City of Kansas City, Missouri Water Fund

Auditor's Report and Financial Statements

April 30, 2015 and 2014

BKD LLP
CPAs & Advisors

City of Kansas City, Missouri Water Fund

April 30, 2015 and 2014

Contents

BKD LLP
CPAs & Advisors

1201 Walnut Street, Suite 1700 // Kansas City, MO 64106-2246
816.221.6300 // fax 816.221.6380 // bkd.com

Independent Auditor's Report

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

We have audited the accompanying basic financial statements, which are comprised of the statements of net position as of April 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents, of the City of Kansas City, Missouri Water Fund (the Water Fund).

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 as of April 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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, 2015 and 2014, 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.

Required Supplementary Information

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

BKD, LLP

Kansas City, Missouri
October 30, 2015

City of Kansas City, Missouri Water Fund

Management's Discussion and Analysis

Years Ended April 30, 2015 and 2014

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 ending April 30, 2015 and April 30, 2014, with selected comparative information for the fiscal year ended April 30, 2013. 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, 2015 and April 30, 2014.

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, liabilities and deferred inflows, with the difference between the sum of assets and deferred outflows and the sum of liabilities and deferred inflows 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

Summary of Net Position

(In thousands)

	April 30		
	2015	**2014**	**2013**
Assets			
Current assets - unrestricted	$ 35,269	$ 34,978	$ 37,355
Current assets - restricted	45,077	19,235	36,031
Noncurrent investments - unrestricted	99,553	78,641	66,548
Noncurrent investments - restricted	116,073	81,996	74,473
Capital assets	828,170	744,855	715,976
Other assets	7,516	8,442	10,575
Total assets	1,131,658	968,147	940,958
Deferred Outflows of Resources	3,332	3,949	4,660
Total assets and deferred outflows of resources	$ 1,134,990	$ 972,096	$ 945,618
Liabilities			
Current liabilities	$ 20,336	$ 16,666	$ 11,269
Liabilities payable from restricted assets	29,199	26,587	25,661
Long-term liabilities	408,640	305,702	323,314
Total liabilities	458,175	348,955	360,244
Net Position			
Net investment in capital assets	552,400	513,054	488,843
Restricted-expendable	24,439	26,455	13,199
Unrestricted	99,976	83,632	83,332
Total net position	676,815	623,141	585,374
Total liabilities and net position	$ 1,134,990	$ 972,096	$ 945,618

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 distribution system improvements. Cash, cash equivalents and investments that are restricted for debt service costs, construction and renewal & replacement increased by approximately 59.3%. Unrestricted 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 an 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 the year, total assets and deferred outflows 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.

In FY2014, total assets increased by $27.2 million or 2.9% from the previous year. During the year, there were no new Water Revenue Bonds issued, whereas bonds were issued in the prior year and netted the Fund approximately $54 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 decreased by approximately 8.4%. Unrestricted assets used in daily operations increased by approximately 8.8%. Capital assets increased by $28.9 million or 4.0% as anticipated from the ongoing capital improvements program.

Total liabilities decreased by $11.3 million or 3.1%. As mentioned earlier, no bonds were issued during the year. Debt was reduced by the scheduled $18.2 million retirement of outstanding bonds. The decrease in debt was partially offset by increases of $4.8 million in trade accounts payable and $2.1 million in claims liability.

At the close of FY2014, total assets and deferred outflows exceeded total liabilities resulting in net position of $623.1 million. Of this amount, $83.6 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 $37.8 million or 6.5% over the previous year indicating that the Fund improved its financial position. The largest portion of net position, $513.1 million or 82.3%, 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)

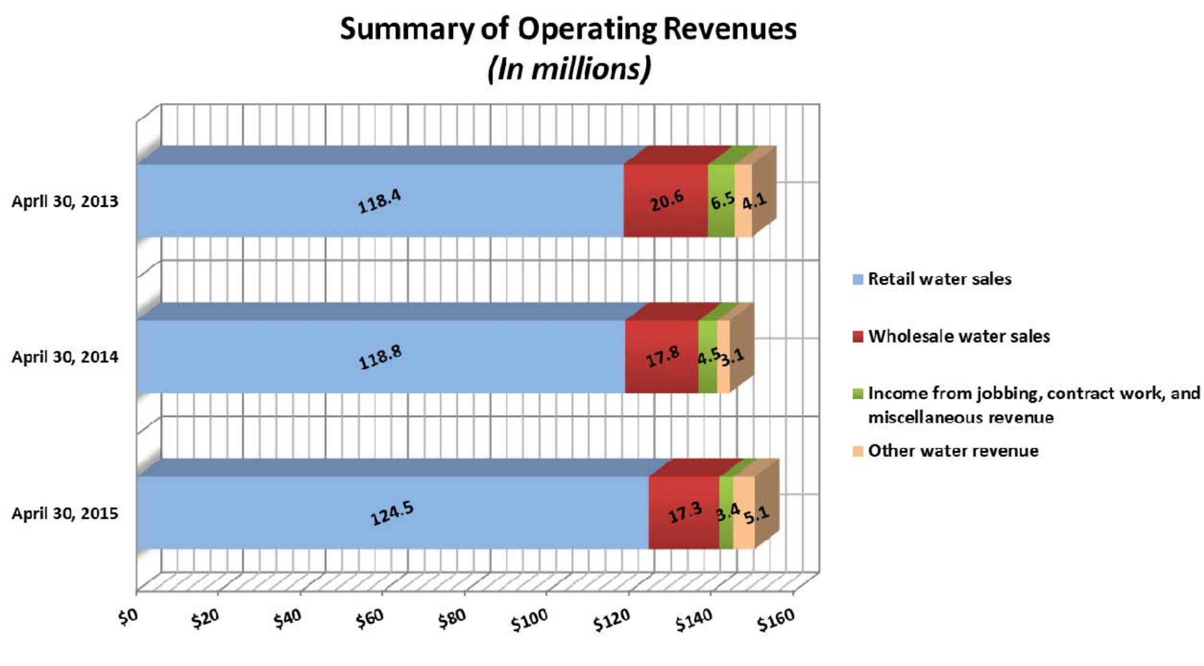
	Year Ended April 30		
	2015	2014	2013
Operating revenues	$ 150,303	$ 144,238	$ 149,642
Operating expenses	(95,720)	(99,647)	(93,075)
Operating income	54,583	44,591	56,567
Nonoperating expenses, net	(9,670)	(8,962)	(9,267)
Increase in net position before capital contributions	44,913	35,629	47,300
Capital contributions	8,761	2,138	2,617
Change in net position	53,674	37,767	49,917
Total net position - beginning of the year, as previously reported	623,141	585,374	537,185
Adjustment for change in accounting principle	-	-	(1,728)
Net position, beginning of year, as adjusted	623,141	585,374	535,457
Total net position - end of the year	$ 676,815	$ 623,141	$ 585,374

Summary of Operating Revenues

(In thousands)

	Year Ended April 30		
	2015	2014	2013
Retail water sales	$ 124,495	$ 118,796	$ 118,402
Wholesale water sales	17,311	17,849	20,641
Other water revenue	3,363	3,133	4,128
Income from jobbing, contract work and miscellaneous revenue	5,134	4,460	6,471
Total operating revenues	$ 150,303	$ 144,238	$ 149,642

Total operating revenues increased by $6.1 million or 4.2%. Although the full year effect of the scheduled 10% rate increase contributed additional revenue, water consumption declined. This usually occurs during rainier seasons. Water consumption by retail residential and commercial customers declined by 1.5 million CCF (hundred cubic feet) or 6.0%. Consumption by wholesale or governmental customers declined by 0.8 million CCF or 9.5%, with the resulting decline in sales of $0.5 million or 3.0%. Other water revenue consists primarily of interest on notes receivable from inter-governmental construction cost sharing agreements. Other water revenue increased by $0.2 million that includes regular interest payments received, as well as early payoff by an entity. Income from jobbing, contract work and miscellaneous sources, increased by approximately 15.1%.



At the close of FY2014, total operating revenues decreased slightly by $5.4 million or 3.6%. Additional sales of $.394 million to retail customers net of bad debt expense, and a sales decline of $2.8 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 decreased by $0.1 million that includes regular interest payments received, as well as early payoffs by two entities. Income from jobbing, contract work and miscellaneous sources, decreased by approximately 31.0%.

Summary of Operating Expenses

(In thousands)

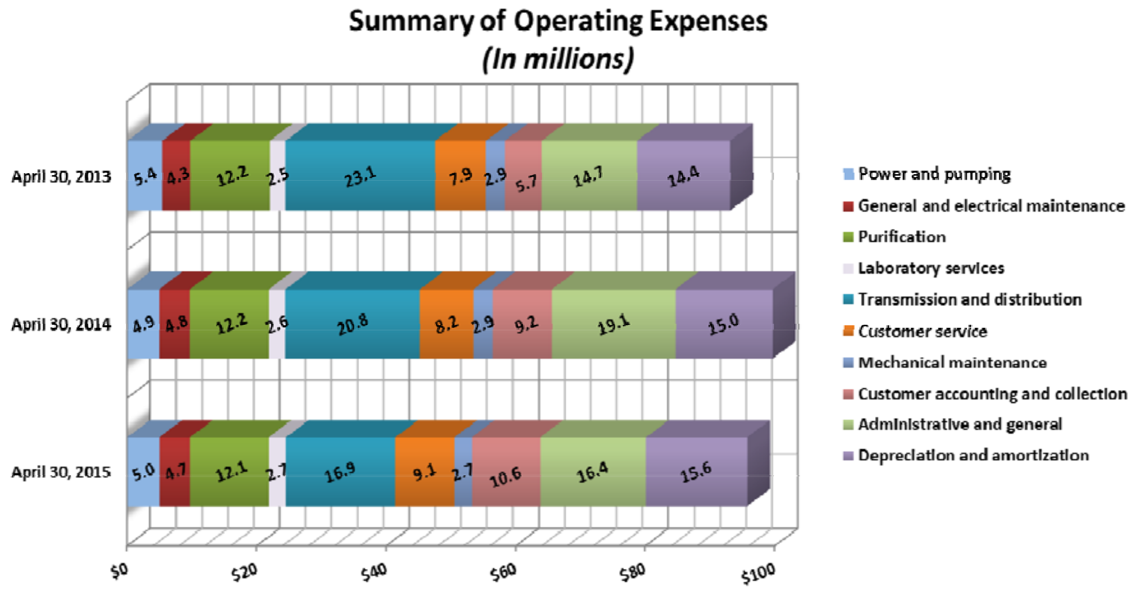
	Year Ended April 30		
	2015	2014	2013
Power and pumping	$ 4,958	$ 4,924	$ 5,392
General and electrical maintenance	4,733	4,758	4,347
Purification	12,141	12,159	12,246
Laboratory services	2,689	2,594	2,472
Transmission and distribution	16,869	20,757	23,062
Customer service	9,122	8,230	7,851
Mechanical maintenance	2,680	2,928	2,930
Customer accounting and collection	10,559	9,216	5,651
Administrative and general	16,353	19,057	14,749
Depreciation and amortization	15,616	15,024	14,375
Total operating expenses	$ 95,720	$ 99,647	$ 93,075

Total operating expenses decreased by $3.9 million or 3.9% over the previous year. As the result of decreased water sales, there was a corresponding decrease in operating costs, such as lower electric and gas usage. Although power and pumping expense increased by $.03 million or 0.7%, it was much less than projected. 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%. Several factors are reflected in the net decrease. A rainier summer season decreased peak water demands and increased the moisture content of the ground, resulting in fewer main breaks. Also, cost savings were realized in other areas of operations during the year.

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 and last year of implementing in the second year of a two-year period, a Customer Service Improvement Plan, change management practices, and software upgrades.

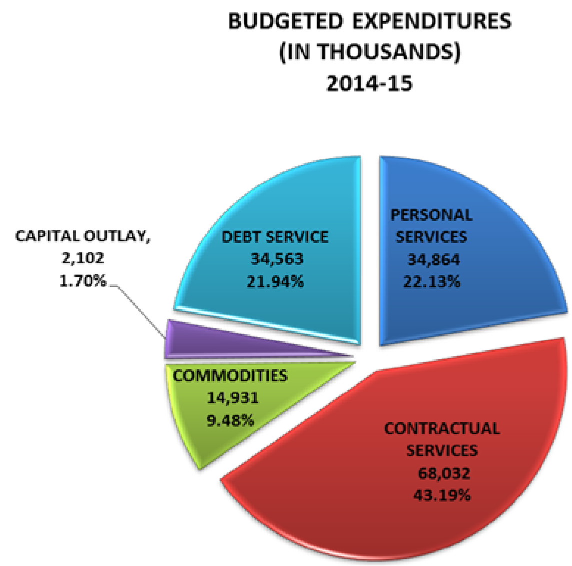
Administrative and general decreased by $2.7 million or 14.1%. This is mostly attributable to the $1.9 million decrease in settlement of claims. Additionally, the Fund’s share of the City’s General Liability Insurance decreased by $1.2 million or 58.5%. Pension and other post-employment benefits (OPEB) fell by 2.7%. Liabilities of the City for automotive, general and workers‘ compensation liabilities are based on an actuarial estimate and review of legal claims and worker’s compensation claims under the Self-Insurance Program. The resulting estimated liability for future claims is then allocated by the City to other funds. Depreciation and amortization increased by $0.6 million or 3.9% as anticipated by the ongoing capital improvement plan.

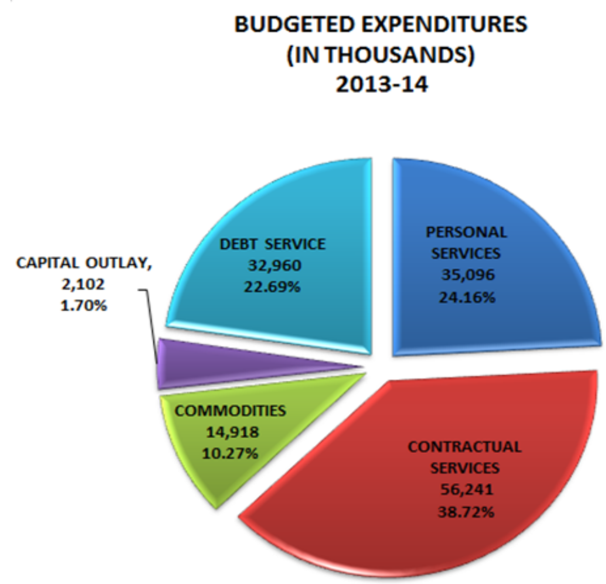


In FY2014, total operating expenses increased by $6.6 million or 7.0% over the previous year. As the result of decreased water consumption, there was also a decrease in operating costs, such as lower electric and gas power expense. Power and pumping expense decreased by $0.5 million or 8.7%. The cost of chemicals used in water treatment remained stable. Consequently, there was only a slight 0.7% decrease in purification expense. Transmission and distribution expense decreased by $2.3 million or 10.0%. Customer accounting and collection expense increased by $3.6 million or 63.1%, primarily due to the engagement of professionals who are implementing, over a two-year period, a Customer Service Improvement Plan, change management practices and software upgrades. Administrative and general increased by $4.3 million or 29.2%. The primary expense is attributable to the $3.0 million increase in settlement of claims.

Comparison of Budget to Actual Expenditures for FY 2015

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 $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.

At April 30, 2014, capital assets totaled $744.9 million (net of accumulated depreciation) and accounted for 76.9% of total assets at April 30, 2014. 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 $15.2 million were completed. They included $13.8 million of constructed water mains and related appurtenances, $0.2 million for pumping stations and equipment, and $1.2 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 $3.9 million. The increases in depreciable capital assets were offset by disposals and retirements of $3.6 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 and 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.

In addition, the Fund will have invested approximately $34.2 million over five years in a dedicated trenchless maintenance program. The extensive investment and the use of cost effective trenchless technologies will benefit both the utility and customers. Trenchless technologies include slip lining technique (new pipe of smaller diameter is inserted directly into the host pipe by pulling or pushing); directional drilling (horizontal, guided method of installing new small and medium sized pipes); and Cured-in-Place Pipe (CIPP).

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 or 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 2800-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 BRE score for each segment. Those segments with the highest business risk exposure 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, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 5,728,138	$ 3,865,509
Investments	5,476,116	11,273,433
Accounts receivable, net	18,331,213	16,698,051
Accrued interest receivable	194,088	200,045
Current portion of notes receivable	487,447	444,331
Inventories	2,541,885	2,365,392
Due from other funds	2,509,762	131,722
Total unrestricted current assets	35,268,649	34,978,483
Restricted assets		
Cash and cash equivalents	4,142,657	5,427,229
Investments	40,652,293	13,592,167
Accrued interest receivable	281,906	215,478
Total restricted current assets	45,076,856	19,234,874
Total current assets	80,345,505	54,213,357
Investments	99,552,512	78,641,152
Restricted assets - investments	116,073,373	81,995,567
Notes receivable	5,349,782	6,152,604
Prepaid bond insurance, net of accumulated amortization	2,165,947	2,289,129
Capital assets, depreciable, net	742,359,680	704,505,308
Capital assets, nondepreciable	85,810,651	40,349,955
Total assets	1,131,657,450	968,147,072
Deferred Outflows of Resources	3,332,372	3,948,946
Total assets and deferred outflows of resources	$ 1,134,989,822	$ 972,096,018

See Notes to Financial Statements

	2015	2014
Liabilities and Net Position		
Current liabilities		
Accounts payable	$ 14,955,901	$ 11,559,757
Current portion of compensated absences	765,657	756,231
Accrued payroll and related expenses	1,162,860	1,092,893
Contracts and retainage payable	330,793	334,202
Other liabilities	313,139	313,139
Current portion of due to other funds	399,381	494,319
Current portion of claims liability	2,408,188	2,115,022
Total current liabilities, less liabilities payable from restricted assets	20,335,919	16,665,563
Liabilities payable from restricted assets		
Accrued interest and fiscal agent fees	5,596,327	4,877,101
Current portion of revenue bonds and capital leases payable	18,839,461	19,052,596
Contracts and retainage payable	2,391,019	844,956
Customer deposits	2,371,952	1,812,141
Total liabilities payable from restricted assets	29,198,759	26,586,794
Total current liabilities	49,534,678	43,252,357
Claims liability	8,062,392	7,474,590
Compensated absences	2,638,882	2,586,986
Pension liability	4,301,357	4,706,461
Other post-employment benefit obligation	5,187,572	5,041,284
Revenue bonds and capital leases payable, net of current portion	388,450,333	285,893,794
Total liabilities	458,175,214	348,955,472
Net position		
Net investment in capital assets	552,399,594	513,054,370
Restricted-expendable	24,439,399	26,454,618
Unrestricted	99,975,615	83,631,558
Total net position	676,814,608	623,140,546
Total liabilities and net position	$ 1,134,989,822	$ 972,096,018

City of Kansas City, Missouri Water Fund

Statements of Revenues, Expenses and Changes in Net Position

Years Ended April 30, 2015 and 2014

	2015	2014
Operating Revenues		
Water sales	$ 141,805,902	$ 136,645,032
Other water revenue	3,363,610	3,132,691
Income from jobbing and contract work and miscellaneous revenues	5,133,697	4,459,597
Total operating revenues	150,303,209	144,237,320
Operating Expenses		
Power and pumping	4,958,291	4,924,274
General and electrical maintenance	4,733,179	4,758,471
Purification	12,141,165	12,159,176
Laboratory services	2,688,627	2,593,992
Transmission and distribution	16,869,006	20,756,589
Customer service	9,122,385	8,229,725
Mechanical maintenance	2,680,090	2,928,413
Customer accounting and collection	10,558,460	9,215,812
Administrative and general	16,352,602	19,056,962
Depreciation and amortization	15,616,130	15,024,352
Total operating expenses	95,719,935	99,647,766
Operating Income	54,583,274	44,589,554
Nonoperating Revenues (Expenses)		
Interest income	1,851,862	632,555
Interest expense and fiscal agent fees	(11,600,786)	(9,586,155)
Other	78,478	(7,312)
Total nonoperating expenses, net	(9,670,446)	(8,960,912)
Excess of Revenues Over Expenses Before Capital Contributions	44,912,828	35,628,642
Capital Contributions	8,761,234	2,138,215
Increase in Net Position	53,674,062	37,766,857
Net Position, Beginning of Year	623,140,546	585,373,689
Net Position, End of Year	$ 676,814,608	$ 623,140,546

City of Kansas City, Missouri Water Fund

Statements of Cash Flows

Years Ended April 30, 2015 and 2014

	2015	2014
Operating Activities		
Cash received from customers	$ 145,815,289	$ 139,333,874
Receipts from interfund services provided	3,536,529	3,251,539
Cash paid to employees, including benefits	(30,669,925)	(29,683,261)
Cash paid to suppliers	(43,772,925)	(43,340,850)
Cash paid for interfund services used	(6,295,727)	(5,670,991)
Net cash provided by operating activities	68,613,241	63,890,311
Noncapital Financing Activities		
Loan to Capital Improvements Fund	(2,500,000)	-
Net cash used in noncapital financing activities	(2,500,000)	-
Capital and Related Financing Activities		
Acquisition and construction of capital assets	(81,028,905)	(38,293,976)
Proceeds from issuance of revenue bonds and capital leases	122,254,714	-
Principal payments on revenue bonds and capital leases	(19,052,596)	(18,236,293)
Fiscal agent fees and interest paid on revenue bonds and capital leases	(14,367,702)	(12,030,401)
Proceeds from sale of capital assets	360,183	196,747
Proceeds from repayment of notes receivable	759,706	2,122,308
Net cash provided by (used in) capital and related financing activities	8,925,400	(66,241,615)
Investing Activities		
Investment purchases	(218,400,371)	(90,405,777)
Investment maturities and sales	142,502,723	88,396,778
Interest received on investments	1,437,064	1,320,685
Net cash used in investing activities	(74,460,584)	(688,314)
Net Increase (Decrease) in Cash and Cash Equivalents	578,057	(3,039,618)
Cash and Cash Equivalents, Beginning of Year	9,292,738	12,332,356
Cash and Cash Equivalents, End of Year	$ 9,870,795	$ 9,292,738

City of Kansas City, Missouri Water Fund

Statements of Cash Flows (Continued)

Years Ended April 30, 2015 and 2014

	2015	2014
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 54,583,274	$ 44,589,554
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	15,616,130	15,024,352
Changes in assets and liabilities		
Accounts receivable and special assessments receivable	(1,633,162)	(1,852,467)
Inventories	(176,493)	(304,496)
Due from other funds	121,960	(117,049)
Accounts payable	(1,116,782)	3,652,734
Compensated absences	61,322	119,858
Accrued payroll and related expenses	69,967	276,761
Other liabilities	-	(550,841)
Due to other funds	(94,938)	108,988
Claims liability	880,968	2,120,885
Customer deposits	559,811	317,609
Pension liability	(405,104)	203,553
Other post-employment benefit obligation	146,288	300,870
Total adjustments	14,029,967	19,300,757
Net cash provided by operating activities	$ 68,613,241	$ 63,890,311
Components of Cash and Cash Equivalents at End of Year		
Unrestricted	$ 5,728,138	$ 3,865,509
Restricted	4,142,657	5,427,229
	$ 9,870,795	$ 9,292,738
Noncash Activities		
Contributions of capital assets	$ 8,761,234	$ 2,138,215
Change in fair value of investments	354,327	(670,810)

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

Nature of Operations and Reporting Entity

The City of Kansas City, Missouri Water Fund (the Water Fund) is a fund of the City of Kansas City, Missouri (the City) and is operated by the Water Services Department. The financial statements present only the Water Fund and are not intended to present fairly the financial position of the City, and the respective changes in its financial position and cash flows as of April 30, 2015 and 2014, 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 non-exchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated non-exchange 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.

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, 2015 and 2014 totaled $3,244,002 and $2,696,079, 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, 2015 and 2014, the Fund's deferred outflows of resources of $3,332,372 and $3,948,946, respectively, were comprised of deferred losses on bond refunding.

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.

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. 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.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on net earnings.

New Accounting Pronouncements Not Adopted

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB Statement No. 68). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions 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 pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The Fund will implement GASB Statement No. 68 beginning with the year ending April 30, 2016.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB Statement No. 71). The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The Fund will implement GASB Statement No. 71 beginning with the year ending April 30, 2016.

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. As of April 30, 2015 and 2014, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately $42,900,000 and $28,200,000, 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 $7,938,828 and $5,229,349 at April 30, 2015 and 2014, 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, 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 the securities are held by the Water Fund or its agent in the Water Fund's name or under joint agreements. Restricted assets held by the trustee were $1,931,967 at April 30, 2015 and consisted primarily of money market funds.

As of April 30, 2014, the City had the following investments and maturities (amounts are in thousands):

Investment Type	Fair Value	Investment Maturities (in Years): Less Than 1	1 – 2	2 – 3	3 – 5	Weighted Average
Pooled investments						
U.S. Treasury notes/bonds	$ 161,886	$ 60,679	$ 71,079	$ 10,059	$ 20,069	1.61
U.S. agency discounts	14,996	14,996	-	-	-	0.41
U.S. agencies – noncallable	317,430	54,007	76,647	69,228	117,548	2.29
U.S. agencies – callable	195,567	88,402	10,947	4,995	91,223	2.30
Total pooled	689,879	218,084	158,673	84,282	228,840	2.09
Non-pooled investments						
U.S. Treasury notes/bonds	48,322	32,055	16,267	-	-	0.84
U.S. agencies – noncallable	112,891	71,245	16,743	12,971	11,932	1.12
U.S. agencies – callable	32,755	12,120	9,010	4,997	6,628	1.72
Total non-pooled	193,968	115,420	42,020	17,968	18,560	1.15
	$ 883,847	$ 333,504	$ 200,693	$ 102,250	$ 247,400	1.88

The Water Fund's allocation of pooled investments at April 30, 2014 was $126,533,143. The Water Fund's non-pooled investments at April 30, 2014 were $59,168,312.

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 $3,864,253 at April 30, 2014, 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, 2015 and 2014, the total fair value of the City's callable bond portfolio (pooled and non-pooled) is $212,300,603 and $228,322,207, 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, 2015, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard & Poor's (amounts are in thousands):

	Fair Value	Moody's/ S&P Ratings
U.S. Treasury securities	$ 217,421	Aaa/AA+
U.S. agency securities	762,927	Aaa/AA+
	$ 980,348	

As of April 30, 2014, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard & Poor's (amounts are in thousands):

	Fair Value	Moody's/ S&P Ratings
U.S. Treasury securities	$ 210,208	Aaa/AA+
U.S. agency securities	673,639	Aaa/AA+
	$ 883,847	

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, 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. As of April 30, 2014, all deposits were adequately and fully collateralized.

The City's investment policy required that all investment securities be held in the City's name in the City's safekeeping account at its safekeeping institution, thereby mitigating custodial credit risk. As of April 30, 2015 and 2014, 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, 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.

At April 30, 2014, more than five percent of the City's investments are in the following U.S. agency discount note/securities: Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 10%, 19%, 13% and 32%, 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, 2015 and 2014:

	2015	2014
Deposits	$ 7,938,828	$ 5,229,349
Pooled investments	145,614,590	126,533,143
Non-pooled investments	116,139,704	59,168,312
Trustee accounts	1,931,967	3,864,253
Total	$ 271,625,089	$ 194,795,057

The deposits and investments of the Water Fund at April 30, 2015 and 2014 are reflected in the statements of net position as follows:

	2015	2014
Current assets		
Unrestricted		
Cash and cash equivalents	$ 5,728,138	$ 3,865,509
Investments	5,476,116	11,273,433
Restricted		
Cash and cash equivalents	4,142,657	5,427,229
Investments	40,652,293	13,592,167
Investments	99,552,512	78,641,152
Restricted investments	116,073,373	81,995,567
Total	$ 271,625,089	$ 194,795,057

Note 3: Accounts Receivable

A summary of accounts receivable at April 30, 2015 and 2014 is as follows:

	2015	2014
Water customers	$ 22,193,274	$ 20,136,988
Unbilled utility revenue	8,128,886	7,692,033
	30,322,160	27,829,021
Less allowance for doubtful accounts	11,990,947	11,130,970
Net accounts receivable	$ 18,331,213	$ 16,698,051

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, 2015 and 2014:

Customer	Interest Rates	Loan Completion Date	2015	2014
Dogwood Energy	5.565%	February 2023	$ 2,190,943	$ 2,366,400
Platte County PWSD #2	4.126	April 2026	275,598	295,001
City of Dearborn	4.126	April 2026	284,273	489,209
Cass County PWSD #3	4.394	January 2028	114,044	119,992
Jackson County PWSD #12	5.565	March 2029	-	189,022
City of Harrisonville	4.238	March 2028	2,318,269	2,451,454
Cass County PWSD #10	4.238	November 2029	654,102	685,857
			5,837,229	6,596,935
Less current portion			(487,447)	(444,331)
Noncurrent portion			$ 5,349,782	$ 6,152,604

Note 5: Capital Assets

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

Capital asset activity for the year ended April 30, 2014 is as follows:

	May 1, 2013	Additions	Retirements/ Adjustments	April 30, 2014
Depreciable assets				
Buildings	$ 171,876,753	$ 1,511,361	$ (679,083)	$ 172,709,031
Utility lines and improvements	647,810,933	18,291,010	(664,798)	665,437,145
Machinery and equipment	53,229,046	5,532,276	(2,284,442)	56,476,880
Total depreciable assets	872,916,732	25,334,647	(3,628,323)	894,623,056
Accumulated depreciation				
Buildings	(77,447,847)	(2,260,802)	679,083	(79,029,566)
Utility lines and improvements	(74,548,486)	(9,431,533)	664,798	(83,315,221)
Machinery and equipment	(26,595,747)	(3,208,837)	2,031,623	(27,772,961)
Total accumulated depreciation	(178,592,080)	(14,901,172)	3,375,504	(190,117,748)
Total depreciable assets, net	694,324,652	10,433,475	(252,819)	704,505,308
Nondepreciable assets				
Land and permanent right of ways	4,078,958	666	-	4,079,624
Construction in process	17,572,620	36,179,552	(17,481,841)	36,270,331
Total nondepreciable assets	21,651,578	36,180,218	(17,481,841)	40,349,955
Capital assets, net	$ 715,976,230	$ 46,613,693	$ (17,734,660)	$ 744,855,263

Note 6: Revenue Bonds, Capital Leases and Restricted Assets

Revenue bonds and capital leases outstanding consist of the following issues at April 30, 2015 and 2014:

Issue	Interest Rates	Maturity Through	2015	2014
2008 Series A	4.66%	December 2027	$ 27,080,000	$ 28,570,000
2009 Series A	2.00 - 5.25%	December 2032	128,715,000	141,205,000
2012 Series A	1.00 - 5.00%	December 2036	43,460,000	44,780,000
2013 Series A	2.00 - 4.00%	December 2037	54,000,000	54,000,000
2014 Series A	2.00 - 5.00%	December 2038	54,365,000	-
2015 Series A	3.25 - 5.00%	December 2039	59,790,000	-
AMR Capital Lease-2008	3.44%	December 2017	3,700,159	5,002,639
AMR Capital Lease-2009	4.06%	December 2019	12,843,545	15,293,661
			383,953,704	288,851,300
Add premiums			23,716,521	16,232,815
Less				
Current portion			(18,839,461)	(19,052,596)
Discount			(380,431)	(137,725)
Noncurrent revenue bonds and capital leases payable			$ 388,450,333	$ 285,893,794

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

Changes in revenue bonds and capital leases payable during the year ended April 30, 2014 are as follows:

	May 1, 2013	Additions	Reductions	April 30, 2014
Revenue bonds and capital leases	$ 307,087,593	$ -	$ (18,236,293)	$ 288,851,300
Less				
Unamortized bond discount	(143,702)	-	5,977	(137,725)
Add				
Unamortized bond premium	17,013,854	-	(781,039)	16,232,815
Total revenue bonds and notes payable	$ 323,957,745	$ -	$ (19,011,355)	$ 304,946,390

The annual requirements to retire the bonds and capital leases outstanding as of April 30, 2015 are as follows:

Year Ending April 30	Principal	Interest	Total
2016	$ 18,839,461	$ 15,080,015	$ 33,919,476
2017	20,537,109	15,304,958	35,842,067
2018	20,903,960	14,451,246	35,355,206
2019	20,776,357	13,606,647	34,383,004
2020	20,596,817	12,754,049	33,350,866
2021 – 2025	93,335,000	51,410,131	144,745,131
2026 – 2030	72,330,000	32,678,900	105,008,900
2031 – 2035	69,275,000	17,246,956	86,521,956
2036 – 2040	47,360,000	4,549,663	51,909,663
	$ 383,953,704	$ 177,082,565	$ 561,036,269

The amount of outstanding advance refunding of insubstance defeased debt as of April 30, 2015 and 2014 was a total of $42,810,000 and $45,275,000, 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, 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, 2015. 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, 2015 and 2014, 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 2015 and 2014 as follows:

	2015	2014
Principal and interest	$ 11,842,571	$ 11,275,992
Construction	130,903,511	72,104,312
Renewal and replacement	16,028,038	16,034,130
Customer deposits	2,376,109	1,816,007
	$161,150,229	$101,230,441

Note 7: Pledged Revenues

The City has pledged revenues of the Water Fund, net of specified operating expenses, to repay $383,953,704 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 21% of net revenues on average over the next 24 years. The total principal and interest remaining to be paid on the bonds and capital leases is $561,036,269. Principal and interest paid for the year ended April 30, 2015 and total net revenues were $32,458,424 and $76,773,926, respectively.

Note 8: Due to/from Other Funds

Amounts due to/from other funds at April 30, 2015 and 2014 were as follows:

	2015		2014	
	Due from	Due to	Due from	Due to
Sewer fund	$ -	$ 14,381	$ 131,722	$ 109,319
General fund	9,762	385,000	-	385,000
Capital Improvements Fund	2,500,000	-	-	-
	$ 2,509,762	$ 399,381	$ 131,722	$ 494,319

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.

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 is to be 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, 2015 and 2014 are presented as administrative and general expenses and are as follows:

	2015	2014
Administrative, data processing and accounting	$ 5,415,392	$ 4,798,283

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 $3,358,859 and $3,115,782 for these services for the years ended April 30, 2015 and 2014, respectively.

Note 10: Employee Retirement Plan

The City sponsors a contributory, single-employer, defined benefit pension plan, The Employees' Retirement System (the Plan), covering substantially all employees of the Water Fund. Contributions to the Plan are made by the City and covered employees. The contributions are calculated to fund normal cost and amortization of unfunded prior service costs. The City receives an annual actuarial report on the actuarial accrued liability and fiduciary net position restricted for pensions.

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.

At May 1, 2013, the actuarial accrued liability of the Plan was approximately $1,115,165,000, and the actuarial value of assets of the Plan was approximately $900,062,000; 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 $39,112,000 to each participating fund. The Water Fund's allocation was approximately $4,706,000 as of April 30, 2014. Contributions to the Plan made by the Water Fund during the year ended April 30, 2014 were approximately $3,506,000.

A stand-alone financial report is issued for the Plan. The report may be obtained by writing to:

The Retirement Division of the
City of Kansas City, Missouri
12th Floor, City Hall
414 East 12th Street
Kansas City, Missouri 64106

or by calling 816.513.1928.

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 Post-Employment Benefits

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* (GASB 45), other post-employment benefits (OPEB) are recorded in the financial statements as non-current liabilities on the statements of net 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, 2015 is as follows:

	City	Fund
Annual required contribution (ARC)	$ 9,736,738	$ 748,992
Interest on net OPEB obligation	3,011,751	226,858
Adjustment to annual required contribution	(4,019,035)	(302,731)
Annual OPEB cost (expense)	8,729,454	673,119
Contributions made (employer)	(6,848,686)	(526,830)
Change in net OPEB obligation	1,880,768	146,289
Net OPEB obligation, April 30, 2014	66,927,791	5,041,283
Net OPEB obligation, April 30, 2015	$ 68,808,559	$ 5,187,572

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 2015 and 2014 overall net OPEB obligation of approximately $68,809,000 and $66,928,000, respectively, to each participating fund. For the years ended April 30, 2015 and 2014, the Water Fund's allocation was approximately $5,188,000 and $5,041,000, respectively.

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

Actuarial Methods and Assumptions

Projections of benefits for financial reporting are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the 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, 2015 and 2014, the City had made purchase commitments, primarily for additions to utility lines and improvements on behalf of the Water Fund of approximately $56,208,000 and $42,824,000, 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 $2,700,000 retention and a $5,000,000 loss limit. Current sovereign tort immunity statutes and law limit general liability and automobile claim exposure to a maximum of $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, 2015 and 2014 is summarized as follows:

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

Note 14: Net Position

Net investment in capital assets is comprised of the following:

	2015	2014
Capital Related Assets		
Land	$ 4,089,224	$ 4,079,624
Construction in progress	81,721,427	36,270,331
Buildings	171,884,881	172,709,031
Utility line and improvements	706,386,816	665,437,145
Machinery and equipment	63,040,126	56,476,880
	1,027,122,474	934,973,011
Less accumulated depreciation	(198,952,143)	(190,117,748)
Capital assets, net	828,170,331	744,855,263
Prepaid bond insurance, net	2,165,947	2,289,129
Total capital related assets	830,336,278	747,144,392
Deferred outflows of resources	3,332,372	3,948,946
Less Related Liabilities		
Current portion, bonds and capital leases payable	18,839,461	19,052,596
Bonds and capital leases payable, net of premium, discount and unspent proceeds	259,707,783	217,807,214
Contracts and retainages payable	2,721,812	1,179,158
Total capital related liabilities	281,269,056	238,038,968
Net investment in capital assets	$ 552,399,594	$ 513,054,370

Restricted net position at April 30, 2015 and 2014 are as follows:

	2015	2014
Restricted-Expendable Assets		
Cash and cash equivalents	$ 4,142,657	$ 5,427,229
Investments	156,725,666	95,587,734
Interest receivable	281,906	215,478
	161,150,229	101,230,441
Less Liabilities from Restricted Assets		
Debt related to unspent bond proceeds	128,742,551	68,086,581
Accrued interest and fiscal agent fees	5,596,327	4,877,101
Customer deposits	2,371,952	1,812,141
	136,710,830	74,775,823
Restricted-Expendable Net Position	$ 24,439,399	$ 26,454,618