City of Kansas City, Missouri Water Fund

Independent Auditor's Report and Financial Statements

April 30, 2016 and 2015

BKD LLP
CPAs & Advisors

City of Kansas City, Missouri Water Fund

April 30, 2016 and 2015

Contents

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Independent Auditor's 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 Water Fund (the Water Fund) an enterprise fund of the City of Kansas City, Missouri, as of and for the year ended April 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, an enterprise fund of the City of Kansas City, Missouri as of April 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2016 and 2015, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1, the Water Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68.* Our opinion is not modified with respect to this matter.

Required Supplementary Information

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

BKD, LLP

Kansas City, Missouri
October 31, 2016

City of Kansas City, Missouri Water Fund

Management's Discussion and Analysis

Years Ended April 30, 2016 and 2015

Management's discussion and analysis (MD&A) of the City of Kansas City, Missouri's Water Fund (the Fund) provides readers a narrative overview and analysis of the Fund's financial statements and activities for the fiscal years ended April 30, 2016 and April 30, 2015, with selected comparative information for the fiscal year ended April 30, 2014. The Fund is an enterprise fund of the City of Kansas City, Missouri (the City) and is supported entirely by water service fees collected from residential, business and wholesale customers. The Fund is responsible for the operation and maintenance of the water collection, processing and distribution systems.

Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes in order to provide a complete understanding of the financial performance and activities during the years ended April 30, 2016 and April 30, 2015.

Overview of the Financial Statements

The accompanying financial statements are prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles as set forth by the Governmental Accounting Standards Board (GASB). Revenues and expenses are recognized when earned and incurred, not when received or paid. Capital assets include land, buildings, improvements, equipment and infrastructure assets, such as water mains, pumping stations and treatment plants. Capital assets, except land, are depreciated over their estimated useful lives. Major outlays for capital improvements are capitalized as projects during construction. Capital assets not completed by year-end have been reported as construction-in-progress. (See Notes to Financial Statements for significant accounting policies).

The statements of net position present information about the Fund's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources reported as net position.

The statements of revenues, expenses and changes in net position present information showing how the Fund's net position changed during the year. All changes in net position 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 presented in the statements.

Financial Position and Assessment

	April 30 2016		2015*		2014*	
Assets						
Current assets - unrestricted	$	44,767	$	35,269	$	34,978
Current assets - restricted		12,790		45,077		19,235
Noncurrent investments - unrestricted		90,690		99,553		78,641
Noncurrent investments - restricted		98,559		116,073		81,996
Capital assets		901,741		828,170		744,855
Other assets		6,939		7,516		8,442
Total assets		1,155,486		1,131,658		968,147
Deferred Outflows of Resources						
Loss on refunding		2,849		3,332		3,949
Pension plan		3,082		-		-
Total deferred outflows of resources		5,931		3,332		3,949
Total assets and deferred outflows of resources	$	1,161,417	$	1,134,990	$	972,096
Liabilities						
Current liabilities	$	18,177	$	20,336	$	16,666
Liabilities payable from restricted assets		28,931		29,199		26,587
Long-term liabilities		387,969		408,640		305,702
Total liabilities		435,077		458,175		348,955
Deferred Inflows of Resources - Pension Plan		1,471		-		-
Net Position						
Net investment in capital assets		593,544		552,400		513,054
Restricted-expendable		37,103		24,439		26,455
Unrestricted		94,222		99,976		83,632
Total net position		724,869		676,815		623,141
Total liabilities, deferred inflows of resources and net position	$	1,161,417	$	1,134,990	$	972,096

* Prior year financial statements have not been restated for the adoption of GASB Statement Nos. 68 and 71 as is was not practical to do so.

Total assets increased by $23.8 million or 2.1% from the previous year. Unrestricted cash assets used in daily operations decreased by approximately 0.2%. Net accounts receivable rose by 10%, which is attributed to the 3% scheduled increase in water service fees. However, notes receivable decreased by 7.8%. The decrease is totally attributable to the $0.45 million of scheduled payments received from entities under intergovernmental construction cost sharing agreements. Capital assets increased by $73.57 million or 8.9% as anticipated from the ongoing capital improvements program.

Total liabilities decreased by $23.1 million or 5%. Debt was reduced by the scheduled $14.94 million retirement of outstanding bonds. Debt was also reduced by the early payoff of the AMR lease. The decrease in debt was also partially due to decreases of $2.8 million in trade accounts payable. The rest of the decrease in liabilities, $9 million, was due to the adoption of GASB 68 and 71 which changed the method of reporting the single-employer defined benefit pension plan.

At the close of the year, total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources resulting in net position of $724.9 million, of this amount, $94.2 million is considered unrestricted. The unrestricted net position may be used to meet ongoing business activities of the Fund and may not be used to fund the City's governmental activities. Total net position increased by $48.1 million or 7.1% over the previous year, indicating that the Fund improved its financial position. The largest portion of net position, $593.5 million or 81.9%, consists of investment in capital assets (*e.g.*, land, buildings, treatment facilities, water utility lines and improvements, machinery, and equipment) less any outstanding debt related to those assets. Capital assets were used to provide services to customers of the water collection, processing and distribution systems.

In FY2015, total assets increased by $163.5 million or 16.9% from the previous year. During the year, there were two new Water Revenue Bonds issued, and netted the Fund approximately $114.2 million of new money to finance water treatment plant, pumping station and drainage improvements. Cash, cash equivalents and investments that are restricted for debt service costs, construction, renewal and replacement increased by approximately 59.3%. Unrestricted cash assets used in daily operations increased by approximately 18.1%. The 9.8% rise in net accounts receivable is mostly attributable to the 10% increase in water service fees. However, notes receivable decreased by 11.5%. The decrease includes $0.4 million of scheduled payments received from entities under intergovernmental construction cost sharing agreements, as well as early payoff by an entity. Capital assets increased by $83.3 million or 11.2% as anticipated from the ongoing capital improvements program.

Total liabilities increased by $109.2 million or 31.3%. As mentioned earlier, two bond series were issued during the year. Debt was reduced by the scheduled $19.1 million retirement of outstanding bonds. The increase in debt was also due to an increase in bond premiums of $8.4 million. The increase in debt was partially due to increases of $3.4 million in trade accounts payable.

At the close of FY2015, total assets and deferred outflows of resources exceeded total liabilities resulting in net position of $676.8 million. Of this amount, $100.0 million is considered unrestricted. The unrestricted net position may be used to meet ongoing business activities of the Fund and may not be used to fund the City's governmental activities. Total net position increased by $53.7 million or 8.6% over the previous year indicating that the Fund improved its financial position. The largest portion of net position, $552.4 million or 81.6%, consists of investment in capital assets (*e.g.*, land, buildings, treatment facilities, water utility lines and improvements, machinery, and equipment) less any outstanding debt related to those assets. Capital assets were used to provide services to customers of the water collection, processing and distribution systems.

Summary of Revenues, Expenses and Changes in Fund Net Position

(In thousands)

	Year Ended April 30		
	2016	**2015***	**2014***
Operating revenues	$ 155,209	$ 150,303	$ 144,238
Operating expenses	(93,722)	(95,721)	(99,647)
Operating income	61,487	54,582	44,591
Nonoperating expenses, net	(8,150)	(9,670)	(8,962)
Increase in net position before capital contributions	53,337	44,912	35,629
Capital contributions	3,188	8,761	2,138
Change in net position	56,525	53,673	37,767
Total net position - beginning of the year, as previously reported	676,814	623,141	585,374
Adjustment for change in accounting principle	(8,471)	-	-
Net position, beginning of year, as adjusted	668,343	623,141	585,374
Total net position - end of the year	$ 724,868	$ 676,814	$ 623,141

* Prior year financial statements have not been restated for the adoption of GASB Statement Nos. 68 and 71 as is was not practical to do so.

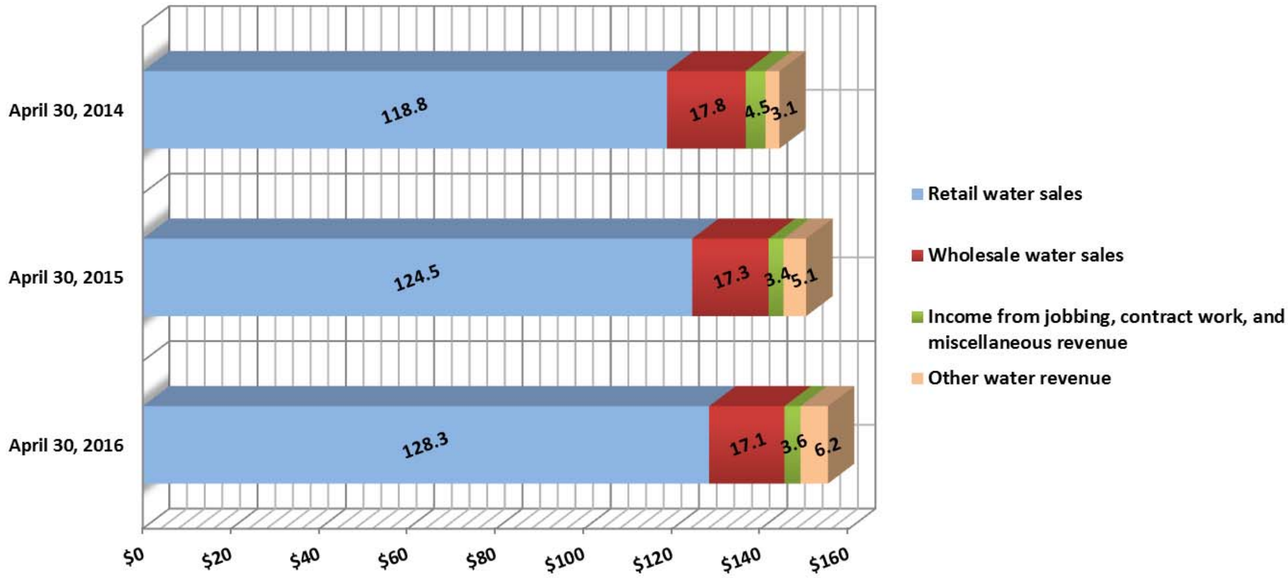
Summary of Operating Revenues

(In thousands)

	Year Ended April 30		
	2016	**2015**	**2014**
Retail water sales	$ 128,315	$ 124,495	$ 118,796
Wholesale water sales	17,072	17,311	17,849
Other water revenue	3,639	3,364	3,133
Income from jobbing, contract work and miscellaneous revenue	6,183	5,134	4,460
Total operating revenues	$ 155,209	$ 150,304	$ 144,238

Total operating revenues increased by $4.9 million or 3.3%. Although the full year effect of the scheduled 3% rate increase contributed additional revenue, water consumption declined. This usually occurs during rainier seasons. Water consumption by retail, residential and commercial customers declined by 1.08 million CCF (hundred cubic feet) or 4.5%. Consumption by wholesale or governmental customers declined by 0.422 million CCF or 5.5%, with the resulting decline in sales of $0.24 million or 1.4%. Income from jobbing, contract work and miscellaneous revenue increased by $1.05 million including reimbursable revenue from prorating the cost of Consumer Services to Sewer.

Summary of Operating Revenues
(In millions)



At the close of FY2015, total operating revenues increased by $6.1 million or 4.2%. Additional sales of $5.6 million to retail customers net of bad debt expense, and a sales decline of $.54 million to wholesale customers contributed to this. Other water revenue consists primarily of interest on notes receivable from inter-governmental construction cost-sharing agreements. Other water revenue increased by $.02 million. Income from jobbing, contract work and miscellaneous sources increased by approximately 15.1%.

Summary of Operating Expenses
(In thousands)

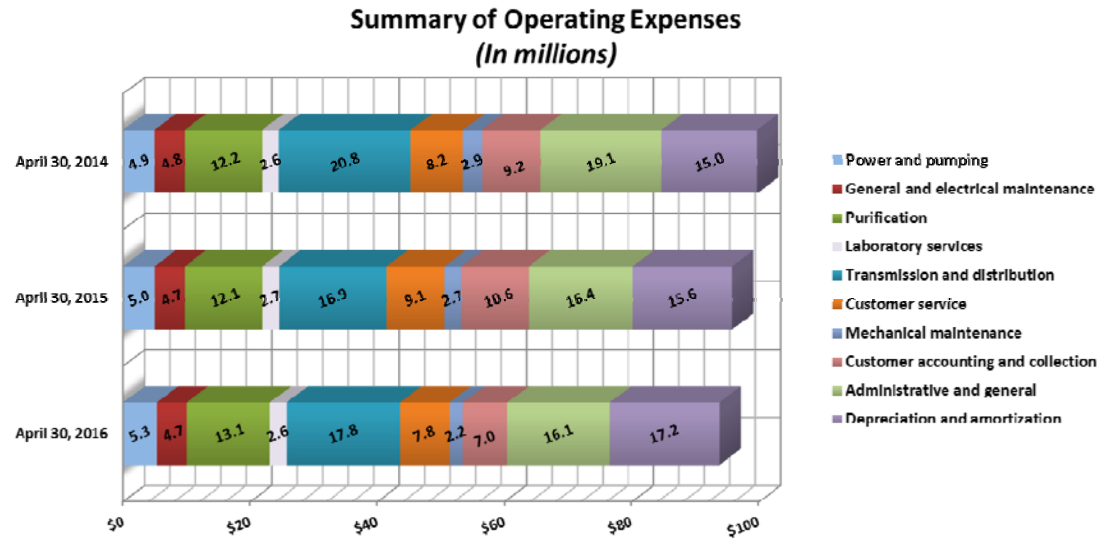
	Year Ended April 30		
	2016	**2015**	**2014**
Power and pumping	$ 5,288	$ 4,958	$ 4,924
General and electrical maintenance	4,676	4,733	4,758
Purification	13,081	12,141	12,159
Laboratory services	2,642	2,689	2,594
Transmission and distribution	17,819	16,869	20,757
Customer service	7,769	9,122	8,230
Mechanical maintenance	2,152	2,680	2,928
Customer accounting and collection	6,984	10,559	9,216
Administrative and general	16,089	16,353	19,057
Depreciation and amortization	17,222	15,616	15,024
Total operating expenses	$ 93,722	$ 95,720	$ 99,647

Total operating expenses decreased by $2 million or 2.1% over the previous year. Power and pumping expense increased by $.33 million or 6.6%, mostly because of an increase the electricity rates used to pump the water. Purification expense rose by $.94 million or 7.7%. This was due to an increase in repairs and maintenance of equipment costs.

Transmission and distribution expense increased by $1.15 million or 6.8%. This was due to using more supplemental work forces for pipeline repair in FY2016.

Customer accounting and collection expense decreased by $3.6 million or 33.8% primarily due to the completion of the implementation of the Customer Service Improvement program.

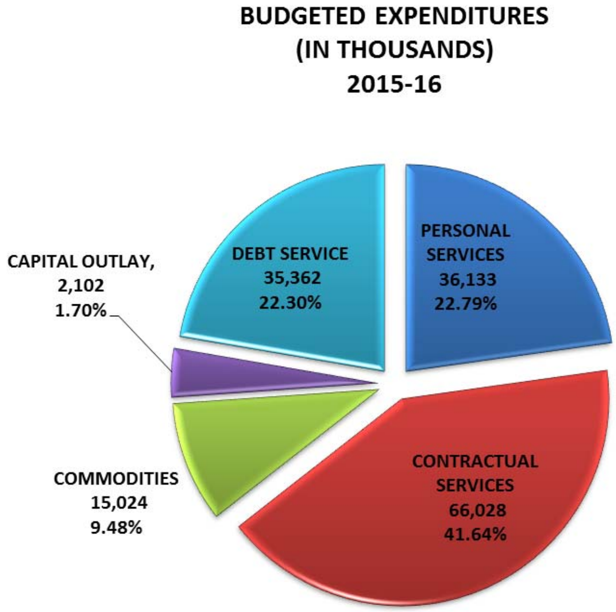
Depreciation and amortization increased by $1.6 million or 10.3% as anticipated by the ongoing capital improvement plan.

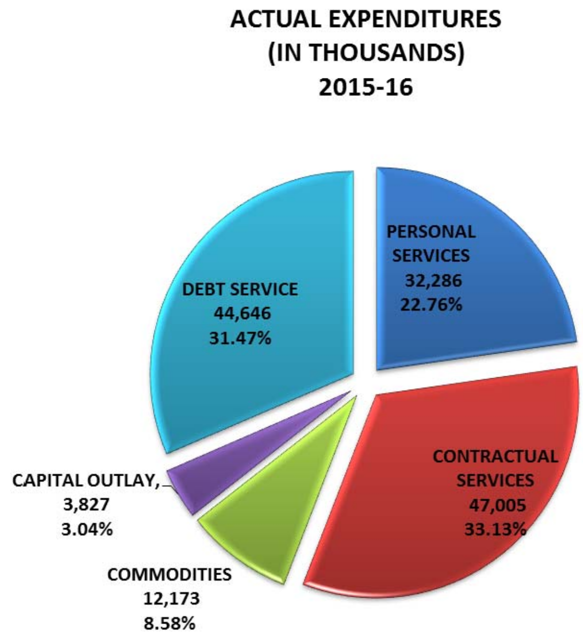


In FY2015, total operating expenses decreased by $3.9 million or 3.9% over the previous year. As the result of decreased water consumption, there was also a decrease in operating costs, such as lower electric and gas power expense. Power and pumping expense decreased by $0.03 million or 0.7%. The cost of chemicals used in water treatment remained stable. Consequently, there was only a slight 0.1% decrease in purification expense. Transmission and distribution expense decreased by $3.9 million or 18.7%. Customer accounting and collection expense increased by $1.3 million or 14.6% primarily due to the engagement of professionals who are in the second year and last year of implementing a Customer Service Improvement Plan, change management practices and software upgrades. Administrative and general decreased by $2.7 million or 14.1%. This is mostly attributable to the $1.9 million decrease in settlement of claims.

Comparison of Budget to Actual Expenditures for FY 2016

Note: The Adopted Budget includes only the operating fund on a cash basis. Accordingly, actual expenditures are presented only for the operating fund on a cash basis. Bond funds and accruals are excluded.





Capital Assets

Capital assets totaled $901.7 million (net of accumulated depreciation) and accounted for 78% of total assets at April 30, 2016. Construction activities are ongoing to replace older and undersized water mains throughout the City, upgrade and improve water treatment plant operations and modernize infrastructure. During the year, projects totaling $72.4 million were completed. They included $61.7 million of constructed water mains and appurtenances and $6.3 million for treatment plant and equipment upgrades. In addition to completed projects, there was $1.7 million in assets contributed from property developers. Additions and replacements of machinery and equipment totaled $2.5 million. The increases in depreciable capital assets were offset by disposals and retirements of $7.0 million.

At April 30, 2015, capital assets totaled $828.2 million (net of accumulated depreciation) and accounted for 73.2% of total assets at April 30, 2015. Construction activities are ongoing to replace undersized water mains throughout the City, upgrade and improve water treatment plant operations and modernize infrastructure. During the year, projects totaling $36.4 million were completed. They included $31.2 million of constructed water mains and appurtenances, $0.6 million for pumping stations and equipment, and $2.0 million for treatment plant and equipment upgrades. In addition to completed projects, there was $2.2 million in assets contributed from property developers. Additions and replacements of machinery and equipment totaled $3.0 million. The increases in depreciable capital assets were offset by disposals and retirements of $6.9 million.

Capital Improvement Projects

The Fund will have invested approximately $424 million over five years in water capital improvement projects. The projects are dedicated to water distribution; replacement of water transmission mains; rehabilitation of water treatment plants, pump stations and storage facilities. The largest allocation, or 74.0% of the total capital investment is committed to the water distribution system. The projects are designed to improve system performance and reliability, reduce water main breaks, enhance fire protection and deliver safe drinking water to customers.

The Water Main Replacement (WMR) Program uses a strategic, data-driven approach to prioritize the replacement of the water distribution system. It is based on replacing approximately 1% of the system annually, approximately 28 miles/year. The capital investment is structured to reduce O&M costs through systematic replacement of aging infrastructure in order to increase system reliability and improve customer service through reduced service interruptions. The prioritization process is based on a business risk exposure assessment of each pipe segment in the system. The 2,800-mile distribution system was divided into more than 70,000 individual segments. Each segment was analyzed for a consequence-of-failure score and a likelihood-of-failure score to create a business risk exposure (BRE) score for each segment. Those segments with the highest BRE score are scheduled for replacement the following year. The model is a dynamic model updated with the latest information and run each year to establish the prioritization for the following year.

Debt Administration

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

Moody's Investors Service maintains an Aa2 rating on the City's senior lien water revenue debt. Water Revenue Bond proceeds have been used to fund critical water main replacements and extensions, water treatment plant and pump station improvements and enhancements to service reliability for customers. Moody's rating affirmation reflects the:

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

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

Standard & Poor's Ratings Services has maintained an AA+ rating on the City's existing water revenue secured debt. The rating reflects their assessment of the water system:

- Large service base that serves much of the Kansas City metropolitan area (MSA)
- Rates are affordable, given the combined water and sewer rates are above 4% of the city's median household effective buying income.
- Strong financial performance.

In April 2014, the City received citizens' approval of an additional $500 million bond authorization, of which $440.2 million remains for the purpose of extending and improving the water system.

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

Request for Information

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

Sean P. Hennessy
Chief Financial Officer
Water Services Department
4800 East 63rd Street
Kansas City, Missouri 64130

City of Kansas City, Missouri Water Fund

Statements of Net Position

April 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 1,483,340	$ 5,728,138
Investments	18,375,224	5,476,116
Accounts receivable, net	20,155,466	18,331,213
Accrued interest receivable	233,283	194,088
Current portion of notes receivable	484,124	487,447
Inventories	3,709,003	2,541,885
Due from other City funds	326,316	2,509,762
Total unrestricted current assets	44,766,756	35,268,649
Restricted assets		
Cash and cash equivalents	933,483	4,142,657
Investments	11,622,140	40,652,293
Accrued interest receivable	234,478	281,906
Total restricted current assets	12,790,101	45,076,856
Total current assets	57,556,857	80,345,505
Investments	90,690,099	99,552,512
Restricted assets - investments	98,559,260	116,073,373
Notes receivable	4,896,532	5,349,782
Prepaid bond insurance, net of accumulated amortization	2,042,765	2,165,947
Capital assets, depreciable, net	812,695,018	742,359,680
Capital assets, nondepreciable	89,045,872	85,810,651
Total assets	1,155,486,403	1,131,657,450
Deferred Outflows of Resources		
Loss on Refunding	2,848,534	3,332,372
Pension plan	3,082,377	-
Total deferred outflows of resources	5,930,911	3,332,372
Total assets and deferred outflows of resources	$ 1,161,417,314	$ 1,134,989,822

See Notes to Financial Statements

	2016	2015
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Accounts payable	$ 12,166,846	$ 14,955,901
Current portion of compensated absences	899,888	765,657
Accrued payroll and related expenses	1,333,332	1,162,860
Contracts and retainage payable	186,468	330,793
Other liabilities	313,140	313,139
Current portion of due to other City funds	385,000	399,381
Current portion of claims liability	2,893,181	2,408,188
Total current liabilities, less liabilities payable from restricted assets	18,177,855	20,335,919
Liabilities payable from restricted assets		
Accrued interest and fiscal agent fees	6,198,802	5,596,327
Current portion of revenue bonds and capital leases payable	16,485,000	18,839,461
Contracts and retainage payable	3,808,381	2,391,019
Customer deposits	2,438,682	2,371,952
Total liabilities payable from restricted assets	28,930,865	29,198,759
Total current liabilities	47,108,720	49,534,678
Claims liability	8,175,320	8,062,392
Compensated absences	2,792,778	2,638,882
Pension liability	13,380,125	4,301,357
Other postemployment benefit obligation	5,403,488	5,187,572
Revenue bonds and capital leases payable, net of current portion	358,217,353	388,450,333
Total liabilities	435,077,784	458,175,214
Deferred Inflows of Resources - Pension Plan	1,470,919	-
Net position		
Net investment in capital assets	593,543,635	552,399,594
Restricted-expendable	37,103,229	24,439,399
Unrestricted	94,221,747	99,975,615
Total net position	724,868,611	676,814,608
Total liabilities, deferred inflows of resources and net position	$ 1,161,417,314	$ 1,134,989,822

City of Kansas City, Missouri Water Fund
Statements of Revenues, Expenses and Changes in Net Position
Years Ended April 30, 2016 and 2015

	2016	2015
Operating Revenues		
Water sales	$ 145,387,719	$ 141,805,902
Other water revenue	3,638,548	3,363,610
Income from jobbing and contract work and miscellaneous revenues	6,183,139	5,133,697
Total operating revenues	155,209,406	150,303,209
Operating Expenses		
Power and pumping	5,287,722	4,958,291
General and electrical maintenance	4,676,138	4,733,179
Purification	13,081,316	12,141,165
Laboratory services	2,641,992	2,688,627
Transmission and distribution	17,818,781	16,869,006
Customer service	7,768,625	9,122,385
Mechanical maintenance	2,151,887	2,680,090
Customer accounting and collection	6,983,041	10,558,460
Administrative and general	16,090,363	16,352,602
Depreciation and amortization	17,222,379	15,616,130
Total operating expenses	93,722,244	95,719,935
Operating Income	61,487,162	54,583,274
Nonoperating Revenues (Expenses)		
Interest income	1,516,951	1,851,862
Interest expense and fiscal agent fees	(9,554,013)	(11,600,786)
Other	(113,555)	78,478
Total nonoperating expenses, net	(8,150,617)	(9,670,446)
Excess of Revenues Over Expenses Before Capital Contributions	53,336,545	44,912,828
Capital Contributions	3,188,326	8,761,234
Increase in Net Position	56,524,871	53,674,062
Net Position, Beginning of Year, as originally reported	676,814,608	623,140,546
Adjustment for Restatement (GASB No. 68 and 71)	(8,470,868)	-
Net Position, Beginning of Year, as restated	668,343,740	623,140,546
Net Position, End of Year	$ 724,868,611	$ 676,814,608

See Notes to Financial Statements

City of Kansas City, Missouri Water Fund

Statements of Cash Flows

Years Ended April 30, 2016 and 2015

	2016	2015
Operating Activities		
Cash received from customers	$ 147,369,241	$ 145,815,289
Receipts from interfund services provided	5,766,088	3,536,529
Cash paid to employees, including benefits	(30,777,208)	(30,669,925)
Cash paid to suppliers	(50,506,057)	(43,772,925)
Cash paid for interfund services used	(7,201,865)	(6,295,727)
Net cash provided by operating activities	64,650,199	68,613,241
Noncapital Financing Activities		
Loan to Capital Improvements Fund	-	(2,500,000)
Payments received on loan to Capital Improvements Fund	2,500,000	-
Net cash provided by (used in) noncapital financing activities	2,500,000	(2,500,000)
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(72,867,365)	(81,028,905)
Proceeds from issuance of revenue bonds and capital leases	-	122,254,714
Principal payments on revenue bonds and capital leases	(31,483,704)	(19,052,596)
Fiscal agent fees and interest paid on revenue bonds and capital leases	(14,842,907)	(14,367,702)
Proceeds from sale of capital assets	100,477	360,183
Proceeds from repayment of notes receivable	456,573	759,706
Net cash provided by (used in) capital and related financing activities	(118,636,926)	8,925,400
Investing Activities		
Investment purchases	(249,925,926)	(218,400,371)
Investment maturities and sales	292,777,617	142,502,723
Interest received on investments	1,181,064	1,437,064
Net cash provided by (used in) investing activities	44,032,755	(74,460,584)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,453,972)	578,057
Cash and Cash Equivalents, Beginning of Year	9,870,795	9,292,738
Cash and Cash Equivalents, End of Year	$ 2,416,823	$ 9,870,795

City of Kansas City, Missouri Water Fund

Statements of Cash Flows (Continued)

Years Ended April 30, 2016 and 2015

	2016	2015
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	$ 61,487,162	$ 54,583,274
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	17,222,379	15,616,130
Changes in assets and liabilities		
Accounts receivable and special assessments receivable	(1,824,252)	(1,633,162)
Inventories	(1,167,118)	(176,493)
Due from other funds	(316,554)	121,960
Accounts payable	(11,072,645)	(1,116,782)
Compensated absences	288,127	61,322
Accrued payroll and related expenses	170,472	69,967
Due to other funds	(14,381)	(94,938)
Claims liability	597,921	880,968
Customer deposits	66,730	559,811
Pension liability	(1,003,558)	(405,104)
Other post-employment benefit obligation	215,916	146,288
Total adjustments	3,163,037	14,029,967
Net cash provided by operating activities	$ 64,650,199	$ 68,613,241
Components of Cash and Cash Equivalents at End of Year		
Unrestricted	$ 1,483,340	$ 5,728,138
Restricted	933,483	4,142,657
	$ 2,416,823	$ 9,870,795
Noncash Activities		
Contributions of capital assets	$ 3,188,326	$ 8,761,234
Change in fair value of investments	(344,120)	354,327
Accounts payable incurred for purchase of capital assets	11,025,229	7,794,498

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

Nature of Operations and Reporting Entity

The City of Kansas City, Missouri Water Fund (the Water Fund) is an enterprise 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, where applicable, cash flows thereof as of April 30, 2016 and 2015, and for the years then ended in conformity with accounting principles generally accepted in the United States of America. The Water Fund is supported wholly by water service charges and is responsible for the administration, promotion, operation and maintenance of the water system.

Basis of Accounting and Presentation

The financial statements of the Water Fund have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated non-exchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Water Fund first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Cash and Cash Equivalents

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

Investments

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

Accounts Receivable

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

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2016 and 2015

Revenue Recognition

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

Inventories

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

Prepaid Bond Insurance

Prepaid bond insurance, net of accumulated amortization, represents insurance costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Capital Assets and Depreciation/Amortization

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

Depreciation is provided on the straight-line method. Buildings, water lines and improvements are depreciated on a composite basis ranging from 40 to 100 years. Machinery and equipment are depreciated on a unit basis over useful lives of three to 20 years.

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

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

Expenses for maintenance and repairs of property are charged to operations as incurred.

Interest costs capitalized on project-related debt for the years ended April 30, 2016 and 2015 totaled $5,271,470 and $3,244,002, respectively.

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position by the Water Fund that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. As of April 30, 2016 and 2015, the Fund's deferred outflows of resources of $5,930,911 and $3,332,372, respectively, were comprised of deferred losses on bond refundings and the Fund's contributions made subsequent to the measurement date of the net pension liability. As of April 30, 2016 and 2015, the Fund's deferred inflows of resources of $1,470,919 and $0, respectively, were comprised of the difference between projected and actual earnings on pension plan investments and the change in the Fund's proportion of the net pension liability.

Compensated Absences

Under the terms of the City's personnel policy, Water Fund employees are granted vacation and sick leave in varying amounts. Vacation is accumulated at the annual rate of 10 to 20 days, depending on the employee's length of service. Sick leave is accumulated at the rate of 3.7 hours per two-week pay period. The maximum amount of vacation that may be carried forward, which is accrued in the Water Fund, is two times the amount earned in a year. Sick leave with pay may be accumulated up to a limit of 2,080 hours. Upon separation from service, employees may convert accrued sick leave at the ratio of four hours of sick leave to one hour of vacation leave credit.

Retiring employees 55 years or older with at least 25 years of creditable service; employees who are to receive a line-of-duty disability pension; and employees who qualify for a City pension and retire with a normal retirement, take early retirement at age 60 or thereafter, or die are entitled to sick leave credit at the rate of two hours of sick leave to one hour of vacation leave credit.

Pension Plan

For the purpose of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Employees' Retirement System (the Plan) and additions/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employer contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See *Note 10* for the retirement plan description.

Net Position

Net position of the Water Fund is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets, net of unspent proceeds. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Water Fund, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

Use of Estimates

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

Implementation of New Accounting Principle

In 2016, the Fund adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68,* which establish standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources and expense for pensions.

Adoption of GASB Nos. 68 and 71 changed the method of reporting the single-employer defined benefit pension plan, in which the City's fund employees participate resulting in a restatement of beginning net position as follows:

	2016
Net position, beginning of year as previously reported	$ 676,814,608
Cumulative effect of applying GASB 68 and 71	(8,470,868)
Net position, beginning of year as restated	$ 668,343,740

The fiscal year 2015 financial statements were not restated as it was not practical to do so as the actuarial data required to restate fiscal year 2015 was not available.

New Accounting Pronouncements Not Yet Adopted

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB Statement No. 72). This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Fund will implement GASB Statement No. 72 beginning with the year ending April 30, 2017.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB Statement No. 73). The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees—both active employees and inactive employees—are provided with pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended. This statement will have no impact on the Fund.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (GASB Statement No. 74). The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity and creating additional transparency. Currently, the Fund does not have an OPEB plan that issues general purpose external financial reports. If applicable, the Fund will implement GASB Statement No. 74 beginning with the year ending April 30, 2018.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB Statement No. 75). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity and creating additional transparency. The Fund will implement GASB Statement No. 75 beginning with the year ending April 30, 2019.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB Statement No. 76). The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Fund will implement GASB Statement No. 76 beginning with the year ending April 30, 2017.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB Statement No. 77). Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts and others with information they need to evaluate the financial health of governments, make decisions and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current year revenues were sufficient to pay for current year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them and (4) a government's financial position and economic condition and how they have changed over time. Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The Fund will implement GASB Statement No. 77 beginning with the year ending April 30, 2017.

The Fund has not completed its assessment of the impact of the adoption of these statements.

Note 2: Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. The pool is comprised of demand and time deposits, repurchase agreements and other investments with maturities of less than five years. The Water Fund's allocation of this pool was approximately 19.8% and 18.4% as of April 30, 2016 and 2015, respectively. As of April 30, 2016 and 2015, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account was approximately $17,315,000 and $42,900,000, 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 $2,416,823 and $7,938,828 at April 30, 2016 and 2015, respectively.

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

1. *United States Treasury Securities (Bills, Notes, Bonds and Strips)*. The City may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.

2. *United States Agency/GSE Securities*. The City may invest in obligations issued or guaranteed by any agency of the United States government and in obligations issued by any government-sponsored enterprise (GSE) that has a liquid market and a readily determinable market value that are described as follows:

    a. U.S. Government Agency Coupon and Zero Coupon Securities.

b. U.S. Government Agency Callable Securities. Restricted to securities callable at par only.

c. U.S. Government Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed interest rate.

d. U.S. Government Agency Floating Rate Securities. Restricted to coupons with no interim caps that reset at least quarterly and that float off of only one index.

e. U.S. Government 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.

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. *Municipal Securities (State and Local Government Obligations).* The City may invest in municipal obligations that are issued in either tax-exempt or taxable form. The City's portfolio may not contain municipal obligations of any one issuer, the total value of which exceeds two percent (2%) of the City's aggregate investment portfolio, unless the obligation is pre-refunded or escrowed to maturity with securities guaranteed by the United States government.

a. 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.

b. Any full faith and credit obligations of any city, county or school district in the State of Missouri rated at least AA or Aa2 by Standard and Poor's or Moody's.

c. Any full faith and credit obligations or revenue bonds of the City of Kansas City, Missouri rated at least A or Aa2 by Standard and Poor's or Moody's.

d. Any full faith and credit obligation of any state or territory of the United States of America rated at least AA or Aa2 by Standard and Poor's or Moody's.

e. Any full faith and credit obligations of any city, county or school district in any state of territory of the United States of America rated at least AAA or Aaa by Standard and Poor's or Moody's.

f. Any revenue bonds issued by the Missouri Department of Transportation rated at least AA or Aa2 by Standard and Poor's or Moody's.

g. Any municipal obligation that is pre-refunded or escrowed to maturity as to both principal and interest with escrow securities that are fully guaranteed by the United States government, without regard to rating by Standard and Poor's or Moody's.

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 Bank of America 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, 2016, the City had the following investments and maturities (amounts are in thousands):

		Investment Maturities (in Years)				
Investment Type	**Fair Value**	**Less Than 1**	**1 – 2**	**2 – 3**	**3 – 5**	**Weighted Average**
Pooled investments						
U.S. Treasury bills	$ 14,982	$ 14,982	$ -	$ -	$ -	0.40
U.S. Treasury notes/bonds	220,382	171,304	20,265	28,813	-	0.80
U.S. agency discounts	44,905	44,905	-	-	-	0.52
U.S. agencies – noncallable	458,937	130,117	213,397	82,018	33,405	1.55
U.S. agencies – callable	154,496	45,729	68,275	12,307	28,185	1.80
Total pooled	893,702	407,037	301,937	123,138	61,590	1.34
Non-pooled investments						
U.S. agency discounts	94,950	94,950	-	-	-	0.17
U.S. agencies – noncallable	90,367	68,002	5,000	17,365	-	0.95
U.S. agencies – callable	15,483	5,010	2,987	4,488	2,998	2.09
Total non-pooled	200,800	167,962	7,987	21,853	2,998	0.67
	$ 1,094,502	$ 574,999	$ 309,924	$ 144,991	$ 64,588	1.22

The Water Fund's allocation of pooled investments at April 30, 2016 was $178,026,488. The Water Fund's non-pooled investments at April 30, 2016 were $41,220,235.

As of April 30, 2015, the City had the following investments and maturities (amounts are in thousands):

		Investment Maturities (in Years)				
Investment Type	**Fair Value**	**Less Than 1**	**1 – 2**	**2 – 3**	**3 – 5**	**Weighted Average**
Pooled investments						
U.S. Treasury bills	$ 14,999	$ 14,999	$ -	$ -	$ -	0.33
U.S. Treasury notes/bonds	186,389	85,564	61,222	10,465	29,138	1.35
U.S. agencies – noncallable	406,356	108,625	103,824	148,131	45,776	1.82
U.S. agencies – callable	182,072	42,281	21,118	79,020	39,653	2.46
Total pooled	789,816	251,469	186,164	237,616	114,567	1.78
Non-pooled investments						
U.S. Treasury notes/bonds	16,033	16,033	-	-	-	0.17
U.S. agency discounts	15,997	15,997	-	-	-	0.20
U.S. agencies – noncallable	128,273	63,748	53,483	11,042	-	1.07
U.S. agencies – callable	30,229	23,528	-	4,710	1,991	1.09
Total non-pooled	190,532	119,306	53,483	15,752	1,991	0.92
	$ 980,348	$ 370,775	$ 239,647	$ 253,368	$ 116,558	1.62

The Water Fund's allocation of pooled investments at April 30, 2015 was $145,614,590. The Water Fund's non-pooled investments at April 30, 2015 were $116,139,704.

Some of the restricted assets are held by a trustee associated with the proceeds from a capital lease. The amount held by the trustee includes investments that are insured or registered or for which securities are held by the Water Fund or its agent in the Water Fund's name or under joint agreements. Restricted assets held by the trustee were $1,931,937 at April 30, 2015, and consisted primarily of money market funds.

Callable Agency Securities. The City actively monitors its callable bond portfolio with respect to probability of call relative to market rates of interest. As of April 30, 2016 and 2015, the total fair value of the City's callable bond portfolio (pooled and non-pooled) is $169,978,994 and $212,300,603, respectively.

Credit Risk

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

Investment Type	Maximum
U.S. Treasury securities and government guaranteed securities	100%
Collateralized time and demand deposits	100%
U.S. government agency and GSE securities	80%
Collateralized repurchase agreements	50%
U.S. agency callable securities	30%
Commercial paper	30%
Bankers acceptances	30%
Qualified municipal obligations	30%

As of April 30, 2016, the City had the following nongovernmental guaranteed securities that are rated by both Moody's and Standard & Poor's (amounts are in thousands):

	Fair Value	Moody's/ S&P Ratings
U.S. agency securities	$ 859,138	Aaa/AA+

As of April 30, 2015, the City had the following nongovernmental guaranteed securities that are rated by both Moody's and Standard & Poor's (amounts are in thousands):

	Fair Value	Moody's/ S&P Ratings
U.S. agency securities	$ 762,927	Aaa/AA+

Custodial Credit Risk

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

The City's investment policy requires that all funds on deposit with any financial institution be secured with collateral securities in an amount equal to at least 102 percent of the deposit less any amount insured by the Federal Deposit Insurance Corporation (FDIC), or any other governmental agency performing a similar function. As of April 30, 2016, all deposits were adequately and fully collateralized.

As of April 30, 2015, all deposits were adequately and fully collateralized except for the account at Bank of America. On April 30, 2015, the City received into its account at Bank of America an unexpected ACH credit in the amount of $8,345,058 for the Revenue division. The resulting overnight balance of $12,555,690 was secured by $250,000 FDIC Insurance and collateral securities with a collateral value of $11,926,143, resulting in a small collateral deficiency of ($379,547). A wire transfer in the amount of $4,000,000 was immediately sent from the account at Bank of America to the City's operating account at Commerce Bank the next business morning to return the account to a fully collateralized level.

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, 2016 and 2015, all investment securities were in the City's name in the City's safekeeping accounts at its safekeeping institutions. In addition, all collateral securities were in the City's joint custody account(s) at the Federal Reserve Bank and were either U.S. Treasury (U.S. government guaranteed) or U.S. agency (Aaa/AA+ rated) obligations.

Concentration of Credit Risk

At April 30, 2016, more than five percent of the City's investments are in the following U.S. agency discount note/securities: Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 13%, 25%, 11% and 29%, respectively, of the City's total investments.

At April 30, 2015, more than five percent of the City's investments are in the following U.S. agency discount note/securities: Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 11%, 28%, 12% and 25%, respectively, of the City's total investments.

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

Summary

The following is a complete listing of cash and investments held by the Water Fund at April 30, 2016 and 2015:

	2016	2015
Deposits	$ 2,416,823	$ 7,938,828
Pooled investments	178,026,488	145,614,590
Non-pooled investments	41,220,235	116,139,704
Trustee accounts	-	1,931,967
Total	$ 221,663,546	$ 271,625,089

The deposits and investments of the Water Fund at April 30, 2016 and 2015 are reflected in the statements of net position as follows:

	2016	2015
Current assets		
Unrestricted		
Cash and cash equivalents	$ 1,483,340	$ 5,728,138
Investments	18,375,224	5,476,116
Restricted		
Cash and cash equivalents	933,483	4,142,657
Investments	11,622,140	40,652,293
Investments	90,690,099	99,552,512
Restricted investments	98,559,260	116,073,373
Total	$ 221,663,546	$ 271,625,089

Note 3: Accounts Receivable

A summary of accounts receivable at April 30, 2016 and 2015 is as follows:

	2016	2015
Water customers	$ 23,229,675	$ 22,193,274
Unbilled utility revenue	9,098,161	8,128,886
	32,327,836	30,322,160
Less allowance for doubtful accounts	12,172,370	11,990,947
Net accounts receivable	$ 20,155,466	$ 18,331,213

Note 4: Notes Receivable

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

Notes receivable outstanding consist of the following issues at April 30, 2016 and 2015:

Customer	Interest Rates	Loan Completion Date	2016	2015
Dogwood Energy	5.565%	February 2023	$ 1,950,370	$ 2,190,943
Platte County PWSD #2	4.126	April 2026	255,379	275,598
City of Dearborn	4.126	April 2026	243,759	284,273
Cass County PWSD #3	4.394	January 2028	107,278	114,044
Lee's Summit	4.238	March 2028	2,202,895	2,318,269
Cass County PWSD #10	4.238	November 2029	620,975	654,102
			5,380,656	5,837,229
Less current portion			(484,124)	(487,447)
Noncurrent portion			$ 4,896,532	$ 5,349,782

City of Kansas City, Missouri Water Fund

Notes to Financial Statements

April 30, 2016 and 2015

Note 5: Capital Assets

Capital asset activity for the year ended April 30, 2016 is as follows:

	May 1, 2015	Additions	Retirements/ Adjustments	April 30, 2016
Depreciable assets				
Buildings	$ 171,884,881	$ 3,949,511	$ (2,284,529)	$ 173,549,863
Utility lines and improvements	706,386,816	70,001,450	(3,151,151)	773,237,115
Machinery and equipment	63,040,126	13,826,037	(1,545,721)	75,320,442
Total depreciable assets	941,311,823	87,776,998	(6,981,401)	1,022,107,420
Accumulated depreciation				
Buildings	(79,318,059)	(2,224,274)	2,267,389	(79,274,944)
Utility lines and improvements	(90,744,003)	(10,347,780)	3,168,292	(97,923,491)
Machinery and equipment	(28,890,081)	(4,527,143)	1,203,257	(32,213,967)
Total accumulated depreciation	(198,952,143)	(17,099,197)	6,638,938	(209,412,402)
Total depreciable assets, net	742,359,680	70,677,801	(342,463)	812,695,018
Nondepreciable assets				
Land and permanent right of ways	4,089,224	-	-	4,089,224
Construction in process	81,721,427	77,142,395	(73,907,174)	84,956,648
Total nondepreciable assets	85,810,651	77,142,395	(73,907,174)	89,045,872
Capital assets, net	$ 828,170,331	$ 147,820,196	$ (74,249,637)	$ 901,740,890

Capital asset activity for the year ended April 30, 2015 is as follows:

	May 1, 2014	Additions	Retirements/ Adjustments	April 30, 2015
Depreciable assets				
Buildings	$ 172,709,031	$ 1,156,809	$ (1,980,959)	$ 171,884,881
Utility lines and improvements	665,437,145	43,175,926	(2,226,255)	706,386,816
Machinery and equipment	56,476,880	9,292,046	(2,728,800)	63,040,126
Total depreciable assets	894,623,056	53,624,781	(6,936,014)	941,311,823
Accumulated depreciation				
Buildings	(79,029,566)	(2,269,452)	1,980,959	(79,318,059)
Utility lines and improvements	(83,315,221)	(9,655,037)	2,226,255	(90,744,003)
Machinery and equipment	(27,772,961)	(3,568,459)	2,451,339	(28,890,081)
Total accumulated depreciation	(190,117,748)	(15,492,948)	6,658,553	(198,952,143)
Total depreciable assets, net	704,505,308	38,131,833	(277,461)	742,359,680
Nondepreciable assets				
Land and permanent right of ways	4,079,624	9,600	-	4,089,224
Construction in process	36,270,331	81,849,679	(36,398,583)	81,721,427
Total nondepreciable assets	40,349,955	81,859,279	(36,398,583)	85,810,651
Capital assets, net	$ 744,855,263	$ 119,991,112	$ (36,676,044)	$ 828,170,331

Note 6: Revenue Bonds, Capital Leases and Restricted Assets

Revenue bonds and capital leases outstanding consist of the following issues at April 30, 2016 and 2015:

Issue	Interest Rates	Maturity Through	2016	2015
2008 Series A	4.66%	December 2027	$ 25,520,000	$ 27,080,000
2009 Series A	2.00 - 5.25%	December 2032	118,525,000	128,715,000
2012 Series A	1.00 - 5.00%	December 2036	42,100,000	43,460,000
2013 Series A	2.00 - 4.00%	December 2037	53,350,000	54,000,000
2014 Series A	2.00 - 5.00%	December 2038	53,185,000	54,365,000
2015 Series A	3.25 - 5.00%	December 2039	59,790,000	59,790,000
AMR Capital Lease-2008	3.44%	December 2017	-	3,700,159
AMR Capital Lease-2009	4.06%	December 2019	-	12,843,545
			352,470,000	383,953,704
Add premiums			22,596,586	23,716,521
Less				
Current portion			(16,485,000)	(18,839,461)
Discount			(364,233)	(380,431)
Noncurrent revenue bonds and capital leases payable			$ 358,217,353	$ 388,450,333

Changes in revenue bonds and capital leases payable during the year ended April 30, 2016 are as follows:

	May 1, 2015	Additions	Reductions	April 30, 2016
Revenue bonds and capital leases	$ 383,953,704	$ -	$ (31,483,704)	$ 352,470,000
Less				
Unamortized bond discount	(380,431)	-	16,198	(364,233)
Add				
Unamortized bond premium	23,716,521	-	(1,119,935)	22,596,586
Total revenue bonds and notes payable	$ 407,289,794	$ -	$ (32,587,441)	$ 374,702,353

Changes in revenue bonds and capital leases payable during the year ended April 30, 2015 are as follows:

	May 1, 2014	Additions	Reductions	April 30, 2015
Revenue bonds and capital leases	$ 288,851,300	$ 114,155,000	$ (19,052,596)	$ 383,953,704
Less				
Unamortized bond discount	(137,725)	(251,838)	9,132	(380,431)
Add				
Unamortized bond premium	16,232,815	8,351,551	(867,845)	23,716,521
Total revenue bonds and notes payable	$ 304,946,390	$ 122,254,713	$ (19,911,309)	$ 407,289,794

The annual requirements to retire the bonds and capital leases outstanding as of April 30, 2016 are as follows:

Year Ending April 30	Principal	Interest	Total
2017	$ 16,485,000	$ 14,877,126	$ 31,362,126
2018	17,180,000	14,179,985	31,359,985
2019	17,895,000	13,462,224	31,357,224
2020	18,610,000	12,723,680	31,333,680
2021	19,340,000	11,947,938	31,287,938
2022 – 2026	88,345,000	47,258,421	135,603,421
2027 – 2031	72,580,000	29,560,503	102,140,503
2032 – 2036	67,165,000	14,410,713	81,575,713
2037 – 2040	34,870,000	2,708,075	37,578,075
	$ 352,470,000	$ 161,128,665	$ 513,598,665

The amount of outstanding advance refunding of insubstance defeased debt as of April 30, 2016 and 2015 was a total of $40,065,000 and $42,810,000, respectively.

All funds obtained through the issuance of water revenue bonds are restricted for the purpose of extending and improving the facilities of the Water Fund. All debt service requirements are payable solely from revenues generated by the Water Fund. Under the terms of the ordinances enacted at the time of the issuance of the revenue bonds, the 2009A, 2012A, 2013A, 2014A and 2015A bonds (Senior Bonds) share equal claim to the revenue generated by the Water Fund. The pledge of revenue is senior to the pledge of such revenues for the payment of the 2008A bonds (Subordinate Bond). The AMR capital leases, which are payable from the revenues of the Water Fund on a subordinate basis to the Senior and Subordinate Bonds, are secured by the equipment under the leases. The ordinances require the City to maintain adequate insurance coverage and establish the priority for the allocation of revenue generated by the Water Fund. After meeting normal operating and maintenance expenses, all remaining moneys are to be allocated to the following accounts in the order listed below:

Account	Restriction
Principal and interest	For the monthly accumulation of moneys to meet the maturing revenue bond principal and interest requirement. Each month, the City is to set aside 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment.
Construction	For recording bond proceeds to be used to finance construction.
Renewal and replacement	For the monthly accumulation of moneys, up to an amount equal to the prior year annual depreciation plus additional amounts to cover future budgeted capital improvements, to pay for the maintenance and replacements necessary to keep the system operating efficiently.

The bond ordinances also require that the Water Fund establish additional reserve accounts for the retirement of the bonds totaling $29,817,902 at April 30, 2016. However, in lieu of setting aside cash, the ordinances allow the Water Fund to obtain insurance policies. The Water Fund has obtained insurance policies to satisfy $15,304,827 of the reserve requirements. As of April 30, 2016 and 2015, the Water Fund's debt service coverage ratio was above the 130% threshold, so the remaining bond reserve account was not required to be funded.

Restricted accounts are reported on the accompanying statements of net position as restricted assets for 2016 and 2015 as follows:

	2016	2015
Principal and interest	$ 13,095,128	$ 11,842,571
Construction	65,747,097	130,903,511
Renewal and replacement	30,063,307	16,028,038
Customer deposits	2,443,829	2,376,109
	$111,349,361	$161,150,229

Note 7: Pledged Revenues

The City has pledged revenues of the Water Fund, net of specified operating expenses, to repay $352,470,000 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 *Note 6*. The bonds and capital lease payments are payable solely from the revenues derived by the Water Fund. Annual principal and interest payments on the bonds and capital leases are expected to require 26% of net revenues on average over the next 23 years. The total principal and interest remaining to be paid on the bonds is $513,598,665. Principal and interest paid for the year ended April 30, 2016 and total net revenues were $29,439,534 and $84,875,916, respectively.

Note 8: Due to/from Other City Funds

Amounts due to/from other City funds at April 30, 2016 and 2015 were as follows:

	2016		2015	
	Due from	**Due to**	**Due from**	**Due to**
Sewer fund	$ 230,225	$ -	$ -	$ 14,381
General fund	96,091	385,000	9,762	385,000
Capital Improvements Fund	-	-	2,500,000	-
	$ 326,316	$ 385,000	$ 2,509,762	$ 399,381

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.

In 2015, the fund transferred $2,500,000 to the City's Capital Improvements Fund to assist with the Blue River Flood Control project. This interfund loan was repaid on the maturity date of May 1, 2015 at an interest rate of .9459%. This receivable is recorded on the statement of net position as due from other funds.

Note 9: Administrative Service Fees

Payments to the General fund of the City for office space and certain administrative, data processing and accounting services for the years ended April 30, 2016 and 2015 are presented as administrative and general expenses and are as follows:

	2016	2015
Administrative, data processing and accounting	$ 5,756,822	$ 5,415,392

The Water Fund provides billing and collection services for the City of Kansas City, Missouri Sewer Fund and charged the City of Kansas City, Missouri Sewer Fund $4,313,505 and $3,358,859 for these services for the years ended April 30, 2016 and 2015, respectively.

Note 10: Employees' Retirement System

Disclosures for the Year Ended April 30, 2016 under GASB Statement No. 68

The City sponsors a contributory, single-employer defined benefit pension plan, the Employees' Retirement System (the Plan), covering substantially all employees of the Water Fund.

The Board of Trustees of the Employees' Retirement System of the City of Kansas City, Missouri (the Board) administers the Plan.

The Plan was established in the code of ordinances under part II, Chapter II, Article IX, Division 2, Section 2-1172 which states, "All full-time, permanent employees in the classified and unclassified services shall become members of the retirement system as a condition of employment, including all full-time, permanent former MAST employees who became city employees as of April 25, 2010, and who did not become members of the Firefighters' Pension System. Former MAST employees have the option within 60 days of the passage of this ordinance to elect to become members of this plan in lieu of participation in the defined contribution plan set out in Division 10. Also included in membership are those who have retired in circumstances establishing eligibility for an annuity in this pension system and inactive members on leave of absence."

The Board of Trustees of the Plan shall consist of nine members, including the Director of Human Resources and Director of Finance, and seven shall be appointed by the mayor as follows:

a. One shall be a retired member of the system.

b. Four, other than the forgoing, shall be recognized business and/or civic leaders with financial backgrounds, such as investments, management of employees benefit plans, who are not employees of the City. At the mayor's option, one of this group may be a City Council person with a financial background who shall serve as an ex-officio member of the Board with a right to vote.

c. Two shall be active employees and members of the retirement system as recommended by the union.

d. In the event that Local 42, IAFF, has 200 or more members, including retirees, participating in the Employees' Retirement System, Local 42 will have one designated member who will be vested with the same voting rights as the other trustees.

The Board is responsible for establishing or amending plan provisions. The Board issues publicly available financial reports that include financial statements and required supplementary information. The financial reports may be obtained by writing to:

Employees' Pension Systems

The Retirement Division
City Hall-10th Floor
414 East 12th Street
Kansas City, Missouri 64106
Phone 816.513.1928

Retirement Benefits

Benefit terms for the Plan are established in the City administrative code and can only be amended by the City Council. The Plan provides retirement benefits as well as pre-retirement death benefits as noted below:

<u>Tier I Members</u>

The Plan provides retirement benefits, for those employees hired before April 20, 2014 (Tier I Members). Employees become vested for retirement benefits after five years of service. Members who retire with total age and creditable service equal to 80, or the later of age 60 and 10 years of creditable service, are entitled to an annual pension based on a percentage of final average compensation multiplied by years and months of creditable service. If married at the time of retirement, the percentages is 2.0% for general employees and 2.2% for elected officials, and if unmarried at the date of retirement, the percentage is 2.2% up to a maximum of 70% of final average compensation as defined in the Plan. If the employee has at least 10 years of creditable service, the minimum benefit is $400 per month.

If members terminate prior to retirement and before rendering five years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to City contributions and are refunded their member contributions with interest. Such refunds result in the forfeiture of all other benefits under the Plan. Members terminating prior to retirement with five or more years of service may elect to receive a refund of their member contributions with interest as a lump-sum distribution, or they may elect to receive a deferred pension. An automatic annual cost-of-living adjustment of 3%, non-compounded, is provided annually.

<u>Tier II Members</u>

The Plan provides retirement benefits, for those employees hired on or after April 20, 2014 (Tier II Members). Employees become vested for retirement benefits after ten years of service. Members who retire with total age and creditable service equal to 85, or the later of age 62 and 10 years of creditable service are entitled to an annual pension of 1.75% of final average compensation multiplied by the number of years of creditable service, subject to a maximum limit of 70% of final average compensation as defined in the Plan.

If employees terminate prior to retirement and before rendering ten years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to City contributions and are refunded their member contributions with interest. An annual cost-of-living adjustment, not to exceed 2.5%, non-compounded, per year is provided to pensioners age 62 and older if the prior year funding ratio is equal to or greater than 80% and will be equal to the percentage increase in the prior 12 months of the final national Consumer Price Index.

Death Benefits

If a retired member dies, the following benefits shall be paid:

To the member's spouse until death, a retirement benefit equal to one-half of the member's normal retirement benefit. To the member's designated beneficiary or estate, if there is no surviving spouse, any remaining member contributions and interest. If an active member dies, the member contributions and interest are distributed to the surviving spouse or, if none, to the designated beneficiary. The surviving spouse, however, may elect to receive monthly benefit payments instead of the lump-sum distribution if the member had five or more years of creditable service.

Contributions

Funding is provided by contributions from Plan members, the Fund and earnings on investments. Members contribute 4% of their base salary through April 20, 2014, at which time member contributions were increased to 5% of their base salary. The Fund's contribution is set by the City Council in conjunction with its approval of the annual budget, based on the actuarially determined contribution rate set by the Plan's consulting actuary. For the year ended April 30, 2015, the Fund contributed at a rate of 14.64% of annual projected payroll. For the year beginning May 1, 2015, the Fund is contributing 14.64% of payroll, which is the actuarially determined Board contribution rate for the prior year, from the period May 1, 2015 to June 30, 2015, and 14.71% for the period from July 1, 2015 to April 30, 2016. Future Fund contributions will be determined through the Fund's budgeting process.

The Fund's governing body has the authority to establish and amend the contribution requirements of the Fund and active employees. The governing body establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Fund is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended April 30, 2016, employees contributed $1,032,828 and the Fund contributed $3,082,377 to the Plan.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At April 30, 2016, the Water Fund reported a liability of $13,380,125, for its proportionate share of the net pension liability. The net pension liability was measured as of April 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of April 30, 2014 rolled forward one year to the measurement date. The Water Fund's proportion of the net pension liability was based on the Water Fund's actual contributions to the pension plan for the year ended April 30, 2015. At April 30, 2016, the Water Fund's proportion was 12.54%, which was a decrease of 0.95% from its proportion for the year ended April 30, 2015.

For the year ended April 30, 2016, the Water Fund recognized pension expense of $2,454,030. At April 30, 2016, the Water Fund reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Net difference between projected and actual earning on pension plan investments	$ -	$ 878,990
Changes in Water Fund proportion	-	591,929
Water Fund's contributions made subsequent to the measurement date of the net pension liability	3,082,377	-
Total	$ 3,082,377	$ 1,470,919

At April 30, 2016, the Water Fund reported $3,082,377 of deferred outflows of resources resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending April 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at April 30, 2016, related to pensions, will be recognized in pension expense as follows:

2017	$ (367,730)
2018	(367,730)
2019	(367,730)
2020	(367,729)
	$ (1,470,919)

Actuarial Assumptions

The total pension liability in the April 30, 2015 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	Ranges from 4.0% to 8.0%
Ad hoc cost of living adjustments	3.0%, simple
Investment rate of return	7.50%

Mortality rates were based on the 1994 Group Annuity Mortality Table for healthy individuals and the 1983 Railroad Retirement Board Disabled Life Mortality Table for disabled individuals.

The actuarial assumptions used in the April 30, 2015 valuations were based on the results of an actuarial experience study for the period 2006 – 2010 and showed that there were sufficient margins in the rates to provide for potential future improvements in mortality.

The investment return assumption of 7.50% was selected based upon an analysis that included (a) capital market assumptions provided by the investment consultant, (b) the asset allocation of the fund and (c) investment return assumptions of other public retirement systems.

The inflation assumption of 3.0% was selected based upon an analysis that included (a) input from the investment consultant, (b) historical inflation as measured by Consumer Price Index and (c) implied inflation in long-term government bonds.

The long-term wage growth assumption of 4.0% was based upon the inflation assumption of 3.0% plus a real growth wage assumption of 1.0% which was derived from an analysis of historical increases in Social Security Average earnings.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap Equity	15.0%	4.8%
Small Cap Equity	6.5%	6.0%
Non-US Equity	7.0%	5.7%
Global Equity	19.0%	5.5%
Emerging Markets Equity	3.0%	8.8%
Opportunistic Equity	12.0%	3.7%
Fixed Income	26.5%	0.0%
Real Assets	10.0%	3.9%
Cash	1.0%	-0.9%

Discount Rate

The discount rate used to measure the total pension liability was 7.50%, which is the assumed long-term expected rate of return in Plan investments. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Fund contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position will be greater than or equal to the benefit payments projected for each future period. Benefit payments are projected through 2117.

Sensitivity of the Water Fund's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The net pension liability of the Water Fund has been calculated using a discount rate of 7.50%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Water Fund's net pension (asset) liability	$ 31,125,777	$ 13,380,125	$ (1,583,065)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial report, located at www.kcmo.org.

Payable to the Pension Plan

At April 30, 2016, the Water Fund reported a payable of $111,398 for the outstanding amount of contributions to the pension plan.

Disclosures for the Year Ended April 30, 2015 under GASB Statement No. 27

At May 1, 2014, the actuarial accrued liability of the Plan was approximately $1,149,884,000 and the actuarial value of assets of the Plan was approximately $962,152,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately $35,879,000 to each participating fund. The Water Fund's allocation was approximately $4,301,000 as of April 30, 2015. Contributions to the Plan made by the Water Fund during the year ended April 30, 2015 were approximately $3,458,000.

The net pension obligation at April 30, 2015 is as follows:

	City	Fund
Annual required contribution (ARC)	$ 24,540,893	$ 3,077,767
Interest on net pension obligation	2,933,363	352,985
Adjustment to annual required contribution	(3,137,062)	(378,268)
Annual pension cost (APC)	24,337,194	3,052,484
Contributions made (employer)	(27,569,434)	(3,457,588)
Change in net pension obligation	(3,232,240)	(405,104)
Net pension obligation, April 30, 2014	39,111,502	4,706,461
Net pension obligation, April 30, 2015	$ 35,879,262	$ 4,301,357

Note 11: Other Postemployment Benefits

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

Plan Description

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

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

The net OPEB obligation at April 30, 2016 is as follows:

	City	Fund
Annual required contribution (ARC)	$ 9,891,223	$ 746,729
Interest on net OPEB obligation	3,096,385	233,441
Adjustment to annual required contribution	(4,131,976)	(311,515)
Annual OPEB cost (expense)	8,855,632	668,655
Contributions made (employer)	(5,997,011)	(452,739)
Change in net OPEB obligation	2,858,621	215,916
Net OPEB obligation, April 30, 2015	68,808,559	5,187,572
Net OPEB obligation, April 30, 2016	$ 71,667,180	$ 5,403,488

Funded Status and Funding Progress

As of April 30, 2014, the most recent actuarial valuation date, the OPEB plan was 0.0% funded. The actuarial accrued liability for benefits was $97.8 million, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $97.8 million. The covered payroll (annual payroll of active employees covered by the OPEB plan) was $227.0 million, and the ratio of UAAL to the covered payroll was 43.1 percent.

Although determinations of the actuarial status were not made for individual funds, the City has allocated its 2016 and 2015 overall net OPEB obligation of approximately $71,667,000 and $68,809,000, respectively, to each participating fund. For the years ended April 30, 2016 and 2015, the Water Fund's allocation was approximately $5,403,000 and $5,188,000, respectively.

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 30, 2014 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 3.0% inflation rate, a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets (of which there are none) and on the employer's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of 8-9% annually, reduced by decrements to an ultimate rate of 4.5% after 9 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at May 1, 2014 was 30 years.

Note 12: Commitments

At April 30, 2016 and 2015, the City had made purchase commitments, primarily for additions to utility lines and improvements on behalf of the Water Fund of approximately $56,113,000 and $56,208,000, respectively. These commitments will be funded by a combination of existing resources and future debt issuances.

Note 13: Risk Management

The Water Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Fund is self-insured for workers' compensation and general liability exposures and participates in the City's self-insurance programs. The City has purchased insurance to limit the exposure to $1,000,000 on workers' compensation claims per occurrence occurring prior to fiscal year 1997, $500,000 exposure for all claims originating in fiscal year 1997, $400,000 exposure for all claims originating in fiscal year 1998, $2,000,000 exposure for all claims originating in fiscal years 2003 through 2007, $1,000,000 exposure for all claims originating in fiscal years 2008 through 2011, and $2,000,000 for all claims originating thereafter. The City also purchases an excess liability policy to cover torts, which are not barred by sovereign immunity. The policy has a $5,400,000 retention and a $10,000,000 loss limit. Current sovereign tort immunity statutes and law limit general liability and automobile claim exposure to a maximum of $409,123 per person and $2,727,489 per occurrence. Settled claims have not exceeded the self-insured retention in any of the past three fiscal years.

The City also maintains commercial insurance coverage for those areas not covered by the City's self-insurance programs, such as excess general liability, property, cyber and auto. Settled claims have not exceeded commercial insurance coverage for the past three years.

All funds of the City participate in the program and make payments based on estimates of the amounts needed to pay prior and current year claims. The claims liability for the Water Fund includes an estimate of claims incurred but not reported (IBNR), which was determined based upon historical claims experience. Activity in the Water Fund's claims liability for the years ended April 30, 2016, 2015 and 2014 is summarized as follows:

	2016	2015	2014
Balance, beginning of the year	$ 10,470,580	$ 9,589,612	$ 7,468,727
Current year claims incurred and changes in estimates for claims incurred in prior years	3,131,746	3,817,573	6,399,200
Claims and expenses paid	(2,533,825)	(2,936,605)	(4,278,315)
Balance, end of the year	11,068,501	10,470,580	9,589,612
Less current portion	(2,893,181)	(2,408,188)	(2,115,022)
Noncurrent portion	$ 8,175,320	$ 8,062,392	$ 7,474,590

Note 14: Net Position

Net investment in capital assets is comprised of the following:

	2016	2015
Capital Related Assets		
Land	$ 4,089,224	$ 4,089,224
Construction in progress	84,956,648	81,721,427
Buildings	173,549,863	171,884,881
Utility line and improvements	773,237,115	706,386,816
Machinery and equipment	75,320,442	63,040,126
	1,111,153,292	1,027,122,474
Less accumulated depreciation	(209,412,402)	(198,952,143)
Capital assets, net	901,740,890	828,170,331
Deferred outflows of resources - loss on refunding	2,848,534	3,332,372
Less Related Liabilities		
Current portion, bonds and capital leases payable	16,485,000	18,839,461
Bonds and capital leases payable, net of premium, discount and unspent proceeds	290,565,940	257,541,836
Contracts and retainages payable	3,994,849	2,721,812
Total capital related liabilities	311,045,789	279,103,109
Net investment in capital assets	$ 593,543,635	$ 552,399,594

Restricted net position at April 30, 2016 and 2015 are as follows:

	2016	2015
Restricted-Expendable Assets		
Cash and cash equivalents	$ 933,483	$ 4,142,657
Investments	110,181,400	156,725,666
Interest receivable	234,478	281,906
	111,349,361	161,150,229
Less Liabilities from Restricted Assets		
Debt related to unspent bond proceeds	65,608,648	128,742,551
Accrued interest and fiscal agent fees	6,198,802	5,596,327
Customer deposits	2,438,682	2,371,952
	74,246,132	136,710,830
Restricted-Expendable Net Position	$ 37,103,229	$ 24,439,399

Note 15: Subsequent Events

Subsequent to year end, the City passed an ordinance whereby the Water Fund will be assessed and required to make a payment in lieu of taxes (PILOT) to the General Fund equal to one percent of the Fund’s gross revenues derived from providing water services to the City’s residential and commercial customers.

Required Supplementary Information
(Unaudited)

City of Kansas City, Missouri Water Fund

Schedule of the Fund's Proportionate Share of the Net Pension Liability
Employees' Retirement System of the City of Kansas City, Missouri
April 30, 2016

Water Fund's proportion of the net pension liability		12.54%
Water Fund's proportionate share of the net pension liability	$	13,380,125
Water Fund's covered payroll	$	21,020,683
Water Fund's proportionate share of the net pension liability as a percentage of its covered payroll		63.65%
Plan fiduciary net position as a percentage of the total pension liability		91.05%

Note to Schedule: This schedule is intended to show a ten-year trend. Additional years will be reported as they become available.

City of Kansas City, Missouri Water Fund

Schedule of the Fund Contributions

Employees' Retirement System of the City of Kansas City, Missouri

April 30, 2016

Contractually required contribution	$	3,077,428
Contributions in relation to the contractually required contribution		3,082,377
Contribution deficiency (excess)	$	(4,949)
Fund's covered payroll	$	20,923,378
Contributions as a percentage of covered payroll		14.73%

Note to Schedule: This schedule is intended to show a ten-year trend. Additional years will be reported as they become available.

City of Kansas City, Missouri Water Fund

Schedule of Funding Progress

Employees' Retirement System of the City of Kansas City, Missouri

Year Ended April 30, 2016

(In thousands)

Other Postemployment Benefits						
	(a)	(b)	(b-a)	(a/b)	(c)	[(b-a)/c]
Actuarial Valuation Date	Acutarial Value of Assets	Acutarial Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
City of Kansas City - Employee/Firefighter Other Postemployment Benefits						
5/1/2010	$ -	$ 76,574	$ 76,574	0%	$ 205,882	37.19%
5/1/2012	-	105,013	105,013	0%	221,197	47.47%
5/1/2014	-	97,828	97,828	0%	227,039	43.09%

Note: Valuation and determinations of the actuarial status were not made for individual funds, as such, the above information is for the entire City OPEB Plan.