

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

Auditor's Report and Financial Statements

April 30, 2014 and 2013



# City of Kansas City, Missouri Sewer Fund

April 30, 2014 and 2013

## Contents

Independent Auditor's Report.....	1
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Management's Discussion and Analysis .....	3
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### Basic Financial Statements

Statements of Net Position .....	18
Statements of Revenues, Expenses and Changes in Net Position .....	19
Statements of Cash Flows .....	20
Notes to Financial Statements .....	22

### Supplementary Information

Combining Schedule of Revenues, Expenses and Changes in Net Position .....	45
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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, 2014 and 2013, and the 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 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, 2014 and 2013, 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 Matters***

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, 2014 and 2013, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 15 to the financial statements, in 2014, the Sewer Fund adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

***Other Matters***

***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**

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

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

### **Years Ended April 30, 2014 and 2013**

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 ending April 30, 2014 and April 30, 2013, with selected comparative information for the fiscal year ended April 30, 2012. The Fund is an enterprise fund of the City of Kansas City, Missouri (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 wastewater collection and processing systems, and stormwater management control 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, 2014 and April 30, 2013. 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, deferred outflows, liabilities and deferred inflows, the difference between the sum of assets and deferred outflows and the sum of liabilities and deferred inflows is 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, capital and related financing activities and investing activities are presented on the statements.

## Financial Position and Assessment

### Summary of Net Position

(In thousands)

	April 30		
	2014	2013 * (as restated)	2012 * (as restated)
<b>Assets</b>			
Current assets - unrestricted	\$ 41,476	\$ 40,487	\$ 34,378
Current assets - restricted	12,840	44,178	39,980
Noncurrent investments - unrestricted	98,197	73,340	59,185
Noncurrent investments - restricted	106,687	117,691	98,119
Capital assets	948,651	868,287	803,390
Other assets	-	-	2,876
Total assets	1,207,851	1,143,983	1,037,928
<b>Deferred Outflows of Resources</b>	946	996	209
Total assets and deferred outflows of resources	<u>\$ 1,208,797</u>	<u>\$ 1,144,979</u>	<u>\$ 1,038,137</u>
<b>Liabilities</b>			
Current liabilities	\$ 12,935	\$ 13,457	\$ 8,042
Liabilities payable from restricted assets	26,662	26,132	21,683
Long-term liabilities	339,542	355,120	297,737
Total liabilities	379,139	394,709	327,462
<b>Net Position</b>			
Net investment in capital assets	693,704	651,558	629,444
Restricted-expendable	22,725	11,664	7,815
Unrestricted	113,229	87,048	73,416
Total net position	829,658	750,270	710,675
Total liabilities and net position	<u>\$ 1,208,797</u>	<u>\$ 1,144,979</u>	<u>\$ 1,038,137</u>

\* 2013 has been restated for the adoption of GASB 65. 2012 has not been restated other than to reflect the deferred loss on defeasance as a deferred outflow of resources.

Total assets increased by \$63.9 million or 5.6% from the prior year. During the year, there were no new Sewer Revenue Bonds issued, whereas bonds were issued in the prior year and netted the Fund \$68.8 million of new money to invest in sewer infrastructure improvements. Current year cash inflows were lower. Cash, cash equivalents and investments that are restricted for debt service costs, construction, renewal and replacement decreased by approximately 26.1%. Unrestricted assets used in daily operations increased by approximately 23.3%. Most of the increase is attributable to the 20.3% rise in net accounts receivable resulting from the 15% scheduled increase in sewer service fees. Capital assets increased by \$80.4 million or 9.3% as anticipated from the ongoing capital improvements program.

Total liabilities decreased by \$15.6 million or 3.9%. As mentioned earlier, no bonds were issued during the year. Debt was reduced by the scheduled \$18.8 million retirement of outstanding bonds. Additionally, contract retainage payable increased by \$0.8 million or 28.5% as the result of increased construction activity. The Fund's portion of claims liability also increased by \$0.4 million or 6.3%. Post-employment benefits increased by \$0.8 million or 6.0%.

At the close of the year, total assets and deferred outflows of resources exceeded total liabilities resulting in net position of \$829.7 million. Of this amount, \$113.2 million is considered unrestricted. The unrestricted net assets 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 \$79.4 million or 10.6% from the previous year indicating that the Fund improved its financial position. The largest portion of net position, \$693.7 million or 83.6%, 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.

In FY 2013, 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 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 and refunding of other sewer revenue bonds for \$17.8 million. 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.

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

(In thousands)

	Year Ended April 30		
	2014	2013 *	2012
		(as restated)	
Operating revenues	\$ 151,251	\$ 134,982	\$ 116,332
Operating expenses	(97,223)	(92,820)	(86,210)
Operating income	54,028	42,162	30,122
Nonoperating expenses, net	(5,496)	(5,383)	(3,157)
Increase in net position before capital contributions	48,532	36,779	26,965
Capital contributions	30,856	5,693	14,330
Change in net position	79,388	42,472	41,295
Total net position - beginning of the year, as previously reported	750,270	710,675	669,380
Adjustment for change in accounting principle	-	(2,877)	-
Net position - beginning of the year, as adjusted	750,270	707,798	669,380
Total net position - end of the year	\$ 829,658	\$ 750,270	\$ 710,675

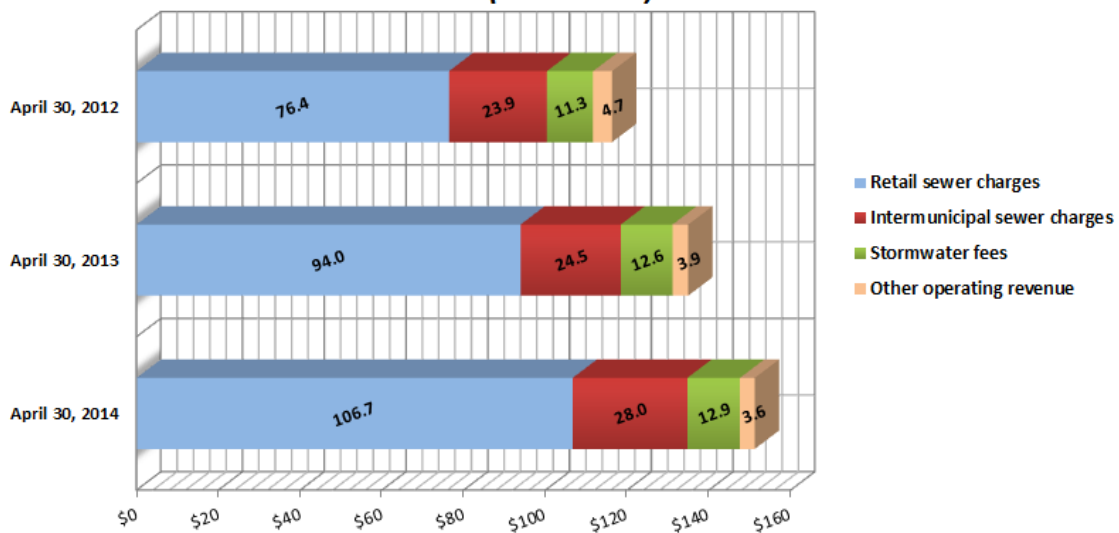
\* 2013 has been restated for adoption of GASB 65.

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

	Year Ended April 30		
	2014	2013	2012
Retail sewer charges	\$ 106,691	\$ 93,951	\$ 76,449
Intermunicipal sewer charges	28,047	24,508	23,925
Stormwater fees	12,866	12,649	11,307
Other operating revenue	3,647	3,874	4,651
Total operating revenues	<u>\$ 151,251</u>	<u>\$ 134,982</u>	<u>\$ 116,332</u>

Total operating revenues increased by \$16.3 million or 12.1% in FY 2014. Residential and commercial retail sewer charges contributed \$12.7 million or 78.3% to the increase primarily due to the scheduled 15% sewer rate increase in effect all year. Revenue from inter-jurisdictional services contributed \$3.5 million or 21.8% to the increase in operating revenue. Sales to inter-jurisdictional customers increased by 14.4% over the prior year due in part to higher metered flow, as well as slightly higher service rates under inter-jurisdictional agreements. Stormwater fees remained stable during the year. There was a slight decline in other operating revenue that consists primarily of forfeitures and penalties, and rentals of equipment, miscellaneous facilities and parking lots.

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



In FY 2013, total operating revenues increased by \$18.7 million or 16.0%. 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, and 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%.

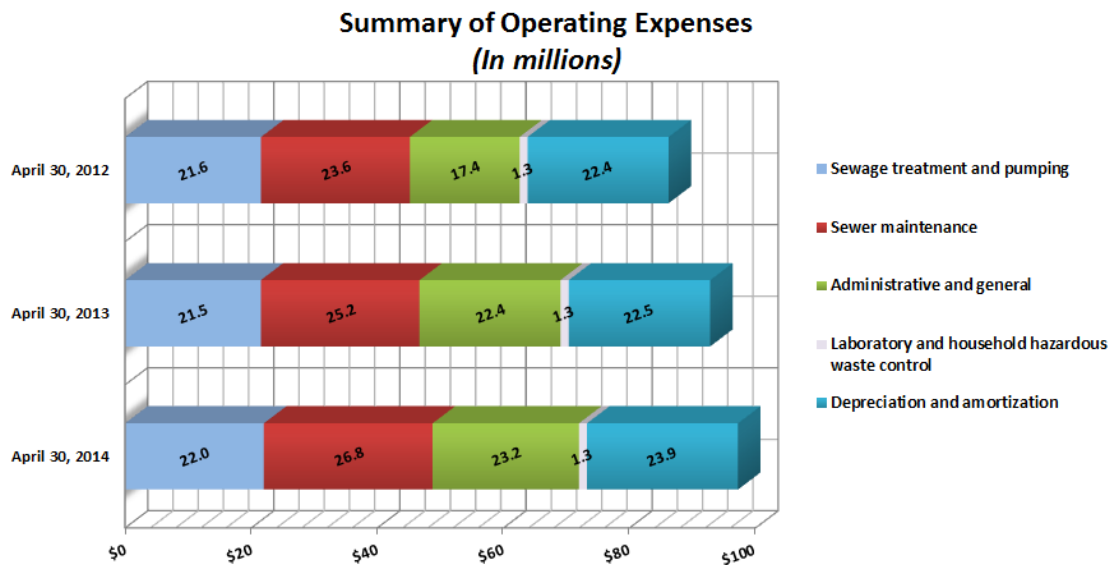


**Summary of Operating Expenses**  
(In thousands)

	Year Ended April 30		
	2014	2013 * (as restated)	2012
Sewage treatment and pumping	\$ 22,026	\$ 21,530	\$ 21,568
Sewer maintenance	26,767	25,170	23,595
Administrative and general	23,206	22,351	17,402
Industrial and household hazardous waste control	1,277	1,318	1,269
Depreciation and amortization	23,947	22,451	22,376
Total operating expenses	<u>\$ 97,223</u>	<u>\$ 92,820</u>	<u>\$ 86,210</u>

\* 2013 has been restated for adoption of GASB 65.

Total operating expenses increased slightly by \$4.4 million or 4.7% over the previous year. 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 \$0.4 million or 1½ times. In addition, the Fund's share of the City's General Liability Insurance increased by 6.3%. Pension and other post-employment benefits (OPEB) rose by 5.8%. 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.

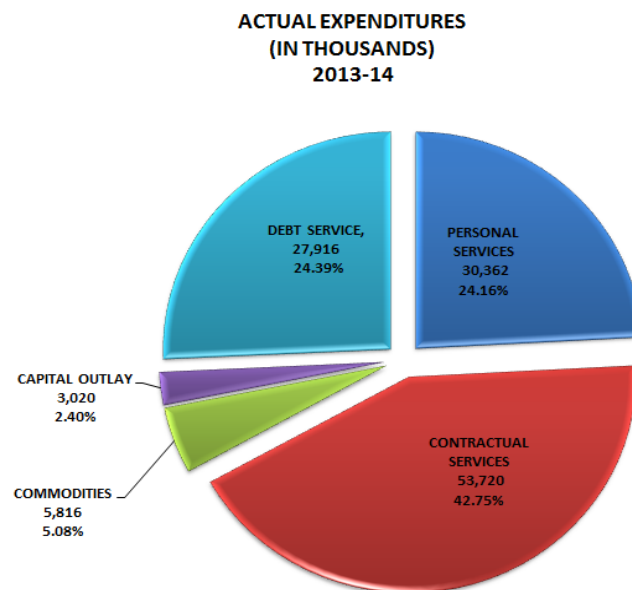
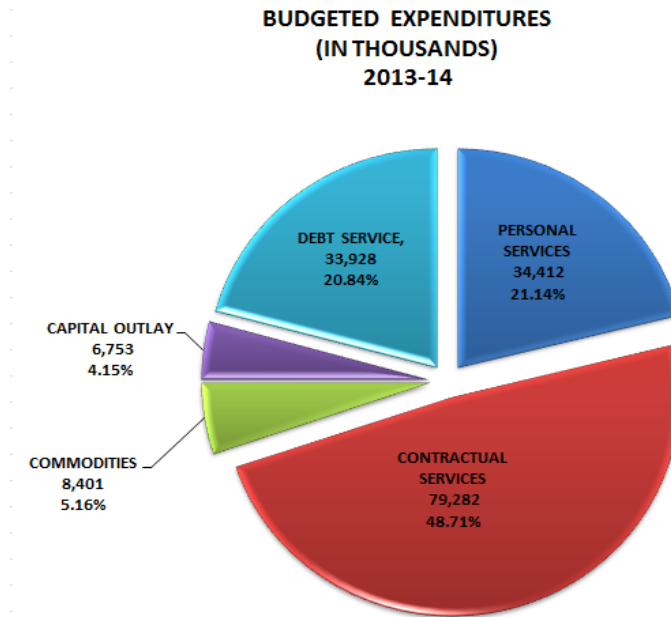


In FY 2013, total operating expenses increased by \$7.0 million or 8.1% over the previous year. The most significant component was the \$4.9 million increase in administrative and general expenses. The Fund continues investing in sewer system improvements in order to comply with the Overflow Control 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.

### Comparison of Budget to Actual Expenditures for FY 2014

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.



## **Capital Assets**

At April 30, 2014, capital assets totaled \$948.7 million (net of accumulated depreciation) and accounted for 78.5% of total assets. Construction activities are ongoing to repair and improve 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 \$89.9 million were completed. The investment in infrastructure included \$52.6 million for sanitary sewer rehabilitation and replacement, \$3.2 million for storm sewer improvements, \$33.3 million for treatment plant upgrades, and \$0.6 million for pumping stations and equipment. In addition to completed projects, there was \$20.7 million in contributed assets from property developers and \$3.6 million of assets transferred from Public Works. Additions and replacements of machinery and equipment totaled \$5.0 million. The increases in depreciable capital assets were offset by disposals and retirements of \$10.7 million.

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 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 parties have agreed to allow a 25-year period to meet those objectives by completing a planned list of improvements within five years. The implementation schedule is targeted to treat 88% of combined sewer flows and eliminate sanitary sewer overflows during a twenty-four hour rainfall event.

The Fund estimates that it will invest approximately \$600 million over the next five years in capital improvement projects. Of this amount, \$362 million is committed to the 25-year federally mandated OCP. The estimated total cost of OCP over the next 25 years is approximately \$4.5 billion, adjusted for inflation. In addition, annual expenditures for operations and maintenance are expected to increase by approximately \$72 million. It is anticipated that OCP will be financed primarily by the Fund.

The Fund has invested approximately \$96 million in disinfection improvements at six treatment plants. The last and largest project was at the Blue River Wastewater Treatment Plant. A few of the projects include:

*Blue River Wastewater Treatment Plant Disinfection.* The investment of \$48 million in the Blue River Wastewater Treatment Plant will ensure that pollutants (or the effluent) flowing out of the plant, are disinfected before they are released back into the Blue River. Construction of the chemical terminal facility was substantially complete on April 1, 2014. The project included construction of a chemical storage building, chemical transfer building, chemical feed pumps, railcar-unloading facility, truck-unloading facility and two new splitter boxes between the trickling filters and the clarifiers. Some

finishing work remains concerning replacement of clarifiers and incinerator repairs; however, that work will be completed by the end of the calendar year.

### **Blue River Wastewater Treatment Plant**





**Chemical Feed Pumps inside Chemical Transfer Building**



**Chemical Transfer Building**



[illegible]



## Capital Improvement Projects (cont'd)

First and Second Creek Sewer Expansion Project (cont'd)

**Installation/trenching process for new interceptor sewer pipe**





## Capital Improvement Projects (cont'd)

First and Second Creek Sewer Expansion Project (cont'd)

**30-inch diameter PVC pipe stored on the construction site**



**Connection to new manhole on 36-inch diameter pipe**





## Capital Improvement Projects (cont'd)

*Kansas City Neighborhood Sewer Rehabilitation Projects.* Miles of sewer lines across 14 basins, i.e. the areas of land that drain into a body of water, are undergoing televised inspections in order to evaluate their vulnerabilities and repair needs. The rehabilitation program encompasses manhole repairs, single area excavations, as well as repair or lining of large sections of pipe using Cured-in-Place Pipe (CIPP) technology. CIPP is one of the most widely used methods of repairing existing pipelines. The pipe-within-a-pipe method is jointless, seamless, and trenchless with the capability to rehabilitate 4" - 110" diameter pipe. The \$90 million investment in the sewer rehabilitation program will reduce the amount of stormwater entering the system, improve performance and extend the life of the sewer system.

Brookside Sewer Improvements



## ***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 \$76.8 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 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

	2014	2013
Assets		(as restated)
Current assets		
Cash and cash equivalents	\$ 4,819,414	\$ 5,815,365
Investments	14,076,877	15,809,994
Accounts receivable, net	21,759,406	18,077,911
Accrued interest receivable	255,326	265,424
Inventories	454,822	462,399
Due from other funds	109,868	55,858
	<u>41,475,713</u>	<u>40,486,951</u>
Total unrestricted current assets		
Restricted assets		
Cash and cash equivalents	7,801,015	8,452,572
Investments	4,755,546	35,275,221
Accrued interest receivable	283,070	450,675
	<u>12,839,631</u>	<u>44,178,468</u>
Total restricted current assets		
Total current assets	<u>54,315,344</u>	<u>84,665,419</u>
Investments	98,197,397	73,339,500
Restricted assets - investments	106,687,212	117,691,034
Capital assets, depreciable, net	867,188,508	771,206,246
Capital assets, nondepreciable	81,462,568	97,081,078
	<u>1,207,851,029</u>	<u>1,143,983,277</u>
Total assets		
Deferred Outflows of Resources	<u>945,949</u>	<u>995,931</u>
Total assets and deferred outflows of resources	<u>\$ 1,208,796,978</u>	<u>\$ 1,144,979,208</u>

See Notes to Financial Statements

	2014	2013 (as restated)
<b>Liabilities and Net Position</b>		
Current liabilities		
Accounts payable	\$ 8,854,566	\$ 9,922,448
Current portion of compensated absences	558,546	584,530
Accrued payroll and related expenses	854,912	770,331
Contracts and retainage payable	869,102	372,582
Other liabilities	307,012	593,127
Current portion of due to other funds	131,722	14,153
Current portion of claims liability	1,360,098	1,199,835
	<u>12,935,958</u>	<u>13,457,006</u>
Total current liabilities, less liabilities payable from restricted assets		
	<u>12,935,958</u>	<u>13,457,006</u>
Liabilities payable from restricted assets		
Accrued interest and fiscal agent fees	4,779,252	5,055,365
Current portion of revenue bonds and notes payable	19,116,658	18,621,354
Contracts and retainage payable	2,765,676	2,455,164
	<u>26,661,586</u>	<u>26,131,883</u>
Total liabilities payable from restricted assets		
	<u>26,661,586</u>	<u>26,131,883</u>
Total current liabilities	<u>39,597,544</u>	<u>39,588,889</u>
Compensated absences	1,715,561	1,665,462
Claims liability	4,456,715	4,270,085
Other post-employment benefit obligation	4,250,758	3,984,353
Pension liability	3,954,436	3,774,034
Revenue bonds and notes payable, net of current portion	325,164,052	341,426,032
	<u>379,139,066</u>	<u>394,708,855</u>
Total liabilities		
	<u>379,139,066</u>	<u>394,708,855</u>
Net position		
Net investment in capital assets	693,704,508	651,557,999
Restricted-expendable	22,724,620	11,664,261
Unrestricted	113,228,784	87,048,093
	<u>829,657,912</u>	<u>750,270,353</u>
Total net position		
	<u>829,657,912</u>	<u>750,270,353</u>
Total liabilities and net position	<u>\$ 1,208,796,978</u>	<u>\$ 1,144,979,208</u>

**City of Kansas City, Missouri Sewer Fund**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended April 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b> <b>(as restated)</b>
<b>Operating Revenues</b>		
Retail sewer charges	\$ 106,689,690	\$ 93,951,330
Intermunicipal sewer charges	28,047,478	24,508,149
Stormwater fees	12,866,145	12,648,966
Other operating revenues	<u>3,647,080</u>	<u>3,873,393</u>
Total operating revenues	<u>151,250,393</u>	<u>134,981,838</u>
<b>Operating Expenses</b>		
Sewage treatment and pumping	22,025,549	21,530,125
Sewer maintenance	26,767,154	25,169,485
Administrative and general	23,205,978	22,351,473
Industrial and household hazardous waste control	1,277,181	1,318,222
Depreciation and amortization	<u>23,947,433</u>	<u>22,450,445</u>
Total operating expenses	<u>97,223,295</u>	<u>92,819,750</u>
<b>Operating Income</b>	<u>54,027,098</u>	<u>42,162,088</u>
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	1,073,477	1,803,044
Interest expense and fiscal agent fees	(6,813,348)	(6,463,942)
Other	<u>244,250</u>	<u>(722,436)</u>
Total nonoperating expenses, net	<u>(5,495,621)</u>	<u>(5,383,334)</u>
<b>Excess of Revenues Over Expenses Before Capital Contributions</b>	48,531,477	36,778,754
<b>Capital Contributions</b>	<u>30,856,082</u>	<u>5,693,415</u>
<b>Increase in Net Position</b>	<u>79,387,559</u>	<u>42,472,169</u>
<b>Net Position, Beginning of Year, as Previously Reported</b>	750,270,353	710,674,682
Adjustment for Change in Accounting Principle	<u>-</u>	<u>(2,876,498)</u>
<b>Net Position, Beginning of Year, as Adjusted</b>	<u>750,270,353</u>	<u>707,798,184</u>
<b>Net Position, End of Year</b>	<u><u>\$ 829,657,912</u></u>	<u><u>\$ 750,270,353</u></u>

**City of Kansas City, Missouri Sewer Fund**  
**Statements of Cash Flows**  
**Years Ended April 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b> <b>(as restated)</b>
<b>Operating Activities</b>		
Cash received from customers	\$ 147,514,888	\$ 134,276,701
Cash paid to employees, including benefits	(28,741,478)	(26,618,419)
Cash paid to suppliers	(47,911,484)	(40,464,986)
Net cash provided by operating activities	<u>70,861,926</u>	<u>67,193,296</u>
<b>Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(64,196,892)	(71,920,845)
Proceeds from sale of capital assets	401,377	132,298
Proceeds from issuance of revenue bonds and notes payable, net of premium and discount	3,666,462	86,191,114
Debt issuance costs	-	(606,448)
Principal payments on revenue bonds and notes payable	(18,808,700)	(16,507,500)
Refunding of bond principal	-	(11,605,000)
Fiscal agent fees and interest paid on revenue bonds and notes payable	(13,221,578)	(11,463,715)
Net cash used in capital and related financing activities	<u>(92,159,331)</u>	<u>(25,780,096)</u>
<b>Investing Activities</b>		
Investment purchases	(133,429,558)	(143,509,016)
Investment maturities and sales	152,550,101	102,073,359
Interest received on investments	529,354	1,124,646
Net cash provided by (used in) investing activities	<u>19,649,897</u>	<u>(40,311,011)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(1,647,508)	1,102,189
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>14,267,937</u>	<u>13,165,748</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 12,620,429</u></u>	<u><u>\$ 14,267,937</u></u>

**City of Kansas City, Missouri Sewer Fund**  
**Statements of Cash Flows (Continued)**  
**Years Ended April 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
		<b>(as restated)</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 54,027,098	\$ 42,162,088
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	23,947,433	22,450,445
Changes in assets and liabilities		
Accounts receivable and special assessments receivable	(3,681,495)	(658,044)
Inventories	7,577	(60,909)
Due from other funds	(54,010)	(47,093)
Accounts payable	(4,118,527)	1,443,993
Compensated absences	24,115	84,455
Accrued payroll and related expenses	84,581	202,774
Other liabilities	(286,115)	488
Due to other funds	117,569	(15,467)
Claims payable	346,893	1,278,086
Pension liability	180,402	166,520
Other post-employment benefit obligation	266,405	185,960
Total adjustments	16,834,828	25,031,208
Net cash provided by operating activities	<u>\$ 70,861,926</u>	<u>\$ 67,193,296</u>
<b>Components of Cash and Cash Equivalents at End of Year</b>		
Unrestricted	\$ 4,819,414	\$ 5,815,365
Restricted	7,801,015	8,452,572
	<u>\$ 12,620,429</u>	<u>\$ 14,267,937</u>
<b>Noncash Activities</b>		
Contributions of capital assets	\$ 30,856,082	\$ 5,693,415
Change in fair value of investments	(721,826)	(705,363)
Accounts payable incurred for purchase of capital assets	9,426,712	9,648,310



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

## **Notes to Financial Statements**

**April 30, 2014 and 2013**

### **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, 2014 and 2013, 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.

During the year ended April 30, 2014, the Sewer Fund adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows and deferred inflows of resources, such as limiting the use of the term “deferred” in the financial statement presentations. Adoption of GASB 65 resulted in a decrease of approximately \$2.9 million in net position as of May 1, 2012, and a decrease in the change in net position for the year ended April 30, 2013 of approximately \$330,000. These changes resulted from the requirement in GASB 65 that debt issuance costs be recognized as an expense in the period incurred. Other changes resulting from the implementation of GASB 65 are the reclassification of the deferred loss on refunding to deferred outflow of resources.

#### ***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.

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

## **Notes to Financial Statements**

**April 30, 2014 and 2013**

### ***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 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.

### ***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.

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

## **Notes to Financial Statements**

### **April 30, 2014 and 2013**

Interest costs capitalized on project-related debt for the years ended April 30, 2014 and 2013 totaled \$5,557,662 and \$4,924,012, respectively.

#### ***Deferred Outflows and Inflows of Resources***

A deferred outflow of resources is a consumption of net position by the Sewer 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, 2014 and 2013, the Fund's deferred outflows of resources of \$945,949 and \$995,931, respectively, were comprised of deferred losses on bond refunding.

#### ***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.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2014 and 2013

### 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, 2014 and 2013, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately \$28,200,000 and \$45,069,000, 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 \$6,215,095 and \$8,312,151 at April 30, 2014 and 2013, 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 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.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2014 and 2013

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.
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, 2014 and 2013

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)				Weighted Average
		Less Than 1	1 – 2	2 – 3	3 – 5	
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 Sewer Fund's allocation of pooled investments at April 30, 2014 was \$150,488,726. The Sewer Fund's non-pooled investments at April 30, 2014 were \$73,513,499.

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
	\$ 962,008	\$ 549,717	\$ 180,981	\$ 89,135	\$ 142,175	1.37

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2014 and 2013

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.

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 \$6,120,141 and \$5,955,783 at April 30, 2014 and 2013, 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, 2014 and 2013, the total fair value of the City's callable bond portfolio (pooled and non-pooled) is \$228,322,207 and \$188,950,355, 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%

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2014 and 2013

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+
	<u>\$ 883,847</u>	

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	Aa2/AA
	<u>\$ 962,008</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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013

### Concentration of Credit Risk

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.

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.

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, 2014 and 2013:

	2014	2013
Deposits	\$ 6,215,095	\$ 8,312,151
Pooled investments	150,488,726	124,190,801
Non-pooled investments	73,513,499	117,924,951
Trustee accounts	6,120,141	5,955,783
Total	<u>\$ 236,337,461</u>	<u>\$ 256,383,686</u>

The deposits and investments of the Sewer Fund at April 30, 2014 and 2013 are reflected in the statements of net position as follows:

	2014	2013
Current assets		
Unrestricted		
Cash and cash equivalents	\$ 4,819,414	\$ 5,815,365
Investments	14,076,877	15,809,994
Restricted		
Cash and cash equivalents	7,801,015	8,452,572
Investments	4,755,546	35,275,221
Investments	98,197,397	73,339,500
Restricted investments	106,687,212	117,691,034
Total	<u>\$ 236,337,461</u>	<u>\$ 256,383,686</u>

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2014 and 2013

### Note 3: Accounts Receivable

A summary of accounts receivable at April 30, 2014 and 2013 is as follows:

	2014	2013
Sewer customers	\$ 18,187,867	\$ 14,690,966
Unbilled utility revenue	7,417,637	6,138,243
Intermunicipal sewer customers	6,419,179	5,307,371
Other accounts receivable	90,526	3,631
	<u>32,115,209</u>	<u>26,140,211</u>
Less allowance for doubtful accounts	<u>10,355,803</u>	<u>8,062,300</u>
Net accounts receivable	<u>\$ 21,759,406</u>	<u>\$ 18,077,911</u>

### Note 4: Capital Assets

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

	May 1, 2013	Additions	Retirements/ Adjustments	April 30, 2014
Depreciable assets				
Sewerage treatment plant and other facilities	\$ 319,894,984	\$ 21,954,924	\$ (5,620,836)	\$ 336,229,072
Sewer lines	708,548,413	80,089,894	(1,701,092)	786,937,215
Equipment	65,338,853	18,065,578	(3,424,408)	79,980,023
Total depreciable assets	<u>1,093,782,250</u>	<u>120,110,396</u>	<u>(10,746,336)</u>	<u>1,203,146,310</u>
Accumulated depreciation				
Sewerage treatment plant and other facilities	(207,324,987)	(7,584,986)	5,620,836	(209,289,137)
Sewer lines	(77,940,317)	(12,239,213)	1,701,092	(88,478,438)
Equipment	(37,310,700)	(4,123,235)	3,243,708	(38,190,227)
Total accumulated depreciation	<u>(322,576,004)</u>	<u>(23,947,434)</u>	<u>10,565,636</u>	<u>(335,957,802)</u>
Total depreciable assets, net	<u>771,206,246</u>	<u>96,162,962</u>	<u>(180,700)</u>	<u>867,188,508</u>
Nondepreciable assets				
Land and permanent right of ways	11,996,639	635,372	-	12,632,011
Construction in process	85,084,439	73,974,628	(90,228,510)	68,830,557
Total nondepreciable assets	<u>97,081,078</u>	<u>74,610,000</u>	<u>(90,228,510)</u>	<u>81,462,568</u>
Capital assets, net	<u>\$ 868,287,324</u>	<u>\$ 170,772,962</u>	<u>\$ (90,409,210)</u>	<u>\$ 948,651,076</u>

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2014 and 2013

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

	May 1, 2012	Additions	Retirements/ Adjustments	May 1, 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, 2014 and 2013

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

Revenue bonds and notes payable outstanding consist of the following at April 30, 2014 and 2013:

Issue	Interest Rates	Maturing Through	2014	2013
State Series 1992B	4.50% – 6.55%	July 2013	\$ -	\$ 105,000
State Series 1995B	4.50% – 7.75%	January 2015	1,460,000	2,890,000
State Series 1996A	3.60% – 7.00%	January 2016	3,775,000	5,510,000
State Series 1997A	3.95% – 5.75%	January 2017	3,995,000	5,265,000
State Series 1998A	3.90% – 5.25%	January 2019	3,165,000	3,710,000
State Series 1999A	3.625% – 5.25%	January 2020	2,375,000	2,705,000
State Series 2000A	4.60% – 5.75%	July 2020	5,165,000	5,835,000
State Series 2000B	4.25% – 5.625%	July 2020	4,660,000	5,265,000
Stormwater 2000	1.70%	December 2020	495,000	561,200
Stormwater 2001 & 2002	1.60%	December 2021	2,559,000	2,858,000
State Series 2001B	3.00% – 5.375%	July 2022	8,645,000	9,485,000
State Series 2002J	2.00% – 5.50%	July 2022	5,145,000	5,640,000
Series 2004A	2.00% – 4.75%	January 2024	-	940,000
Series 2004H	3.00% – 5.25%	January 2025	6,305,000	6,795,000
Series 2005B	3.00% – 5.00%	January 2025	10,040,000	10,750,000
Stormwater 2007	1.40%	June 2027	301,000	319,000
Series 2007A	4.00% – 5.00%	January 2032	33,355,000	34,575,000
Series 2009A	2.50% – 5.25%	January 2034	61,820,000	63,820,000
Series 2009B	1.480%	July 2030	12,002,958	9,036,996
Series 2011A	2.00% – 5.00%	January 2037	84,140,000	86,625,000
Series 2012A	2.00% – 5.00%	January 2037	76,795,000	78,650,000
			<u>326,197,958</u>	<u>341,340,196</u>
Add premiums			18,690,589	19,342,019
Less				
Current portion			(19,116,658)	(18,621,354)
Discount			<u>(607,837)</u>	<u>(634,829)</u>
Noncurrent revenue bonds and notes payable			<u>\$ 325,164,052</u>	<u>\$ 341,426,032</u>

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2014 and 2013**

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

	<b>May 1, 2013</b>	<b>Additions</b>	<b>Reductions</b>	<b>April 30, 2014</b>
Revenue bonds and notes payable	\$ 341,340,196	\$ 3,666,462	\$ (18,808,700)	\$ 326,197,958
Less				
Unamortized bond discount	(634,829)	-	26,992	(607,837)
Add				
Unamortized bond premium	19,342,019	-	(651,431)	18,690,589
Total revenue bonds and notes payable	<u>\$ 360,047,386</u>	<u>\$ 3,666,462</u>	<u>\$ (19,433,139)</u>	<u>\$ 344,280,710</u>

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)
Add				
Unamortized bond premium	11,567,068	8,481,620	(706,669)	19,342,019
Total revenue bonds and notes payable	<u>\$ 301,811,495</u>	<u>\$ 87,028,067</u>	<u>\$ (28,792,176)</u>	<u>\$ 360,047,386</u>

The annual requirements to retire the bonds and notes outstanding as of April 30, 2014 are as follows:

<b>Year Ending April 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 19,116,658	\$ 14,247,506	\$ 33,364,164
2016	18,282,100	13,398,452	31,680,552
2017	16,918,700	12,573,737	29,492,437
2018	16,109,800	11,832,729	27,942,529
2019	16,646,300	11,216,210	27,862,510
2020 – 2024	77,921,600	45,672,756	123,594,356
2025 – 2029	65,040,800	30,323,460	95,364,260
2030 – 2034	68,187,000	15,104,834	83,291,834
2035 – 2037	27,975,000	2,369,219	30,344,219
	<u>\$ 326,197,958</u>	<u>\$156,738,903</u>	<u>\$482,936,861</u>

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2014 and 2013

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.

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, 2014. 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, 2014, 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, 2014 and 2013

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

	2014	2013
Principal and interest	\$ 13,191,738	\$ 12,764,622
Renewal and replacement	11,501,215	3,008,379
Retention pond maintenance	50,547	50,140
Construction	94,783,343	146,046,361
	<u>\$ 119,526,843</u>	<u>\$ 161,869,502</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 \$13,761,455, which is expected to require 4% 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 \$465,820,404 and is expected to require 26% of net sewer revenues. The stormwater loans are payable from stormwater revenues. Total principal and interest on those loans is \$3,606,869 and is expected to require 11% of net stormwater revenues. Principal and interest paid for the year ended April 30, 2014 and net revenues for the Sewer Fund were \$33,573,613 and \$79,394,901, respectively.

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

Amounts due to/from other funds at April 30, 2014 and 2013 were as follows:

	2014		2013	
	Due from	Due to	Due from	Due to
Water fund	\$ 109,319	\$ 131,722	\$ 332	\$ 14,153
General fund	549	-	55,526	-
	<u>\$ 109,868</u>	<u>\$ 131,722</u>	<u>\$ 55,858</u>	<u>\$ 14,153</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, 2014 and 2013

### 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, 2014 and 2013 are presented as administrative and general expenses and are as follows:

	<u>2014</u>	<u>2013</u>
Administrative, data processing and accounting	\$ 4,525,688	\$ 4,485,494

Payments to the City of Kansas City, Missouri Water fund for billing, collecting and accounting services were \$3,115,782 and \$4,485,554 for the years ended April 30, 2014 and 2013, 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, 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 Sewer Fund's allocation was approximately \$3,954,000 as of April 30, 2014.

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.

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, 2014 and 2013

The net pension obligation at April 30, 2014 is as follows:

	City	Fund
Annual required contribution (ARC)	\$ 27,568,194	\$ 3,261,613
Interest on net pension obligation	2,820,325	283,053
Adjustment to annual required contribution	(2,893,685)	(289,645)
Annual pension cost (APC)	27,494,834	3,255,021
Contributions made (employer)	(25,987,662)	(3,074,619)
Change in net pension obligation	1,507,172	180,402
Net pension obligation, April 30, 2013	37,604,330	3,774,034
Net pension obligation, April 30, 2014	<u>\$ 39,111,502</u>	<u>\$ 3,954,436</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, 2014 and 2013

The net OPEB obligation at April 30, 2014 is as follows:

	<b>City</b>	<b>Fund</b>
Annual required contribution (ARC)	\$ 10,914,424	\$ 863,342
Interest on net OPEB obligation	2,869,263	179,296
Adjustment to annual required contribution	(3,828,893)	(239,262)
Annual OPEB cost (expense)	9,954,794	803,376
Contributions made (employer)	(6,788,408)	(536,971)
Change in net OPEB obligation	3,166,386	266,405
Net OPEB obligation, April 30, 2013	63,761,405	3,984,353
Net OPEB obligation, April 30, 2014	<u>\$ 66,927,791</u>	<u>\$ 4,250,758</u>

#### ***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 2014 and 2013 overall net OPEB obligation of approximately \$66,928,000 and \$63,761,000, respectively, to each participating fund. For the years ended April 30, 2014 and 2013, the Sewer Fund's allocation was approximately \$4,251,000 and \$3,985,000, 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, 2014 and 2013

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% 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, 2014 and 2013, the City had made purchase commitments, primarily for additions to plant, on behalf of the Sewer Fund of approximately \$52,922,000 and \$98,355,000, 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, 2014 and 2013

### 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 \$2,600,000 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 \$403,138 per person and \$2,687,594 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 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, 2014 and 2013 is summarized as follows:

	<b>2014</b>	<b>2013</b>
Balance, beginning of the year	\$ 5,469,920	\$ 4,191,834
Current year claims incurred and changes in estimates for claims incurred in prior years	2,311,594	3,400,905
Claims and expenses paid	<u>(1,964,701)</u>	<u>(2,122,819)</u>
Balance, end of the year	5,816,813	5,469,920
Less current portion	<u>(1,360,098)</u>	<u>(1,199,835)</u>
Noncurrent portion	<u><u>\$ 4,456,715</u></u>	<u><u>\$ 4,270,085</u></u>

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2014 and 2013

### Note 13: Net Position

Net investment in capital assets is comprised of the following:

	2014	2013
Capital Related Assets		
Land	\$ 12,632,011	\$ 11,996,639
Construction in progress	68,830,557	85,084,439
Treatment plant and other facilities	336,229,072	319,894,984
Sewer lines	786,937,215	708,548,413
Equipment	79,980,023	65,338,853
	<u>1,284,608,878</u>	<u>1,190,863,328</u>
Less accumulated depreciation	(335,957,802)	(322,576,004)
Total capital related assets	<u>948,651,076</u>	<u>868,287,324</u>
Deferred outflows of resources	<u>945,949</u>	<u>995,931</u>
Less Related Liabilities		
Current portion, bonds and notes payable	19,116,658	18,621,354
Bonds and notes payable, net of premium, discount and unspent proceeds	233,141,081	196,276,156
Contracts and retainage payable	3,634,778	2,827,746
Total capital related liabilities	<u>255,892,517</u>	<u>217,725,256</u>
Net investment in capital assets	<u>\$ 693,704,508</u>	<u>\$ 651,557,999</u>

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2014 and 2013**

Restricted-expendable net position as of April 30, 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
Restricted Assets		
Cash and cash equivalents	\$ 7,801,015	\$ 8,452,572
Investments	111,442,758	152,966,255
Interest receivable	283,070	450,675
	<u>119,526,843</u>	<u>161,869,502</u>
Less Liabilities from Restricted Assets		
Debt related to unspent bond proceeds	92,022,971	145,149,876
Accrued interest and fiscal agent fees	4,779,252	5,055,365
	<u>96,802,223</u>	<u>150,205,241</u>
Restricted-Expendable Net Position	<u><u>\$ 22,724,620</u></u>	<u><u>\$ 11,664,261</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

## Notes to Financial Statements

April 30, 2014 and 2013

### Note 15: Change in Accounting Principle

During the year ended April 30, 2014, the Sewer Fund adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows and deferred inflows of resources, such as limiting the use of the term “deferred” in the financial statement presentations. The adoption of GASB 65 resulted in changes to 2013. These changes resulted from the requirements in GASB 65 that debt issuance costs be recognized as an expense in the period incurred. Other changes resulting from the implementation of GASB 65 are the reclassification of the deferred losses on refundings of debt to deferred outflow of resources.

	As Previously Reported	Adjustment	As Restated
Statement of Net Position			
Debt issuance costs, net	\$ 3,209,992	\$ (3,209,992)	\$ -
Deferred loss on refunding, net	995,931	(995,931)	-
Deferred outflows of resources	-	995,931	995,931
Statement of Revenues, Expenses and Changes in Net Position			
Net position as of May 1, 2013	\$ 710,674,682	\$ (2,876,498)	\$ 707,798,184
Depreciation and amortization	22,865,773	(415,328)	22,450,445
Other (revenues) expenses	(26,386)	748,822	722,436

**City of Kansas City, Missouri Sewer Fund**  
**Supplementary Information**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended April 30, 2014**

	<u>Wastewater</u>	<u>Stormwater</u>	<u>Total</u>
<b>Operating Revenues</b>			
Retail sewer charges	\$ 106,689,690	\$ -	\$ 106,689,690
Intermunicipal sewer charges	28,047,478	-	28,047,478
Stormwater fees	-	12,866,145	12,866,145
Other operating revenues	<u>3,462,062</u>	<u>185,018</u>	<u>3,647,080</u>
Total operating revenues	<u>138,199,230</u>	<u>13,051,163</u>	<u>151,250,393</u>
<b>Operating Expenses</b>			
Sewerage treatment and pumping	21,852,034	173,515	22,025,549
Sewer maintenance	20,686,435	6,080,719	26,767,154
Administrative and general	18,709,733	4,496,245	23,205,978
Industrial and household hazardous waste control	1,277,181	-	1,277,181
Depreciation and amortization	<u>19,274,805</u>	<u>4,672,628</u>	<u>23,947,433</u>
Total operating expenses	<u>81,800,188</u>	<u>15,423,107</u>	<u>97,223,295</u>
<b>Operating Income (Loss)</b>	<u>56,399,042</u>	<u>(2,371,944)</u>	<u>54,027,098</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	1,031,813	41,664	1,073,477
Interest expense and fiscal agent fees	(6,734,916)	(78,432)	(6,813,348)
Other	<u>52,947</u>	<u>191,303</u>	<u>244,250</u>
Total nonoperating revenues (expenses), net	<u>(5,650,156)</u>	<u>154,535</u>	<u>(5,495,621)</u>
<b>Excess of Revenues Over (Under) Expenses Before Capital Contributions</b>	50,748,886	(2,217,409)	48,531,477
<b>Capital Contributions</b>	<u>14,809,919</u>	<u>16,046,163</u>	<u>30,856,082</u>
<b>Increase in Net Position</b>	<u><u>\$ 65,558,805</u></u>	<u><u>\$ 13,828,754</u></u>	<u><u>\$ 79,387,559</u></u>