

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

Independent Auditor's Reports and Financial Statements

April 30, 2013 and 2012



**City of Kansas City, Missouri Sewer Fund**  
**April 30, 2013 and 2012**

**Contents**

<b>Independent Auditor's Report.....</b>	<b>1</b>
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<b>Management's Discussion and Analysis .....</b>	<b>3</b>
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**Basic Financial Statements**

Statements of Net Position .....	17
Statements of Revenues, Expenses and Changes in Net Position .....	18
Statements of Cash Flows .....	19
Notes to Financial Statements .....	21

**Supplementary Information**

Combining Schedule of Revenues, Expenses and Changes in Net Position .....	43
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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 basic financial statements, which are comprised of the statements of net position as of April 30, 2013 and 2012, and the statements of revenues, expenses and changes in net position and of 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 Sewer Fund (the Sewer 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 Sewer Fund as of April 30, 2013 and 2012, 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 Sewer 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, 2013 and 2012, 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.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kansas City, Missouri Sewer Fund's basic financial statements. The combining schedule of revenues, expenses and changes in net position listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

***BKD, LLP***

Kansas City, Missouri  
October 31, 2013

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

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

### **Years Ended April 30, 2013 and 2012**

Management's discussion and analysis (MD&A) of the City of Kansas City, Missouri's Sewer 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, 2013 and April 30, 2012, with selected comparative information for the fiscal year ended April 30, 2011. The Fund is an enterprise fund of the City of Kansas City, Missouri (the City) and is supported entirely by sewer service fees collected from residential, business and inter-jurisdictional agreement customers. The Fund is responsible for the operation and maintenance of stormwater management and control systems, and wastewater collection and processing 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, 2013 and April 30, 2012. The City combines the wastewater and stormwater operations into one set of financial statements.

#### ***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 storm sewers, sanitary sewers, pumping stations and treatment plants. Capital assets, except land, are depreciated over their estimated useful lives. Major outlays for capital improvements are capitalized as projects are constructed. Capital assets not completed by year-end have been reported as construction-in-progress. (See the notes to the financial statements for significant accounting policies).

The statements of net position present information about the Fund's assets and liabilities, with the difference between the two 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 on the statements.

## Financial Position and Assessment

### Summary of Net Position

(In thousands)

	April 30		
	2013	2012	2011
<b>Assets</b>			
Current assets - unrestricted	\$ 40,487	\$ 34,378	\$ 27,394
Current assets - restricted	44,178	39,980	12,897
Noncurrent investments - unrestricted	73,340	59,185	45,528
Noncurrent investments - restricted	117,691	98,119	55,389
Capital assets	868,287	803,390	771,030
Other assets	3,210	2,876	2,514
Total assets	<u>\$ 1,147,193</u>	<u>\$ 1,037,928</u>	<u>\$ 914,752</u>
<b>Liabilities</b>			
Current liabilities	\$ 13,457	\$ 8,042	\$ 7,010
Liabilities payable from restricted assets	26,132	21,683	18,306
Long-term liabilities	354,124	297,528	220,056
Total liabilities	<u>393,713</u>	<u>327,253</u>	<u>245,372</u>
<b>Net Position</b>			
Net investment in capital assets	654,768	629,444	608,274
Restricted-expendable	11,664	7,815	7,465
Unrestricted	87,048	73,416	53,641
Total net position	<u>753,480</u>	<u>710,675</u>	<u>669,380</u>
Total liabilities and net position	<u>\$ 1,147,193</u>	<u>\$ 1,037,928</u>	<u>\$ 914,752</u>

Total assets increased by \$109.3 million or 10.5% from the prior year. Greater inflows of cash were generated from bond proceeds and increased sewer service fees. Accordingly, cash, cash equivalents, and investments accounted for most of the 17.8% increase in unrestricted current assets and the 10.5% increase in restricted current assets. Similarly, investments accounted for most of the 23.9% increase in unrestricted noncurrent assets and 19.9% increase in restricted noncurrent assets. Capital assets increased by \$64.9 million or 8.1% as we expected from the ongoing capital improvements program.

Total liabilities increased by \$66.5 million or 20.3%. During the year, the City issued \$78.7 million of Sanitary Sewer System Improvement and Refunding Revenue Bonds, Series 2012A the proceeds from which refunded \$9.9 million of outstanding Series 2004A revenue bonds for expected interest cost savings. The remaining new money of \$68.8 million will fund treatment plant, pumping station, and stormwater drainage improvements. The increase in debt was partially offset by the scheduled retirement of \$16.0 million of other sewer revenue bonds, and the \$1.7 million retirement of Series 2004A revenue bonds using the unspent bond proceeds from that series. Additionally, contract retainage payable increased twofold or \$1.8 million as the result of increased construction activity. Claims liability also increased by \$1.3 million.

At the close of the year, total assets exceeded total liabilities resulting in net position of \$753.5 million. Of this amount, \$87.0 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 \$42.8 million or 6.0% from the previous year indicating that the Fund improved its financial position. The largest portion of net position, \$654.8 million or 86.9%, consists of investment in capital assets (e.g., land, buildings, treatment facilities, sewer and stormwater 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 stormwater and wastewater systems.

In FY 2012, total assets increased by \$123.2 million or 13.5% from the prior year. Greater inflows of cash were generated from bond proceeds and increased sewer service fees. Accordingly, cash, cash equivalents and investments accounted for most of the 25.5% increase in unrestricted current assets and the twofold increase in restricted current assets. Similarly, investments accounted for most of the 30.0% increase in unrestricted noncurrent assets and 77.1% increase in restricted noncurrent assets. Capital assets increased by \$32.4 million or 4.2% as expected from the ongoing capital improvements program.

Total liabilities increased by \$81.9 million or 33.4%. During the year, the City issued \$89.2 million of Sewer Revenue Bonds, Series 2011A, the proceeds from which refunded \$7.5 million of outstanding maturities of the City's 2002D-1 bonds and will finance treatment plant disinfection, force mains and interceptor improvements. Additionally, the Fund received \$4.3 million from the State of Missouri Department Direct Loan Program – ARRA, the proceeds of which will finance the acquisition, construction, improvement and equipping of wastewater facilities. The increase in debt was offset by the scheduled \$14.6 million retirement of other sewer revenue bonds. The pension liability increased by \$0.8 million and other post-employment benefits liability increased by \$0.3 million. Claims liability decreased by \$1.7 million. Increased construction activity was accompanied by a \$0.6 million increase in contract retainage payable.

At the close of FY 2012, total assets exceeded total liabilities resulting in net assets of \$710.7 million. Of this amount, \$73.4 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 \$41.3 million or 6.2% from the previous year indicating that the Fund improved its financial position. The largest portion of net position, \$629.4 million or 88.6%, consists of investment in capital assets (e.g., land, buildings, treatment facilities, sewer and stormwater 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 stormwater and wastewater systems.

### **Summary of Revenues, Expenses and Changes in Fund Net Position**

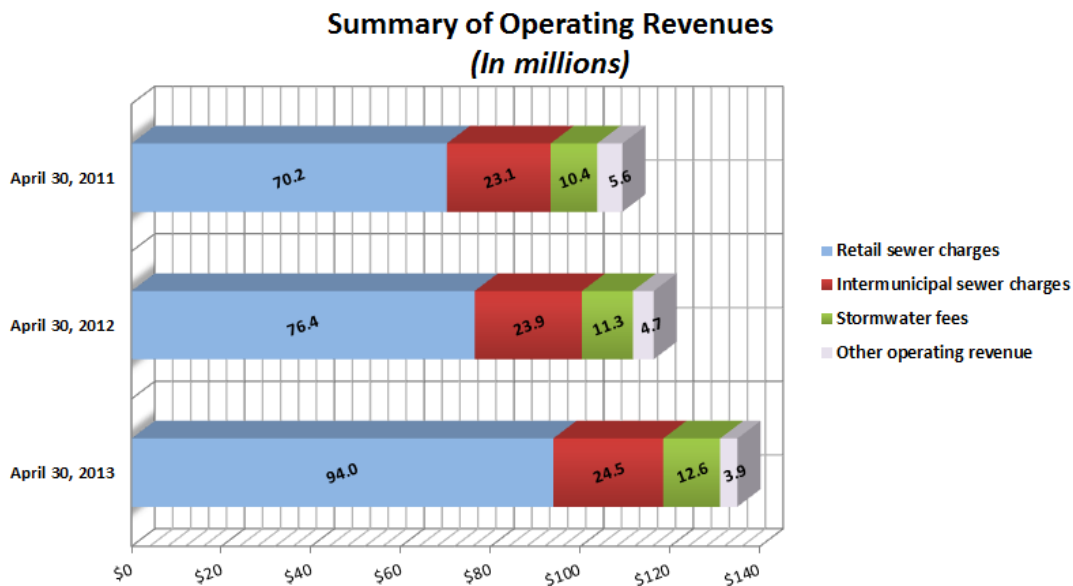
*(In thousands)*

	<b>Year Ended April 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Operating revenues	\$ 134,982	\$ 116,332	\$ 109,367
Operating expenses	<u>(93,235)</u>	<u>(86,210)</u>	<u>(81,150)</u>
Operating income	41,747	30,122	28,217
Nonoperating expenses, net	<u>(4,635)</u>	<u>(3,157)</u>	<u>(3,616)</u>
Net income before capital contributions	37,112	26,965	24,601
Capital contributions	<u>5,693</u>	<u>14,330</u>	<u>17,226</u>
Change in net position	42,805	41,295	41,827
Total net position - beginning of the year	<u>710,675</u>	<u>669,380</u>	<u>627,553</u>
Total net position - end of the year	<u><u>\$ 753,480</u></u>	<u><u>\$ 710,675</u></u>	<u><u>\$ 669,380</u></u>

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

	Year Ended April 30		
	2013	2012	2011
Retail sewer charges	\$ 93,951	\$ 76,449	\$ 70,226
Intermunicipal sewer charges	24,508	23,925	23,124
Stormwater fees	12,649	11,307	10,380
Other operating revenue	3,874	4,651	5,637
Total operating revenues	<u>\$ 134,982</u>	<u>\$ 116,332</u>	<u>\$ 109,367</u>

Total operating revenues increased by \$18.7 million or 16.0% in FY 2013. The increase was attributable mostly to the scheduled 17% sewer rate increase in effect all year. Additional sales, net of bad debt expense, to residential and commercial retail customers contributed \$17.5 million to operating revenues. Other operating revenue consists primarily of forfeitures and penalties, rentals of equipment, miscellaneous facilities, and parking lots. Other operating revenue declined, as in the prior year, by approximately \$0.8 million or 16.7%.



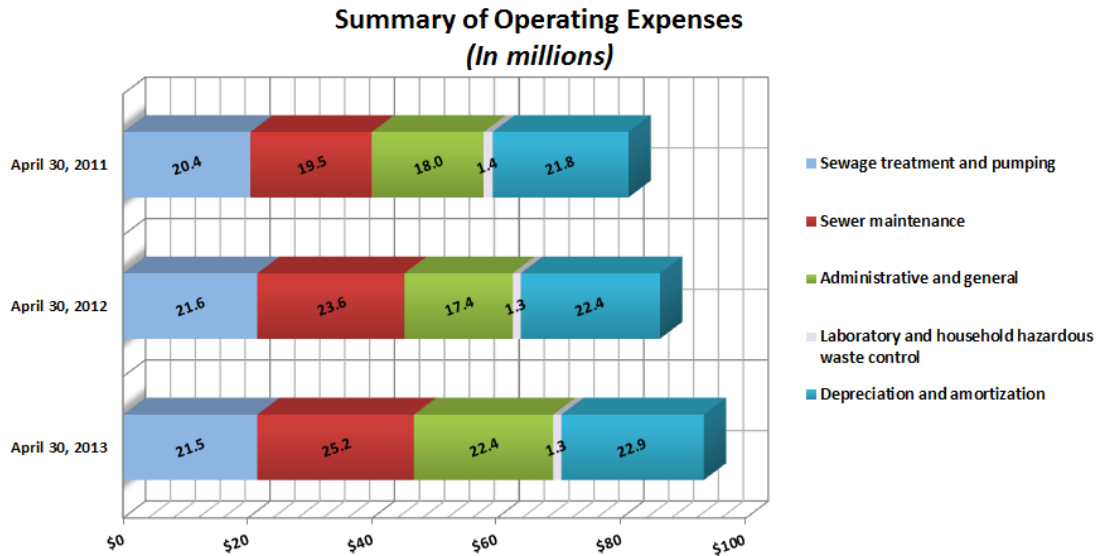
In FY 2012, total operating revenues increased by \$7.0 million or 6.4%. Additional sales of \$6.2 million to residential and commercial retail customers, reduced by bad debt expense, was mostly attributable to the scheduled 15% sewer rate increase during the year. Other operating revenue consists primarily of the annual contribution to the automotive equipment replacement fund, forfeitures and penalties, rentals of miscellaneous facilities, and parking lots. Other operating revenue decreased revenue by approximately \$1.0 million or 17.5%.



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

	Year Ended April 30		
	2013	2012	2011
Sewage treatment and pumping	\$ 21,530	\$ 21,568	\$ 20,449
Sewer maintenance	25,170	23,595	19,493
Administrative and general	22,351	17,402	17,964
Industrial and household hazardous waste control	1,318	1,269	1,423
Depreciation and amortization	22,866	22,376	21,821
Total operating expenses	<u>\$ 93,235</u>	<u>\$ 86,210</u>	<u>\$ 81,150</u>

Total operating expenses increased by \$7.0 million or 8.1% in FY 2013 over the previous year. The most significant component was the \$4.9 million increase in administrative and general expenses. The Fund continues investing in sewer system improvements in order to comply with the Overflow Control Program (OCP) as mandated by the Environmental Protection Agency (EPA). Accordingly, the expense incurred for professional engineering, architecture, and consulting firms increased by \$1.8 million. In addition, the Fund's share of the City's General Liability Insurance increased by \$2.9 million. 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.

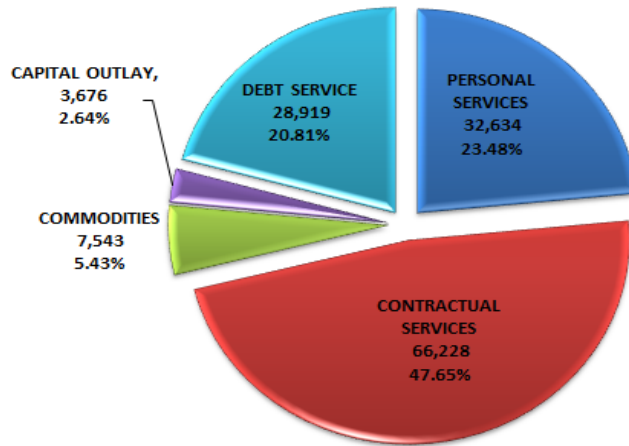


In FY 2012, total operating expenses increased by \$5.1 million or 6.2% over the previous year. The most significant component of the increase or \$4.1 million is attributable to aggressive sewer maintenance activities. Projects continue to make sewer system improvements in order to comply with the Overflow Control Plan (OCP) as mandated by the Environmental Protection Agency (EPA). Accordingly, the expense to repair sewer lines, streets, and sidewalks increased by \$2.4 million. Supplemental workforce contracts to perform sewer main repairs, replacements, cleaning and inspections increased by \$0.4 million. Other operating materials and supplies increased by \$0.5 million. The 4.5% increase in personnel expense is primarily due to statutory pay adjustments made pursuant to the Memorandum of Understanding between local unions and the City.

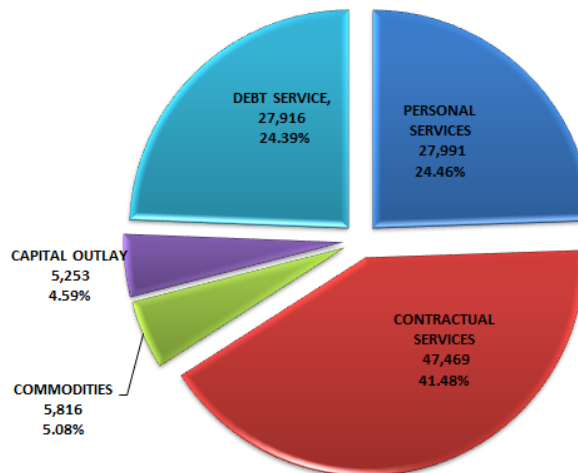
### Comparison of Budget to Actual Expenditures for FY 2013

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

**BUDGETED EXPENDITURES  
(IN THOUSANDS)  
2012-13**



**ACTUAL EXPENDITURES  
(IN THOUSANDS)  
2012-13**



## ***Capital Assets***

Capital assets totaled \$868.3 million (net of accumulated depreciation) and accounted for 75.7% of total assets at April 30, 2013. Construction activities continue to correct deficiencies in the City's wastewater system and comply with the Federal Consent Decree to reduce pollutants discharged into streams and waterways. See additional discussion of the Overflow Control Program (OCP) in the next section.

During the year, projects totaling \$47.2 million were completed. The investment in infrastructure included \$12.4 million for sanitary sewer rehabilitation and replacement, \$5.1 million for storm sewer improvements, \$29.3 million for treatment plant upgrades and \$0.2 million for pumping stations and equipment. In addition to completed projects, there was \$2.3 million in contributed assets from property developers, and \$2.4 million of assets transferred from Public Works. Additions and replacements of machinery and equipment totaled \$6.1 million. The increases in depreciable capital assets were offset by disposals and retirements of \$5.6 million.

Capital assets totaled \$803.4 million (net of accumulated depreciation) and accounted for 77.4% of total assets at April 30, 2012. Construction activities continue to correct deficiencies in the City's wastewater system and comply with the Federal Consent Decree to reduce pollutants discharged into streams and waterways. See additional discussion of the Overflow Control Program (OCP) in the next section.

During the year, projects totaling \$37.5 million were completed. They included \$30.3 million for sanitary sewer rehabilitation or replacement and storm sewer improvements, \$5.7 million for treatment plant upgrades, and \$0.9 million for pumping stations and equipment. In addition to completed projects, there was \$12.1 million in contributed assets from property developers and \$2.0 million of assets transferred from Public Works. Additions and replacements of machinery and equipment totaled \$52.0 million. The increases in depreciable capital assets were offset by disposals and retirements of \$5.7 million.

## ***Capital Improvement Projects***

The Overflow Control Program (OCP) was developed to meet regulatory requirements set forth by the Environmental Protection Agency and the Missouri Department of Natural Resources. The regulations require minimizing overflows from the combined sewer system and preventing overflows from the separate sanitary sewer system. The Fund will have invested approximately \$600 million over five years in capital improvement projects. Of this amount, \$362 million is committed to the 25-year federally mandated OCP. A few of the projects include:

- **Blue River Wastewater Treatment Plant Disinfection.** It is the last and largest disinfection project at the six treatment plants. Once completed, the Fund will have invested \$96 million in disinfection improvements. The investment of \$48 million in Blue River Wastewater Treatment Plant will ensure that pollutants' flowing out of the plant, or the effluent, is disinfected before its release back into the watershed, i.e., the land area that drains into a body of water.

**Construction of the Chemical Transfer Building (Left) and the Chemical Storage Building (Right)**



**Blue River: Connection of the New 96" Effluent Discharge Line to Clarifier No. 4**





- Rocky Branch Wastewater Treatment Plant. An ultraviolet (UV) disinfection facility was constructed at the discharge from the existing, extended-aeration, activated sludge plant. The new facility consists of two channels with three vertical UV lamp banks in each channel. Each lamp bank consists of 40 lamps that can disinfect an average flow of two million gallons per day (mgd) up to a maximum daily flow of 9.2 mgd.

**Rocky Branch Disinfection Site Prior to Construction**



**Completed Rocky Branch Disinfection Facility**



- Westside Wastewater Treatment Plant. The plant located at 1849 Woodwether Road includes construction of disinfection facilities. The approximate cost of construction including design professional services is approximately \$12 million.

**Site condition before construction of the Westside Disinfection Basin and Chemical Building**



**Westside Disinfection Basin with new concrete channels, slide gates and actuators, walkways, wastewater sampler, lighting, and guard railing**





- **Northland Sewer Expansion.** The continued growth of the northland necessitates expansion of the sewer system. The \$26 million investment to construct interceptor sewers in the First and Second Creek watersheds will add approximately 12,000 acres for new development in the area. In addition to sewers, pumping stations will be constructed at the two locations to transport wastewater to a treatment plant.
- **Kansas City Neighborhood Sewer Rehabilitation.** Miles of sewer lines across 14 basins, or the area of land drained by a river and its branches, will undergo televised inspections in order to evaluate their vulnerabilities and target repair needs. An investment of approximately \$90 million and the use of Cured-in-Place Pipe (CIPP) technology will enable the rehabilitation program to extend the life of the sewer system.
- **Additional Green Infrastructure.** The Fund will invest approximately \$40 million in additional green infrastructure projects to capture stormwater before it enters the combined sewer system. Green infrastructure includes some esthetic benefits, such as rain gardens, stair-stepped gardens, landscaped curb extensions and porous pavement that would upgrade certain neglected neighborhoods.

**Curb Extension w/Rain Gardens at 75th Terrace and Lydia (looking south)**



**Curb Extension w/Rain Gardens at 75th Terrace and Lydia (looking west)**





## ***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. Wastewater revenue bond proceeds are used to finance improvements to the stormwater management and control systems, and wastewater collection and processing systems. The Fund's outstanding debt is aligned in such a manner to meet the most stringent debt service requirements. In addition, wastewater system net revenues secure outstanding bonds.

Moody's Investors Service has assigned a rating of Aa2 to the City's \$78.7 million outstanding of Sanitary Sewer System Improvement and Refunding Revenue Bonds, Series 2012A issued in December 2012. Concurrently, Moody's has affirmed the Aa2 rating on other junior lien revenue debt outstanding including the Series 2004A, 2005B, 2007A, 2009A and 2011A Bonds. The 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
- Moderate debt levels with future borrowing expected
- Adequate legal protections for bondholders

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

Standard & Poor's Ratings Services has assigned a rating of AA to the City's Sanitary Sewer System Improvement and Refunding Revenue Bonds, Series 2012A issued in December 2012. The rating affirmation also applies to the City's previously issued sanitary sewer revenue-backed bonds. The rating reflects the:

- Stable and diverse service area economy
- Strong financial management
- Historically strong debt service coverage with timely rate increases

In August 2012, citizens voted to authorize \$500 million in additional sewer revenue bonds. Following the Series 2012A bond issue, the City will have approximately \$473.1 million remaining from its original bond authorization. The City next plans to issue about \$110 million from the authorization sometime during fiscal 2014.

The Fund has the right under 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 bond ordinances. The Fund is required to meet an earnings test before issuing any additional bonds on parity with existing debt. See the 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 overview 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

## Statements of Net Position

	2013	2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,815,365	\$ 4,249,664
Investments	15,809,994	12,053,129
Accounts receivable, net	18,077,911	17,419,867
Accrued interest receivable	265,424	244,685
Inventories	462,399	401,490
Due from other funds	55,858	8,765
	<u>40,486,951</u>	<u>34,377,600</u>
Total unrestricted current assets		
Restricted assets		
Cash and cash equivalents	8,452,572	8,916,084
Investments	35,275,221	30,618,370
Accrued interest receivable	450,675	445,607
	<u>44,178,468</u>	<u>39,980,061</u>
Total restricted current assets		
Total current assets	<u>84,665,419</u>	<u>74,357,661</u>
Investments	73,339,500	59,184,732
Restricted assets - investments	117,691,034	98,118,499
Capital assets, depreciable, net	771,206,246	735,047,976
Capital assets, nondepreciable	97,081,078	68,342,427
Debt issuance costs, net	<u>3,209,992</u>	<u>2,876,498</u>
Total assets	<u>\$1,147,193,269</u>	<u>\$1,037,927,793</u>

See Notes to Financial Statements

	2013	2012
<b>Liabilities and Net Position</b>		
Current liabilities		
Accounts payable	\$ 9,922,448	\$ 5,193,263
Current portion of compensated absences	584,530	499,970
Accrued payroll and related expenses	770,331	567,557
Contracts and retainage payable	372,582	77,285
Other liabilities	593,127	592,639
Current portion of due to other funds	14,153	29,620
Current portion of claims liability	1,199,835	1,081,935
	<u>13,457,006</u>	<u>8,042,269</u>
Total current liabilities, less liabilities payable from restricted assets		
	<u>13,457,006</u>	<u>8,042,269</u>
Liabilities payable from restricted assets		
Accrued interest and fiscal agent fees	5,055,365	4,501,432
Current portion of revenue bonds and notes payable	18,621,354	16,255,673
Contracts and retainage payable	2,455,164	925,503
	<u>26,131,883</u>	<u>21,682,608</u>
Total liabilities payable from restricted assets		
	<u>26,131,883</u>	<u>21,682,608</u>
Total current liabilities	<u>39,588,889</u>	<u>29,724,877</u>
Compensated absences	1,665,462	1,665,567
Claims liability	4,270,085	3,109,899
Other post-employment benefit obligation	3,984,353	3,798,393
Pension liability	3,774,034	3,607,514
Revenue bonds and notes payable, net of current portion	340,430,101	285,346,861
	<u>393,712,924</u>	<u>327,253,111</u>
Total liabilities		
	<u>393,712,924</u>	<u>327,253,111</u>
Net position		
Net investment in capital assets	654,767,991	629,443,591
Restricted-expendable	11,664,261	7,815,116
Unrestricted	87,048,093	73,415,975
	<u>753,480,345</u>	<u>710,674,682</u>
Total net position		
	<u>753,480,345</u>	<u>710,674,682</u>
Total liabilities and net position	<u>\$1,147,193,269</u>	<u>\$1,037,927,793</u>

**City of Kansas City, Missouri Sewer Fund**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended April 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>		
Retail sewer charges	\$ 93,951,330	\$ 76,448,889
Intermunicipal sewer charges	24,508,149	23,925,569
Stormwater fees	12,648,966	11,306,712
Other operating revenues	3,873,393	4,650,554
	<hr/>	<hr/>
Total operating revenues	134,981,838	116,331,724
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Sewage treatment and pumping	21,530,125	21,568,513
Sewer maintenance	25,169,485	23,594,922
Administrative and general	22,351,473	17,401,764
Industrial and household hazardous waste control	1,318,222	1,268,901
Depreciation and amortization	22,865,773	22,376,178
	<hr/>	<hr/>
Total operating expenses	93,235,078	86,210,278
	<hr/>	<hr/>
<b>Operating Income</b>	41,746,760	30,121,446
	<hr/>	<hr/>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	1,803,044	2,916,533
Interest expense and fiscal agent fees	(6,463,942)	(6,077,376)
Other	26,386	4,389
	<hr/>	<hr/>
Total nonoperating expenses, net	(4,634,512)	(3,156,454)
	<hr/>	<hr/>
<b>Excess of Revenues Over Expenses Before Capital Contributions</b>	37,112,248	26,964,992
	<hr/>	<hr/>
<b>Capital Contributions</b>	5,693,415	14,330,017
	<hr/>	<hr/>
<b>Increase in Net Position</b>	42,805,663	41,295,009
	<hr/>	<hr/>
<b>Net Position, Beginning of Year</b>	710,674,682	669,379,673
	<hr/>	<hr/>
<b>Net Position, End of Year</b>	<u>\$ 753,480,345</u>	<u>\$ 710,674,682</u>

**City of Kansas City, Missouri Sewer Fund**  
**Statements of Cash Flows**  
**Years Ended April 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Operating Activities</b>		
Cash received from customers	\$ 134,276,701	\$ 117,686,857
Cash paid to employees, including benefits	(26,618,419)	(23,702,640)
Cash paid to suppliers	(40,464,986)	(42,718,875)
Net cash provided by operating activities	<u>67,193,296</u>	<u>51,265,342</u>
<b>Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(71,920,845)	(32,631,801)
Proceeds from sale of capital assets	132,298	85,681
Proceeds from issuance of revenue bonds and notes payable, net of premium and discount	86,191,114	102,297,701
Debt issuance costs	(606,448)	(635,101)
Principal payments on revenue bonds and notes payable	(16,507,500)	(15,012,900)
Refunding of bond principal	(11,605,000)	(7,530,000)
Fiscal agent fees and interest paid on revenue bonds and notes payable	(11,463,715)	(8,853,432)
Net cash provided by (used in) capital and related financing activities	<u>(25,780,096)</u>	<u>37,720,148</u>
<b>Investing Activities</b>		
Investment purchases	(143,509,016)	(183,580,410)
Investment maturities and sales	102,073,359	93,233,370
Interest received on investments	1,124,646	3,281,379
Net cash used in investing activities	<u>(40,311,011)</u>	<u>(87,065,661)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,102,189	1,919,829
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>13,165,748</u>	<u>11,245,919</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 14,267,937</u></u>	<u><u>\$ 13,165,748</u></u>

**City of Kansas City, Missouri Sewer Fund**  
**Statements of Cash Flows (Continued)**  
**Years Ended April 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 41,746,760	\$ 30,121,446
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	22,865,773	22,376,178
Changes in assets and liabilities		
Accounts receivable and special assessments receivable	(658,044)	838,943
Inventories	(60,909)	83,210
Due from other funds	(47,093)	516,190
Accounts payable	1,443,993	(2,288,077)
Compensated absences	84,455	134,166
Accrued payroll and related expenses	202,774	117,962
Other liabilities	488	21,133
Due to other funds	(15,467)	21,750
Claims payable	1,278,086	(1,743,476)
Pension liability	166,520	785,520
Other post-employment benefit obligation	185,960	280,397
Total adjustments	25,446,536	21,143,896
Net cash provided by operating activities	\$ 67,193,296	\$ 51,265,342
<b>Components of Cash and Cash Equivalents at End of Year</b>		
Unrestricted	\$ 5,815,365	\$ 4,249,664
Restricted	8,452,572	8,916,084
	\$ 14,267,937	\$ 13,165,748
<b>Noncash Activities</b>		
Contributions of capital assets	\$ 5,693,415	\$ 14,330,017
Change in fair value of investments	(705,363)	427,182
Accounts payable incurred for purchase of capital assets	9,648,310	4,538,160

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

## **Notes to Financial Statements**

**April 30, 2013 and 2012**

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

#### ***Nature of Operations and Reporting Entity***

The City of Kansas City, Missouri Sewer Fund (the Sewer 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 Sewer Fund and are not intended to present fairly the financial position of the City of Kansas City, Missouri, and the respective changes in its financial position and cash flows as of April 30, 2013 and 2012, and for the years then ended in conformity with accounting principles generally accepted in the United States of America. The Sewer Fund includes sewer and stormwater accounts. The Sewer Fund is supported wholly by sewer service charges and is responsible for the administration, promotion, operation and maintenance of the wastewater and stormwater systems.

#### ***Basis of Accounting and Presentation***

The financial statements of the Sewer 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 nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Sewer 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 Sewer 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.



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

## **Notes to Financial Statements**

**April 30, 2013 and 2012**

### ***Accounts Receivable***

Accounts receivable balances are recorded at the invoiced amount. The Sewer 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 recorded as 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 Sewer Fund.

### ***Inventories***

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

### ***Debt Issuance Costs***

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

### ***Capital Assets and Depreciation/Amortization***

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

Depreciation is provided on the straight-line method. Sewer and storm lines are depreciated on a composite basis with a useful life of 100 and 40 years, respectively. Treatment plants and other facilities are depreciated on a composite basis with useful lives of 25 to 55 years. Equipment is depreciated on a unit basis over useful lives of three to ten 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 of assets for which depreciation is computed on the unit method, the asset and related depreciation accounts are eliminated, and the difference between the net carrying value and any proceeds is recorded as a gain or loss.

Any conspicuous or known events, or changes in circumstances, affecting a capital asset is reviewed by the Sewer 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, 2013 and 2012 totaled \$4,924,012 and \$3,444,702, respectively.

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

## **Notes to Financial Statements**

**April 30, 2013 and 2012**

### ***Compensated Absences***

Under the terms of the City's personnel policy, Sewer 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 is two times the amount earned in a year, which is accrued for in the respective funds. 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 Sewer 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 Sewer 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.

## **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. At April 30, 2013 and 2012, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately \$45,069,000 and \$43,534,000, 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 Sewer Fund's allocation of deposits was \$8,312,151 and \$7,634,071 at April 30, 2013 and 2012, respectively.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

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 of Kansas City, Missouri 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) which 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. Restricted to obligations of FNMA, FHLMC and GNMA only.
3. *Repurchase Agreements.* The City may invest in contractual agreements between the City and commercial banks or primary government securities dealers. The Bond Market Association's guidelines for the Master Repurchase Agreement will be used and will govern all repurchase agreement transactions. All repurchase agreement transactions will be either physical delivery or tri-party.
4. *Bankers' Acceptances.* The City may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.
5. *Commercial Paper.* The City may invest in commercial paper issued by domestic corporations, which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that have total assets in excess of five hundred million (\$500,000,000) and are not listed on Credit Watch with negative implications by any nationally recognized rating agency at the time of purchase. In addition, the City's portfolio may not contain commercial paper of any one corporation, the total value of which exceeds 2% of the City's aggregate investment portfolio.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

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 or 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.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

### April 30, 2013 and 2012

As of April 30, 2013, the City had the following investments and maturities (amounts are in thousands):

Investment Type	Fair Value	Investment Maturities (In Years)				Weighted Average
		Less Than 1	1 – 2	2 – 3	3 – 5	
Pooled investments						
U.S. Treasury bills	\$ 15,995	\$ 15,995	\$ -	\$ -	\$ -	0.41
U.S. Treasury notes/bonds	153,061	91,065	51,658	10,338	-	1.11
U.S. agency discounts	9,996	9,996	-	-	-	0.33
U.S. agencies – noncallable	331,671	153,232	14,047	66,913	97,479	1.91
U.S. agencies – callable	147,990	84,727	23,267	-	39,996	1.82
Total pooled	658,713	355,015	88,972	77,251	137,475	1.58
Non-pooled investments						
U.S. Treasury notes/bonds	31,115	15,095	16,020	-	-	1.14
U.S. agency discounts	5,999	5,999	-	-	-	0.06
U.S. agencies – noncallable	225,219	141,447	71,888	11,884	-	0.87
U.S. agencies – callable	40,962	32,161	4,101	-	4,700	0.95
Total non-pooled	303,295	194,702	92,009	11,884	4,700	0.89
	<u>\$ 962,008</u>	<u>\$ 549,717</u>	<u>\$ 180,981</u>	<u>\$ 89,135</u>	<u>\$ 142,175</u>	<u>1.37</u>

The Sewer Fund's allocation of pooled investments at April 30, 2013 was \$124,190,801. The Sewer Fund's non-pooled investments at April 30, 2013 were \$117,924,951.

As of April 30, 2012, the City had the following investments and maturities (amounts are in thousands):

Investment Type	Fair Value	Investment Maturities (In Years)				Weighted Average
		Less Than 1	1 – 2	2 – 3	3 – 5	
Pooled investments						
Municipal securities	\$ 2,072	\$ 2,072	\$ -	\$ -	\$ -	0.76
U.S. Treasury bills	19,998	19,998	-	-	-	0.12
U.S. Treasury notes/bonds	138,667	65,578	31,005	31,664	10,420	1.49
U.S. agency discounts	4,994	4,994	-	-	-	0.76
U.S. agencies – noncallable	401,250	151,140	131,965	13,455	104,690	1.78
U.S. agencies – callable	105,341	45,215	30,165	9,999	19,962	1.80
Mortgage-backed agency	9,513	9,513	-	-	-	0.41
Total pooled	681,835	298,510	193,135	55,118	135,072	1.59
Non-pooled investments						
U.S. agencies – noncallable	219,759	77,734	109,561	24,540	7,924	1.35
U.S. agencies – callable	53,155	46,635	-	3,001	3,519	0.70
Total non-pooled	272,914	124,369	109,561	27,541	11,443	1.22
	<u>\$ 954,749</u>	<u>\$ 422,879</u>	<u>\$ 302,696</u>	<u>\$ 82,659</u>	<u>\$ 146,515</u>	<u>1.53</u>

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

The Sewer Fund's allocation of pooled investments at April 30, 2012 was \$116,056,616. The Sewer Fund's non-pooled investments at April 30, 2012 were \$83,918,114.

Some of the restricted assets are held by a trustee associated with the proceeds from sewer state revolving bonds. The amount held by the trustee includes investments that are insured or registered or for which the securities are held by the Sewer Fund or its agent in the Sewer Fund's name or under joint custody agreements. Restricted assets held by the trustee were \$5,955,783 and \$5,531,677 at April 30, 2013 and 2012, respectively, 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, 2013 and 2012, the total fair value of the City's callable bond portfolio (pooled and non-pooled) is \$188,950,355 and \$158,495,887, respectively.

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

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

### 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%

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

As of April 30, 2013, 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	\$ 200,171	Aaa/AA+
U.S. agency securities	761,837	Aaa/AA+
	<u>\$ 962,008</u>	

As of April 30, 2012, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard & Poor's (amounts are in thousands):

	Fair Value	S&P Ratings
U.S. Treasury securities	\$ 158,665	Aaa/AA+
U.S. agency securities	794,012	Aaa/AA+
Municipal obligations	2,072	Aa2/AA
	<u>\$ 954,749</u>	

### **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, 2013 and 2012, 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, 2013 and 2012, all investment securities were in the City's name in the City's safekeeping accounts at its safekeeping institutions. In addition, all collateral securities were in the City's joint custody account(s) at the Federal Reserve Bank and were either U.S. Treasury (U.S. government guaranteed) or U.S. agency (Aaa/AA+ rated) obligations, with the exception of an irrevocable Letter of Credit issued in the City's favor by the Federal Home Loan Bank in the amount of \$7,500,000 at April 30, 2013 to secure the City's deposits at Commerce Bank. The Letter of Credit is safe kept in the City's cash vault in the Cash Operations section of the Treasury Division.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

### Concentration of Credit Risk

At April 30, 2013, more than five percent of the City's investments are in the following U.S. Agency discount note/securities: Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 10%, 24%, 18% and 26%, respectively, of the City's total investments.

At April 30, 2012, more than five percent of the City's investments are in the following U.S. Agency discount note/securities: Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association. These investments are 10%, 24%, 21% and 26%, respectively, of the City's total investments.

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 Sewer Fund at April 30, 2013 and 2012:

	2013	2012
Deposits	\$ 8,312,151	\$ 7,634,071
Pooled investments	124,190,801	116,056,616
Non-pooled investments	117,924,951	83,918,114
Trustee accounts	5,955,783	5,531,677
Total	<u>\$ 256,383,686</u>	<u>\$ 213,140,478</u>

The deposits and investments of the Sewer Fund at April 30, 2013 and 2012 are reflected in the statements of net position as follows:

	2013	2012
Current assets		
Unrestricted		
Cash and cash equivalents	\$ 5,815,365	\$ 4,249,664
Investments	15,809,994	12,053,129
Restricted		
Cash and cash equivalents	8,452,572	8,916,084
Investments	35,275,221	30,618,370
Investments	73,339,500	59,184,732
Restricted investments	117,691,034	98,118,499
Total	<u>\$ 256,383,686</u>	<u>\$ 213,140,478</u>



# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

### Note 3: Accounts Receivable

A summary of accounts receivable at April 30, 2013 and 2012 is as follows:

	2013	2012
Sewer customers	\$ 14,690,966	\$ 13,986,668
Unbilled utility revenue	6,138,243	5,947,027
Intermunicipal sewer customers	5,307,371	5,371,083
Other accounts receivable	3,631	58,987
	<u>26,140,211</u>	<u>25,363,765</u>
Less allowance for doubtful accounts	<u>8,062,300</u>	<u>7,943,898</u>
Net accounts receivable	<u>\$ 18,077,911</u>	<u>\$ 17,419,867</u>

### Note 4: Capital Assets

Capital asset activity for the year ended April 30, 2013 is as follows:

	May 1, 2012	Additions	Retirements/ Adjustments	April 30, 2013
Depreciable assets				
Sewerage treatment plant and other facilities	\$ 296,654,490	\$ 24,400,729	\$ (1,160,235)	\$ 319,894,984
Sewer lines	687,177,900	22,492,628	(1,122,115)	708,548,413
Equipment	56,309,224	12,345,272	(3,315,643)	65,338,853
Total depreciable assets	<u>1,040,141,614</u>	<u>59,238,629</u>	<u>(5,597,993)</u>	<u>1,093,782,250</u>
Accumulated depreciation				
Sewerage treatment plant and other facilities	(201,244,973)	(7,240,247)	1,160,233	(207,324,987)
Sewer lines	(66,823,435)	(11,893,556)	776,674	(77,940,317)
Equipment	(37,025,230)	(3,483,060)	3,197,590	(37,310,700)
Total accumulated depreciation	<u>(305,093,638)</u>	<u>(22,616,863)</u>	<u>5,134,497</u>	<u>(322,576,004)</u>
Total depreciable assets, net	<u>735,047,976</u>	<u>36,621,766</u>	<u>(463,496)</u>	<u>771,206,246</u>
Nondepreciable assets				
Land and permanent right of ways	11,490,746	505,893	-	11,996,639
Construction in process	56,851,681	76,610,596	(48,377,838)	85,084,439
Total nondepreciable assets	<u>68,342,427</u>	<u>77,116,489</u>	<u>(48,377,838)</u>	<u>97,081,078</u>
Capital assets, net	<u>\$ 803,390,403</u>	<u>\$ 113,738,255</u>	<u>\$ (48,841,334)</u>	<u>\$ 868,287,324</u>

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

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

	<b>May 1, 2011</b>	<b>Additions</b>	<b>Retirements/ Adjustments</b>	<b>April 30, 2012</b>
Depreciable assets				
Sewerage treatment plant and other facilities	\$ 294,702,245	\$ 2,518,017	\$ (565,772)	\$ 296,654,490
Sewer lines	647,544,868	42,249,450	(2,616,418)	687,177,900
Equipment	49,498,227	9,337,473	(2,526,476)	56,309,224
Total depreciable assets	<u>991,745,340</u>	<u>54,104,940</u>	<u>(5,708,666)</u>	<u>1,040,141,614</u>
Accumulated depreciation				
Sewerage treatment plant and other facilities	(194,889,742)	(6,883,226)	527,995	(201,244,973)
Sewer lines	(57,375,022)	(12,064,831)	2,616,418	(66,823,435)
Equipment	(36,337,122)	(3,155,167)	2,467,059	(37,025,230)
Total accumulated depreciation	<u>(288,601,886)</u>	<u>(22,103,224)</u>	<u>5,611,472</u>	<u>(305,093,638)</u>
Total depreciable assets, net	<u>703,143,454</u>	<u>32,001,716</u>	<u>(97,194)</u>	<u>735,047,976</u>
Nondepreciable assets				
Land and permanent right of ways	9,962,060	1,544,464	(15,778)	11,490,746
Construction in process	57,924,500	36,521,736	(37,594,555)	56,851,681
Total nondepreciable assets	<u>67,886,560</u>	<u>38,066,200</u>	<u>(37,610,333)</u>	<u>68,342,427</u>
Capital assets, net	<u>\$ 771,030,014</u>	<u>\$ 70,067,916</u>	<u>\$ (37,707,527)</u>	<u>\$ 803,390,403</u>

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

### Note 5: Revenue Bonds, Notes Payable and Restricted Assets

Revenue bonds and notes payable outstanding consist of the following at April 30, 2013 and 2012:

Issue	Interest Rates	Maturing Through	2013	2012
State Series 1992B	4.50% – 6.55%	July 2013	\$ 105,000	\$ 205,000
State Series 1995B	4.50% – 7.75%	January 2015	2,890,000	4,285,000
State Series 1996A	3.60% – 7.00%	January 2016	5,510,000	7,150,000
State Series 1997A	3.95% – 5.75%	January 2017	5,265,000	6,505,000
State Series 1998A	3.90% – 5.25%	January 2019	3,710,000	4,230,000
State Series 1999A	3.625% – 5.25%	January 2020	2,705,000	3,020,000
State Series 2000A	4.60% – 5.75%	July 2020	5,835,000	6,495,000
State Series 2000B	4.25% – 5.625%	July 2020	5,265,000	5,855,000
Stormwater 2000	1.70%	December 2020	561,200	626,300
Stormwater 2001 & 2002	1.60%	December 2021	2,858,000	3,152,000
State Series 2001B	3.00% – 5.375%	July 2022	9,485,000	10,305,000
State Series 2002J	2.00% – 5.50%	July 2022	5,640,000	6,125,000
Series 2004A	2.00% – 4.75%	January 2024	940,000	13,450,000
Series 2004H	3.00% – 5.25%	January 2025	6,795,000	7,280,000
Series 2005B	3.00% – 5.00%	January 2025	10,750,000	11,430,000
Stormwater 2007	1.40%	June 2027	319,000	422,400
Series 2007A	4.00% – 5.00%	January 2032	34,575,000	35,750,000
Series 2009A	2.50% – 5.25%	January 2034	63,820,000	65,765,000
Series 2009B	1.480%	July 2030	9,036,996	9,576,202
Series 2011A	2.00% – 5.00%	January 2037	86,625,000	89,030,000
Series 2012A	2.00% – 5.00%	January 2037	78,650,000	-
			<u>341,340,196</u>	<u>290,656,902</u>
Add premiums			19,342,019	11,567,068
Less				
Current portion			(18,621,354)	(16,255,673)
Discount			(634,829)	(412,475)
Deferred loss on refunding, net of accumulated amortization			<u>(995,931)</u>	<u>(208,961)</u>
Noncurrent revenue bonds and notes payable			<u><u>\$ 340,430,101</u></u>	<u><u>\$ 285,346,861</u></u>

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2013 and 2012**

Changes in revenue bonds payable and notes payable during the year ended April 30, 2013 are as follows:

	<b>May 1, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>April 30, 2013</b>
Revenue bonds and notes payable	\$ 290,656,902	\$ 78,795,794	\$ (28,112,500)	\$ 341,340,196
Less				
Unamortized bond discount	(412,475)	(249,347)	26,993	(634,829)
Deferred charge on refunding	(208,961)	(836,952)	49,982	(995,931)
Add				
Unamortized bond premium	11,567,068	8,481,620	(706,669)	19,342,019
Total revenue bonds and notes payable	<u>\$ 301,602,534</u>	<u>\$ 86,191,115</u>	<u>\$ (28,742,194)</u>	<u>\$ 359,051,455</u>

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

	<b>May 1, 2011</b>	<b>Additions</b>	<b>Reductions</b>	<b>April 30, 2012</b>
Revenue bonds and notes payable	\$ 219,690,956	\$ 93,508,846	\$ (22,542,900)	\$ 290,656,902
Less				
Unamortized bond discount	(363,478)	(91,472)	42,475	(412,475)
Deferred charge on refunding	(4,437)	(217,891)	13,367	(208,961)
Add				
Unamortized bond premium	2,909,995	9,098,217	(441,144)	11,567,068
Total revenue bonds and notes payable	<u>\$ 222,233,036</u>	<u>\$ 102,297,700</u>	<u>\$ (22,928,202)</u>	<u>\$ 301,602,534</u>

The annual requirements to retire the bonds and notes outstanding as of April 30, 2013 are as follows:

<b>Year Ending April 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 18,621,354	\$ 14,952,259	\$ 33,573,613
2015	18,961,165	14,196,583	33,157,748
2016	18,119,433	13,349,857	31,469,290
2017	16,748,707	12,527,577	29,276,284
2018	15,932,188	11,789,112	27,721,300
2019 – 2023	79,647,787	48,829,164	128,476,951
2024 – 2028	61,740,921	33,213,195	94,954,116
2029 – 2033	70,508,641	18,233,560	88,742,201
2034 – 2037	41,060,000	4,130,456	45,190,456
	<u>\$ 341,340,196</u>	<u>\$171,221,763</u>	<u>\$512,561,959</u>

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

During 2013, the City issued Sanitary Sewer Improvement and Refunding Revenue Bonds, Series 2012A for improvements to the sewerage system and to refund the Series 2004A bonds in the principal amount of \$11,605,000. These bonds were refunded to reduce total debt service payments by \$2,719,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,579,000.

During 2012, the City issued Sanitary Sewer Improvement and Refunding Revenue Bonds, Series 2011A for improvements to the sewerage system and to refund the Series 2002D-1 bonds in the principal amount of \$7,530,000. These bonds were refunded to reduce total debt service payments by \$1,568,000 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,075,000.

All funds raised through the issuance of sewer revenue bonds are restricted for the purpose of extending or improving the sewerage system. All debt service requirements of these bonds are payable solely from revenues generated by the Sewer Fund. The revenue bond ordinances require the Sewer Fund to maintain adequate insurance coverage and employ an independent consulting engineer to evaluate the physical condition and operation of the sewerage system on a periodic basis. In addition, the ordinance establishes the priority for the allocation of revenue generated by the sewerage system. 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 requirements. Each month, the Sewer Fund 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 Sewer Fund establish additional reserve accounts for the retirement of the bonds totaling \$22,676,916 at April 30, 2013. However, in lieu of setting aside cash, the ordinance allows the Sewer Fund to obtain insurance policies. The Sewer Fund has obtained insurance policies to satisfy \$5,510,766 of the reserve requirements. As of April 30, 2013, the Sewer Fund's debt service coverage ratio was above the 130% threshold, so the remaining bond reserve accounts were not required to be funded.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

Restricted accounts and special reserves are reported on the accompanying statements of net position as restricted assets as follows:

	2013	2012
Principal and interest	\$ 12,764,622	\$ 11,488,887
Renewal and replacement	3,008,379	63,250
Retention pond maintenance	50,140	-
Construction	146,046,361	126,546,423
	<u>\$ 161,869,502</u>	<u>\$ 138,098,560</u>

### Note 6: Pledged Revenues

The City has pledged revenues of the Sewer Fund, net of specified operating expenses, to repay sewer system revenue bonds and loans. The bonds were issued to provide improvements to the sewer system and facilities. The loans were issued to fund stormwater basin studies and improvements. The various issues and maturity dates are listed in Note 5.

The sewer bonds through and including 1998A are senior bonds that have claim to both sewer and stormwater revenue. Those bonds will be paid off in 2019. Total principal and interest on those bonds is \$19,820,989, which is expected to require 5% of net sewer and stormwater revenues. The remaining sewer bonds are subordinate bonds that have claim to only sewer revenues. Total principal and interest on those bonds is \$488,691,294 and is expected to require 32% of net sewer revenues. The stormwater loans are payable from stormwater revenues. Total principal and interest on those loans is \$4,049,678 and is expected to require 9% of net stormwater revenues. Principal and interest paid for the year ended April 30, 2013 and net revenues for the Sewer Fund were \$29,818,864 and \$66,415,577, respectively.

### Note 7: Due to/from Other Funds

Amounts due to/from other funds at April 30, 2013 and 2012 were as follows:

	2013		2012	
	Due from	Due to	Due from	Due to
Water fund	\$ 332	\$ 14,153	\$ 3,286	\$ 29,620
General fund	55,526	-	5,479	-
	<u>\$ 55,858</u>	<u>\$ 14,153</u>	<u>\$ 8,765</u>	<u>\$ 29,620</u>

Amounts due from and due to the Water fund represent reimbursement of operating costs between the two funds. Amounts due from and due to the General fund represent reimbursement of operating costs between the funds.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

### Note 8: Administrative Service Fees

Payments to the general fund of the City for certain administrative, data processing and accounting services for the years ended April 30, 2013 and 2012 are presented as administrative and general expenses and are as follows:

	2013	2012
Administrative, data processing and accounting	\$ 4,485,494	\$ 4,447,346

Payments to the City of Kansas City, Missouri Water Fund for billing, collecting and accounting services were \$4,485,554 and \$4,230,372 for the years ended April 30, 2013 and 2012, respectively.

### Note 9: 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 Sewer Fund. Contributions to the Plan are made by the City and covered employees. The contributions are calculated to fund normal cost and amortization of unfunded prior service costs. The City receives an annual actuarial report on the actuarial accrued liability and net assets available for benefits.

At May 1, 2012, the actuarial accrued liability of the Plan was approximately \$1,070,752,000 and the actuarial value of assets of the Plan was approximately \$847,090,000; 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 \$37,604,000 to each participating fund. The Sewer Fund's allocation was approximately \$3,774,000 as of April 30, 2013.

At May 1, 2011, the actuarial accrued liability of the Plan was approximately \$1,010,996,000 and the actuarial value of assets of the Plan was approximately \$806,793,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$35,564,000 to each participating fund. The Sewer Fund's allocation was approximately \$3,608,000 as of April 30, 2012.

A stand-alone financial report is issued for the Plan. The report may be obtained by writing to The Retirement Division of the City of Kansas City, Missouri, 12<sup>th</sup> Floor, City Hall, 414 East 12<sup>th</sup> Street, Kansas City, Missouri 64106 or by calling (816) 513-1928.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

The net pension obligation at April 30, 2013 is as follows:

	City	Fund
Annual required contribution (ARC)	\$ 27,682,872	\$ 2,237,134
Interest on net pension obligation	2,667,323	270,563
Adjustment to annual required contribution	(2,635,139)	(266,301)
Annual pension cost (APC)	27,715,056	2,241,396
Contributions made (employer)	(25,675,038)	(2,074,876)
Change in net pension obligation	2,040,018	166,520
Net pension obligation, April 30, 2012	35,564,313	3,607,514
Net pension obligation, April 30, 2013	<u>\$ 37,604,331</u>	<u>\$ 3,774,034</u>

### Note 10: 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 healthcare 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.



# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

The net OPEB obligation at April 30, 2013 is as follows:

	City	Fund
Annual required contribution (ARC)	\$ 10,494,638	\$ 661,490
Interest on net OPEB obligation	2,736,878	170,928
Adjustment to annual required contribution	(3,652,231)	(228,095)
Annual OPEB cost (expense)	9,579,285	604,323
Contributions made (employer)	(6,637,392)	(418,363)
Change in net OPEB obligation	2,941,893	185,960
Net OPEB obligation, April 30, 2012	60,819,512	3,798,393
Net OPEB obligation, April 30, 2013	\$ 63,761,405	\$ 3,984,353

### ***Funded Status and Funding Progress***

As of May 1, 2012, the most recent actuarial valuation date, the OPEB plan was 0.0% funded. The actuarial accrued liability for benefits was \$105.0 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$105.0 million. The covered payroll (annual payroll of active employees covered by the OPEB plan) was \$221.2 million, and the ratio of UAAL to the covered payroll was 47.5 percent.

Although determinations of the actuarial status were not made for individual funds, the City has allocated its 2013 and 2012 overall net OPEB obligation of approximately \$63,761,000 and \$60,820,000, respectively, to each participating fund. For the years ended April 30, 2013 and 2012, the Sewer Fund's allocation was approximately \$3,985,000 and \$3,798,000, 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.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

In the May 1, 2012 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 health care cost trend rate of 9-10 percent annually, reduced by decrements to an ultimate rate of 4.5% after 11 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at April 30, 2012 was 30 years.

The May 1, 2012 actuarial valuation included the following changes in assumptions:

1. Implementation of New Firefighter Explicit Subsidy: Effective November 1, 2010, the City began paying a \$100 per month retiree health subsidy to retired firefighters. This subsidy does not require the retiree to participate in the Kansas City Employees and Firefighters Retiree Health Care Plan. Effective November 1, 2011, the subsidy was increased to \$200 per month. The City's liability for that subsidy was included in the valuation. The inclusion of that subsidy increased the Actuarial Accrued Liability as of April 30, 2012 by \$27.2 million and increased the Annual Required Contribution for Fiscal Year Ending April 30, 2013 by \$1.6 million. However, the expected City payments for the subsidy for Fiscal Year Ending April 30, 2013 was also \$1.6 million, so the net impact on the Net OPEB Obligation as of April 30, 2013, was negligible.
2. MAST Employees: This valuation includes liabilities for retiree healthcare benefits for employees previously employed by a private ambulance company known as MAST. These employees were allowed an election into the City of Kansas City, Missouri Employees' Retirement System which provides a Defined Benefit or into a separate money purchase plan. At this time, it has not been determined if MAST employees will be eligible for retiree health benefits if they did not elect to participate in the Defined Benefit Plan. All MAST employees were included in this valuation as of April 30, 2012.
3. Changes to Pension Assumptions: Both the City of Kansas City, Missouri Employees' Retirement System and the City of Kansas City, Missouri Firefighters' Pension System had experience studies performed in 2011 and updated their assumptions for use in the April 30, 2012 actuarial valuations in conjunction with those studies. The assumptions were used in the May 1, 2012 valuation accordingly.

### Note 11: Commitments

At April 30, 2013 and 2012, the City had made purchase commitments, primarily for additions to plant, on behalf of the Sewer Fund of approximately \$98,355,000 and \$62,904,000, respectively. These commitments will be funded by a combination of existing resources and future debt issuances.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

### Note 12: Risk Management

The Sewer 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 Sewer 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 \$398,638 per person and \$2,525,423 per occurrence. Settled claims have not exceeded the self-insured retention in any of the past three fiscal years.

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

All funds of the City participate in the program and make payments based on estimates of the amounts needed to pay prior and current year claims. The claims liability for the Sewer Fund includes an estimate of claims incurred but not reported (IBNR), which was determined based upon historical claims experience. Activity in the Sewer Fund's claims liability for the years ended April 30, 2013 and 2012 is summarized as follows:

	<b>2013</b>	<b>2012</b>
Balance, beginning of the year	\$ 4,191,834	\$ 5,935,310
Current year claims incurred and changes in estimates for claims incurred in prior years	3,400,905	459,616
Claims and expenses paid	<u>(2,122,819)</u>	<u>(2,203,092)</u>
Balance, end of the year	5,469,920	4,191,834
Less current portion	<u>(1,199,835)</u>	<u>(1,081,935)</u>
Noncurrent portion	<u><u>\$ 4,270,085</u></u>	<u><u>\$ 3,109,899</u></u>

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2013 and 2012

### Note 13: Net Position

Net investment in capital assets is comprised of the following:

	2013	2012
Capital Related Assets		
Land	\$ 11,996,639	\$ 11,490,746
Construction in progress	85,084,439	56,851,681
Treatment plant and other facilities	319,894,984	296,654,490
Sewer lines	708,548,413	687,177,900
Equipment	65,338,853	56,309,224
	<u>1,190,863,328</u>	<u>1,108,484,041</u>
Less accumulated depreciation	(322,576,004)	(305,093,638)
Capital assets, net	<u>868,287,324</u>	<u>803,390,403</u>
Bond issuance cost, net	<u>3,209,992</u>	<u>2,876,498</u>
Total capital related assets	<u>871,497,316</u>	<u>806,266,901</u>
Less Related Liabilities		
Current portion, bonds and notes payable	18,621,354	16,255,673
Bonds and notes payable, net of premium, discount and unspent proceeds	195,280,225	159,564,849
Contracts and retainage payable	<u>2,827,746</u>	<u>1,002,788</u>
Total capital related liabilities	<u>216,729,325</u>	<u>176,823,310</u>
Net investment in capital assets	<u>\$ 654,767,991</u>	<u>\$ 629,443,591</u>

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2013 and 2012**

Restricted-expendable net position as of April 30, 2013 and 2012 are as follows:

	<b>2013</b>	<b>2012</b>
Restricted Assets		
Cash and cash equivalents	\$ 8,452,572	\$ 8,916,084
Investments	152,966,255	128,736,869
Interest receivable	450,675	445,607
	<u>161,869,502</u>	<u>138,098,560</u>
Less Liabilities from Restricted Assets		
Debt related to unspent bond proceeds	145,149,876	125,782,012
Accrued interest and fiscal agent fees	5,055,365	4,501,432
	<u>150,205,241</u>	<u>130,283,444</u>
Restricted-Expendable Net Position	<u><u>\$ 11,664,261</u></u>	<u><u>\$ 7,815,116</u></u>

**Note 14: City Sewer Overflow Control Plan**

The City submitted a plan to control overflows from the City's combined and separate sanitary sewer systems to the United States Environmental Protection Agency (the EPA) and the Missouri Department of Natural Resources (the MDNR). The control plan is being driven by requirements of the Clean Water Act and by policies of the EPA. The City has reached an agreement with the federal government, in the form of a consent decree that includes a sewer overflow control plan, resolution of past Clean Water Act violations and the imposition of a penalty. The Consent Decree was lodged on May 18, 2010, with the United States District Court for the Western District of Missouri and on September 27, 2010, the court issued an order approving and entering the Consent Decree. A separate agreement has been reached with the state, resolving past sewer overflow violations, imposing a penalty and developing a sewer overflow response plan. The City has been timely fulfilling its obligations under this settlement.

The current estimated capital cost of this control plan is \$4.5 billion with estimated inflation at the end of the 25-year timeframe. In addition, there will be a substantial increase in annual expenditures for operation and maintenance. It is anticipated that this plan will be funded primarily from the City's sewer fund, which is separate from the general fund. The City does not anticipate that the City's general fund will be relied upon to assist in the financing of the control plan; however, further future analysis will be required. Specifically, upon approval and implementation of the control plan, specific financing strategies to offset the cost of the control plan will be evaluated and implemented, which could include appropriation of moneys from the City's general fund.

**City of Kansas City, Missouri Sewer Fund**  
**Supplementary Information**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended April 30, 2013**

	<u>Wastewater</u>	<u>Stormwater</u>	<u>Total</u>
<b>Operating Revenues</b>			
Retail sewer charges	\$ 93,951,330	\$ -	\$ 93,951,330
Intermunicipal sewer charges	24,508,149	-	24,508,149
Stormwater fees	-	12,648,966	12,648,966
Other operating revenues	<u>3,335,623</u>	<u>537,770</u>	<u>3,873,393</u>
Total operating revenues	<u>121,795,102</u>	<u>13,186,736</u>	<u>134,981,838</u>
<b>Operating Expenses</b>			
Sewerage treatment and pumping	21,350,652	179,473	21,530,125
Sewer maintenance	19,163,129	6,006,356	25,169,485
Administrative and general	18,581,619	3,769,854	22,351,473
Industrial and household hazardous waste control	1,318,222	-	1,318,222
Depreciation and amortization	<u>18,120,126</u>	<u>4,745,647</u>	<u>22,865,773</u>
Total operating expenses	<u>78,533,748</u>	<u>14,701,330</u>	<u>93,235,078</u>
<b>Operating Income (Loss)</b>	<u>43,261,354</u>	<u>(1,514,594)</u>	<u>41,746,760</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	1,727,177	75,867	1,803,044
Interest expense and fiscal agent fees	(6,447,712)	(16,230)	(6,463,942)
Other	<u>23,486</u>	<u>2,900</u>	<u>26,386</u>
Total nonoperating revenues (expenses), net	<u>(4,697,049)</u>	<u>62,537</u>	<u>(4,634,512)</u>
<b>Excess of Revenues Over (Under) Expenses Before Capital Contributions</b>	38,564,305	(1,452,057)	37,112,248
<b>Capital Contributions</b>	<u>428,708</u>	<u>5,264,707</u>	<u>5,693,415</u>
<b>Increase in Net Position</b>	<u>\$ 38,993,013</u>	<u>\$ 3,812,650</u>	<u>\$ 42,805,663</u>