invest in obligations issued or guaranteed by any agency of the United States government and in obligations issued by any government-sponsored

**CITY OF KANSAS CITY, MISSOURI**  
**WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

enterprise (GSE) that has a liquid market and a readily determinable market value that are described as follows:

- a. U.S. Govt. Agency Coupon and Zero Coupon Securities.
  - b. U.S. Govt. Agency Callable Securities. Restricted to securities callable at par only.
  - c. U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed interest rate.
  - d. U.S. Govt. Agency Floating Rate Securities. Restricted to coupons with no interim caps that reset at least quarterly and that float off of only one index
  - e. U.S. Govt. Agency Mortgage Backed Securities (MBS, CMO, Pass-Thru Securities). Restricted to securities with final maturities of five (5) years or less or have the final projected payment no greater than four (4) years when analyzed in a +300 basis point interest rate environment. Restricted to obligations of FNMA, FHLMC, and GNMA only.
3. *Repurchase Agreements.* The City may invest in contractual agreements between the City and commercial banks or primary government securities dealers. The Bond Market Association's guidelines for the Master Repurchase Agreement will be used and will govern all repurchase agreement transactions. All repurchase agreement transactions will be either physical delivery or 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.
  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.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

10. Any municipal obligation as defined in (6), (7), (8), or (9) that is not rated but either pre-refunded or escrowed to maturity with U.S. Treasury securities as to both principal and interest.

**(a) Interest Rate Risk**

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

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

The Water Fund's allocation of pooled investments at April 30, 2008 was \$38,778,502. The Water Fund's non-pooled investments at April 30, 2008 were \$30,382,457.

Some of the non-pooled 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. Non-pooled assets held by the trustee were \$3,223,963 at April 30, 2008.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

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

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

The Water Fund's allocation of pooled investments at April 30, 2007 was \$44,250,946. The Water Fund's non-pooled investments at April 30, 2007 were \$1,698,938.

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

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

**FHR 2984 A, \$10,000,000 par value.** The security was purchased on June 30, 2005, and has a stated final maturity of July 15, 2010. The security has a fixed coupon rate of 5.50% and pays interest monthly. Based on current prepayment speeds using industry-standard modeling, the City's principal amount should be retired in September 2008. At April 30, 2008, the security had a remaining face value of \$2,874,371. At April 30, 2008 and 2007, the security had a fair market value of \$2,876,197 and \$10,007,030, respectively.

**FHR 3149 QD, \$10,000,000 par value.** The security has a fixed coupon of 5.00% and pays principal and interest monthly. The security was purchased on January 5, 2007, and although has a stated final maturity of September 15, 2025, the security is one of the first five tranches to begin receiving principal payments. Based on current prepayment speeds using industry-standard modeling, the City's principal amount should be fully retired in July 2010.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

At April 30, 2008, the security had a remaining face value of \$7,963,346, a book value of \$7,922,721, and a fair market value of \$8,003,163

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

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

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

**(b) Credit Risk**

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

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

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

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

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

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

|                            | <b>Fair<br/>value</b> | <b>Moody's/<br/>S&amp;P ratings</b> |
|----------------------------|-----------------------|-------------------------------------|
| U.S. treasury bills        | \$ 31,390             | Aaa/AAA                             |
| U.S. treasury notes/bonds  | 110,645               | Aaa/AAA                             |
| U.S. agency discount notes | 77,153                | Aaa/AAA                             |
| U.S. agency securities     | 578,006               | Aaa/AAA                             |
| Total                      | \$ 797,194            |                                     |

**(c) Custodial Credit Risk**

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

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

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

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(d) Summary**

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

|                        | <b>2008</b> | <b>2007</b> |
|------------------------|-------------|-------------|
| Deposits               | 478,245     | 1,710,737   |
| Pooled investments     | 38,778,502  | 44,250,946  |
| Non-pooled investments | 30,382,457  | 1,698,938   |
| Trustee accounts       | 3,223,963   | —           |
| Total                  | 72,863,167  | 47,660,621  |

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

|                                      | <b>2008</b> | <b>2007</b> |
|--------------------------------------|-------------|-------------|
| Cash and cash equivalents            | 863,408     | 617,474     |
| Investments                          | 14,380,230  | 16,265,504  |
| Restricted cash and cash equivalents | 2,840,402   | 1,063,517   |
| Restricted investments               | 54,779,127  | 29,714,126  |
| Total                                | 72,863,167  | 47,660,621  |

**(3) Accounts Receivable**

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

|                                      | <b>2008</b>   | <b>2007</b> |
|--------------------------------------|---------------|-------------|
| Water customers                      | \$ 9,617,634  | 8,104,360   |
| Unbilled utility revenue             | 5,868,298     | 7,127,152   |
|                                      | 15,485,932    | 15,231,512  |
| Less allowance for doubtful accounts | 2,900,048     | 3,760,447   |
| Net accounts receivable              | \$ 12,585,884 | 11,471,065  |

**(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 City's bond interest rate. The monthly payment is included in their water billing.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

Notes receivable outstanding consists of the following issues at April 30, 2008 and 2007:

| <u>Customer</u>                  | <u>Interest rates</u> | <u>Loan completion date</u> | <u>2008</u>         | <u>2007</u>      |
|----------------------------------|-----------------------|-----------------------------|---------------------|------------------|
| Calpine                          | 5.565%                | February 2023               | \$ 3,434,280        | 3,589,995        |
| City of Kearney                  | 5.565                 | November 2023               | 1,160,919           | 1,206,150        |
| Platte County PWSD #2            | 4.126                 | April 2026                  | 397,091             | 410,584          |
| Platte County PWSD #9            | 4.126                 | April 2026                  | 1,293,773           | 1,344,689        |
| City of Dearborn                 | 4.126                 | April 2026                  | 653,264             | 677,252          |
| Cass County PWSD #3              | 4.394                 | January 2028                | 153,534             | —                |
|                                  |                       |                             | <u>7,092,861</u>    | <u>7,228,670</u> |
| Less current portion             |                       |                             | <u>(291,259)</u>    | <u>(275,319)</u> |
| Total long-term notes receivable |                       |                             | <u>\$ 6,801,602</u> | <u>6,953,351</u> |

**(5) Capital Assets**

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

|                                | <u>May 1,<br/>2007</u> | <u>Additions</u>    | <u>Retirements/<br/>adjustments</u> | <u>April 30,<br/>2008</u> |
|--------------------------------|------------------------|---------------------|-------------------------------------|---------------------------|
| Depreciable assets:            |                        |                     |                                     |                           |
| Buildings                      | \$ 134,139,042         | 1,019,969           | —                                   | 135,159,011               |
| Utility lines and improvements | 432,506,443            | 15,455,370          | —                                   | 447,961,813               |
| Machinery and equipment        | 54,789,473             | 1,615,156           | (474,742)                           | 55,929,887                |
| Total depreciable assets       | <u>621,434,958</u>     | <u>18,090,495</u>   | <u>(474,742)</u>                    | <u>639,050,711</u>        |
| Accumulated depreciation:      |                        |                     |                                     |                           |
| Buildings                      | (60,959,449)           | (2,269,247)         | 166,408                             | (63,062,288)              |
| Utility lines and improvements | (51,359,359)           | (5,034,058)         | 493,636                             | (55,899,781)              |
| Machinery and equipment        | (34,698,853)           | (2,701,375)         | 445,145                             | (36,955,083)              |
| Total accumulated depreciation | <u>(147,017,661)</u>   | <u>(10,004,680)</u> | <u>1,105,189</u>                    | <u>(155,917,152)</u>      |
| Depreciable assets, net        | <u>474,417,297</u>     | <u>8,085,815</u>    | <u>630,447</u>                      | <u>483,133,559</u>        |
| Nondepreciable assets:         |                        |                     |                                     |                           |
| Land                           | 3,771,111              | —                   | —                                   | 3,771,111                 |
| Construction in process        | 43,341,819             | 30,149,751          | (8,406,470)                         | 65,085,100                |
| Total nondepreciable assets    | <u>47,112,930</u>      | <u>30,149,751</u>   | <u>(8,406,470)</u>                  | <u>68,856,211</u>         |
| Capital assets, net            | <u>\$ 521,530,227</u>  | <u>38,235,566</u>   | <u>(7,776,023)</u>                  | <u>551,989,770</u>        |

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

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

|                                | <b>May 1,<br/>2006</b> | <b>Additions</b> | <b>Retirements/<br/>adjustments</b> | <b>April 30,<br/>2007</b> |
|--------------------------------|------------------------|------------------|-------------------------------------|---------------------------|
| Depreciable assets:            |                        |                  |                                     |                           |
| Buildings                      | \$ 131,313,298         | 2,825,744        | —                                   | 134,139,042               |
| Utility lines and improvements | 417,711,547            | 16,790,678       | (1,995,782)                         | 432,506,443               |
| Machinery and equipment        | 53,699,425             | 1,580,635        | (490,587)                           | 54,789,473                |
| Total depreciable assets       | 602,724,270            | 21,197,057       | (2,486,369)                         | 621,434,958               |
| Accumulated depreciation:      |                        |                  |                                     |                           |
| Buildings                      | (58,828,724)           | (2,130,725)      | —                                   | (60,959,449)              |
| Utility lines and improvements | (47,050,974)           | (4,780,321)      | 471,936                             | (51,359,359)              |
| Machinery and equipment        | (32,281,306)           | (2,875,917)      | 458,370                             | (34,698,853)              |
| Total accumulated depreciation | (138,161,004)          | (9,786,963)      | 930,306                             | (147,017,661)             |
| Depreciable assets, net        | 464,563,266            | 11,410,094       | (1,556,063)                         | 474,417,297               |
| Nondepreciable assets:         |                        |                  |                                     |                           |
| Land                           | 3,771,111              | —                | —                                   | 3,771,111                 |
| Construction in process        | 23,767,160             | 35,218,231       | (15,643,572)                        | 43,341,819                |
| Total nondepreciable assets    | 27,538,271             | 35,218,231       | (15,643,572)                        | 47,112,930                |
| Capital assets, net            | \$ 492,101,537         | 46,628,325       | (17,199,635)                        | 521,530,227               |

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(6) Revenue Bonds, Capital Leases and Restricted Assets**

Revenue bonds and capital leases outstanding consist of the following issues at April 30, 2008 and 2007:

| Issue   | Interest rates | Maturity through | 2008                  | 2007               |
|---|----------------|------------------|-----------------------|--------------------|
| 7th issue:  |                |                  |                       |                    |
| 1996 Series A   | 4.45% – 5.10%  | December 2009    | \$ 8,135,000          | 12,580,000         |
| 1996 Series B   | 5.00% – 6.00%  | December 2016    | 16,080,000            | 17,440,000         |
| 1998 Series A   | 4.20% – 5.00%  | December 2014    | 25,005,000            | 28,630,000         |
| 1998 Series B   | 4.75% – 5.00%  | December 2018    | 9,580,000             | 10,220,000         |
| 2000 Series A   | 5.00% – 5.80%  | December 2020    | 18,515,000            | 19,480,000         |
| 2002 Series C   | 3.00% – 5.00%  | December 2022    | 14,045,000            | 14,705,000         |
| 2004 Series D   | 2.50% – 5.00%  | December 2023    | 24,750,000            | 25,000,000         |
| 2005 Series F   | 3.25% – 5.00%  | December 2025    | 30,000,000            | 30,000,000         |
| 2008 Series A   | 4.66%          | December 2027    | 35,000,000            | —                  |
| AMR Capital Lease – 2008                                    | 3.99%          | May 2017         | 10,808,000            | —                  |
|   |                |                  | <u>191,918,000</u>    | <u>158,055,000</u> |
| Add premium   |                |                  | 888,934               | 948,823            |
| Less:   |                |                  |                       |                    |
| Current portion   |                |                  | (12,728,329)          | (11,945,000)       |
| Deferred loss on refunding, net of accumulated amortization |                |                  | (1,024,520)           | (1,335,134)        |
| Discount  |                |                  | <u>(45,132)</u>       | <u>(48,344)</u>    |
| Revenue bonds and capital leases payable                    |                |                  | <u>\$ 179,008,953</u> | <u>145,675,345</u> |

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

|                                  | May 1,<br>2007        | Additions  | Retirements  | April 30,<br>2008   |
|----------------------------------|-----------------------|------------|--------------|---------------------|
| Revenue bonds and capital leases | \$ 158,055,000        | 45,808,000 | (11,945,000) | 191,918,000         |
| Less current portion             | <u>(11,945,000)</u>   |            |              | <u>(12,728,329)</u> |
| Total                            | <u>\$ 146,110,000</u> |            |              | <u>179,189,671</u>  |

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

|                      | May 1,<br>2006        | Additions | Retirements  | April 30,<br>2007   |
|----------------------|-----------------------|-----------|--------------|---------------------|
| Revenue bonds        | \$ 169,195,000        | —         | (11,140,000) | 158,055,000         |
| Less current portion | <u>(11,140,000)</u>   |           |              | <u>(11,945,000)</u> |
| Total                | <u>\$ 158,055,000</u> |           |              | <u>146,110,000</u>  |

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

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

|                       | <u>Principal</u>      | <u>Interest</u>   | <u>Total</u>       |
|-----------------------|-----------------------|-------------------|--------------------|
| Year ending April 30: |                       |                   |                    |
| 2009                  | \$ 12,728,329         | 8,413,960         | 21,142,289         |
| 2010                  | 13,980,513            | 8,385,687         | 22,366,200         |
| 2011                  | 12,551,577            | 7,705,867         | 20,257,444         |
| 2012                  | 13,407,176            | 7,125,565         | 20,532,741         |
| 2013                  | 12,302,360            | 6,502,910         | 18,805,270         |
| 2014 – 2018           | 59,358,045            | 23,759,340        | 83,117,385         |
| 2019 – 2023           | 45,975,000            | 11,106,883        | 57,081,883         |
| 2024 – 2028           | 21,615,000            | 2,331,007         | 23,946,007         |
|                       | <u>\$ 191,918,000</u> | <u>75,331,219</u> | <u>267,249,219</u> |

On May 30, 2007, the Water Fund entered into a Lease Purchase Agreement for an automated meter reading (AMR) system. This agreement for \$10,808,000 represents the first of three draws to fund the installation of an AMR system throughout the City. The interest rate on the May 30, 2007 agreement is 3.99%. Monthly installments to repay principal begin in July 2008 through May 2017. It is anticipated there will be draws in the following two years to fund the \$35 million project. The capital lease agreement was made under the City of Kansas City, Missouri’s Master Lease Agreement dated October 15, 2005.

On April 15, 2008, the City issued \$35,000,000 (Series 2008A) City of Kansas City, Missouri Subordinate Water Revenue Bonds. The bond proceeds will be used to provide funds for the purpose of extending and improving the City’s water system. The interest rate on Series 2008A is 4.66% and mature annually in amounts ranging from \$1,100,000 to \$2,775,000 during fiscal years 2010 through 2028.

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

| <u>Account</u>         | <u>Restriction</u>   |
|------------------------|--|
| 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.  |

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

The bond ordinances also require that the City establish a reserve account for the retirement of the bonds in an amount equal to \$5,500,000. However, in lieu of setting aside cash, the ordinances allow the City to obtain insurance policies to satisfy this requirement. The City has chosen to obtain insurance policies. For all water revenue bond issuances, the City has complied with the significant bond covenants established by these ordinances.

Restricted accounts are reported on the accompanying statements of net assets as restricted assets for 2008 and 2007 as follows:

| Account                | Restricted assets |            |
|------------------------|-------------------|------------|
|                        | 2008              | 2007       |
| Principal and interest | \$ 8,138,365      | 8,112,778  |
| Construction           | 48,824,447        | 22,087,625 |
| Customer deposits      | 1,220,791         | 1,079,877  |
|                        | \$ 58,183,603     | 31,280,280 |

**(7) Pledged Revenues**

The City has pledged revenues of the Water Fund, net of specified operating expenses, to repay \$191,918,000 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 Footnote 6. The bonds and capital lease payments are payable solely from the revenues derived by the Water Fund. Annual principal and interest payments on the bonds are expected to require less than 52% of net revenues. The total principal and interest remaining to be paid on the bonds is \$267,249,219. Principal and interest paid for the year ended April 30, 2008 and total net revenues were \$19,906,343 and \$25,843,853, respectively.

**(8) Due to/from Other Funds**

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

|              | 2008       |         | 2007     |         |
|--------------|------------|---------|----------|---------|
|              | Due from   | Due to  | Due from | Due to  |
| Sewer fund   | \$ 829,231 | 49,214  | 66,999   | 59,123  |
| General fund | 108,267    | 492,090 | 130,944  | 107,090 |
|              | \$ 937,498 | 541,304 | 197,943  | 166,213 |

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, 2008 and 2007

**(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, 2008 and 2007 are presented as administrative and general expenses and are as follows:

|   | <b>2008</b>  | <b>2007</b> |
|---|--------------|-------------|
| Administrative, data processing, and accounting | \$ 4,572,979 | 4,714,116   |

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 \$2,494,871 and \$1,658,350 for these services for the years ended April 30, 2008 and 2007, respectively.

**(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. 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, 2008, the actuarial accrued liability of the Plan was approximately \$934,334,000, and the net assets available for benefits of the Plan were approximately \$873,680,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$7,322,000 to each participating fund. The Water Fund's allocation was approximately \$1,058,000 as of April 30, 2008. Contributions to the Plan made by the Water Fund during the year ended April 30, 2008 were approximately \$2,460,000.

At May 1, 2007, the actuarial accrued liability of the Plan was approximately \$847,393,000, and the net assets available for benefits of the Plan were approximately \$914,460,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$13,302,000 to each participating fund. The Water Fund's allocation was approximately \$1,783,000 as of April 30, 2007. Contributions to the Plan made by the Water Fund during the year ended April 30, 2007 were approximately \$2,359,000.

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

**(11) Other Postemployment Benefits**

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

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

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

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

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

Although determinations of the actuarial status were not made for individual funds, the City has allocated its overall net OPEB obligation of approximately \$13,916,000 to each participating fund. The Water Fund's allocation was approximately \$1,105,000.

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

**(12) Commitments**

At April 30, 2008, the City had made purchase commitments, primarily for additions to utility lines and improvements, on behalf of the Water Fund of approximately \$38.5 million. These commitments will be funded by a combination of existing resources and future debt issuances.

**(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 City is entitled to the defense of sovereign immunity against tort action that provides immunity except in two areas, motor vehicles and condition of City property; however, plaintiffs are limited to a maximum of \$250,000 per person and \$1,000,000 per occurrence in these two areas. The City has retained the risk for these amounts and the deductibles on commercial insurance for other risks of loss. Settled claims have not exceeded commercial insurance coverage for the past three years. The claims liability for the Water Fund, which includes an estimate of claims incurred but not reported (IBNR), totaled \$5,247,505 and \$4,322,108 for the fiscal years ended April 30, 2008 and 2007, respectively. The IBNR liability was determined based upon historical claims experience.

**CITY OF KANSAS CITY, MISSOURI  
WATER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(14) Net Assets**

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

|   | <b>April 30</b> |               |
|---|-----------------|---------------|
|   | <b>2008</b>     | <b>2007</b>   |
| Capital assets:   |                 |               |
| Land  | \$ 3,771,111    | 3,771,111     |
| Construction in progress                                      | 65,085,100      | 43,341,819    |
| Buildings   | 135,159,011     | 134,139,042   |
| Utility line and improvements                                 | 447,961,813     | 432,506,443   |
| Machinery and equipment                                       | 55,929,887      | 54,789,473    |
|   | 707,906,922     | 668,547,888   |
| Less accumulated depreciation                                 | (155,917,152)   | (147,017,661) |
| Capital assets, net   | 551,989,770     | 521,530,227   |
| Bond issuance cost, net                                       | 1,505,353       | 1,653,980     |
| Total capital assets  | 553,495,123     | 523,184,207   |
| Less related liabilities:                                     |                 |               |
| Current portion, bonds payable                                | 12,728,329      | 11,945,000    |
| Bonds payable, net of premium, discount, and unspent proceeds | 134,127,948     | 124,802,495   |
| Total liabilities   | 146,856,277     | 136,747,495   |
| Invested in capital assets, net of related debt               | \$ 406,638,846  | 386,436,712   |

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

|   | <b>2008</b>        |  | <b>2007</b> |  |
|---|--------------------|--|-------------|--|
|   | Restricted assets: |  |             |  |
| Cash and cash equivalents and investments, restricted | \$ 57,619,529      |  | 30,777,643  |  |
| Interest receivable, restricted                       | 564,074            |  | 502,637     |  |
|   | 58,183,603         |  | 31,280,280  |  |
| Less liabilities from restricted assets:              |                    |  |             |  |
| Contracts and retainages payable                      | 719,478            |  | 1,214,775   |  |
| Debt related to unspent bond proceeds                 | 44,881,005         |  | 20,872,850  |  |
| Accrued interest and fiscal agent fees                | 2,900,730          |  | 3,135,725   |  |
| Customer deposits                                     | 1,169,518          |  | 1,079,877   |  |
| Restricted net assets                                 | 49,670,731         |  | 26,303,227  |  |
|   | \$ 8,512,872       |  | 4,977,053   |  |