

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

Auditor's Report and Financial Statements

April 30, 2015 and 2014



**City of Kansas City, Missouri Sewer Fund**  
**April 30, 2015 and 2014**

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

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the 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, 2015 and 2014, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***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**

Kansas City, Missouri  
October 30, 2015

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

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

### **Years Ended April 30, 2015 and 2014**

Management's discussion and analysis (MD&A) of the City of Kansas City, Missouri's 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, 2015 and April 30, 2014, with selected comparative information for the fiscal year ended April 30, 2013. The Fund is an enterprise fund of the City of Kansas City, Missouri (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, 2015 and April 30, 2014. 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 during construction. Capital assets not completed by year-end have been reported as construction-in-progress. (See Notes to Financial Statements for significant accounting policies.)

The statements of net position include the Fund's assets, deferred outflows and liabilities, with the difference between the sum of assets and deferred outflows less liabilities reported as net position.

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

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

## Financial Position and Assessment

### Summary of Net Position

(In thousands)

	April 30		
	2015	2014	2013
<b>Assets</b>			
Current assets - unrestricted	\$ 40,315	\$ 41,476	\$ 40,487
Current assets - restricted	19,541	12,840	44,178
Noncurrent investments - unrestricted	130,233	98,197	73,340
Noncurrent investments - restricted	65,929	106,687	117,691
Capital assets	<u>1,010,532</u>	<u>948,651</u>	<u>868,287</u>
Total assets	1,266,550	1,207,851	1,143,983
<b>Deferred Outflows of Resources</b>			
	<u>803</u>	<u>946</u>	<u>996</u>
Total assets and deferred outflows of resources	<u>\$ 1,267,353</u>	<u>\$ 1,208,797</u>	<u>\$ 1,144,979</u>
<b>Liabilities</b>			
Current liabilities	\$ 16,574	\$ 12,935	\$ 13,457
Liabilities payable from restricted assets	24,563	26,662	26,132
Long-term liabilities	<u>319,816</u>	<u>339,542</u>	<u>355,120</u>
Total liabilities	<u>360,953</u>	<u>379,139</u>	<u>394,709</u>
<b>Net Position</b>			
Net investment in capital assets	733,947	693,704	651,558
Restricted-expendable	31,484	22,725	11,664
Unrestricted	<u>140,969</u>	<u>113,229</u>	<u>87,048</u>
Total net position	<u>906,400</u>	<u>829,658</u>	<u>750,270</u>
Total liabilities and net position	<u>\$ 1,267,353</u>	<u>\$ 1,208,797</u>	<u>\$ 1,144,979</u>

Total assets increased by \$58.6 million or 4.8% from the prior year. During the current and prior year, there were no new Sewer Revenue Bonds issued. Current year cash inflows were higher. Cash, cash equivalents and investments that are restricted for debt service costs, construction and renewal and replacement decreased by approximately 28.5%. Unrestricted assets used in daily operations increased by approximately 22.1%. Most of the increase is attributable to the 14.3% rise in net accounts receivable resulting from the 15% scheduled increase in sewer service fees. Capital assets increased by \$61.9 million or 6.5% as anticipated from the ongoing capital improvements program.

Total liabilities decreased by \$18.2 million or 4.8%. As mentioned earlier, no bonds were issued during the year. Debt was reduced by the scheduled \$19.1 million retirement of outstanding bonds. Additionally, contract retainage payable decreased by \$0.8 million or 23% as the result of completed construction activity. The Fund's portion of claims liability decreased by \$0.24 million or 4.2%. Post-employment benefits decreased by \$0.1 million or 0.8%.

At the close of the year, total assets and deferred outflows exceeded total liabilities resulting in net position of \$906.4 million. Of this amount, \$141 million is 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 \$76.7 million or 9.2% from the previous year indicating that the Fund improved its financial position. The largest portion of net position, \$733.9 million or 81%, 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 2014, 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 FY13 and netted the Fund \$68.8 million of new money to invest in sewer infrastructure improvements. 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 was 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%. 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. Claims liability increased by \$0.4 million or 6.3% and post-employment benefits increased by \$0.8 million or 6.0%.

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

*(In thousands)*

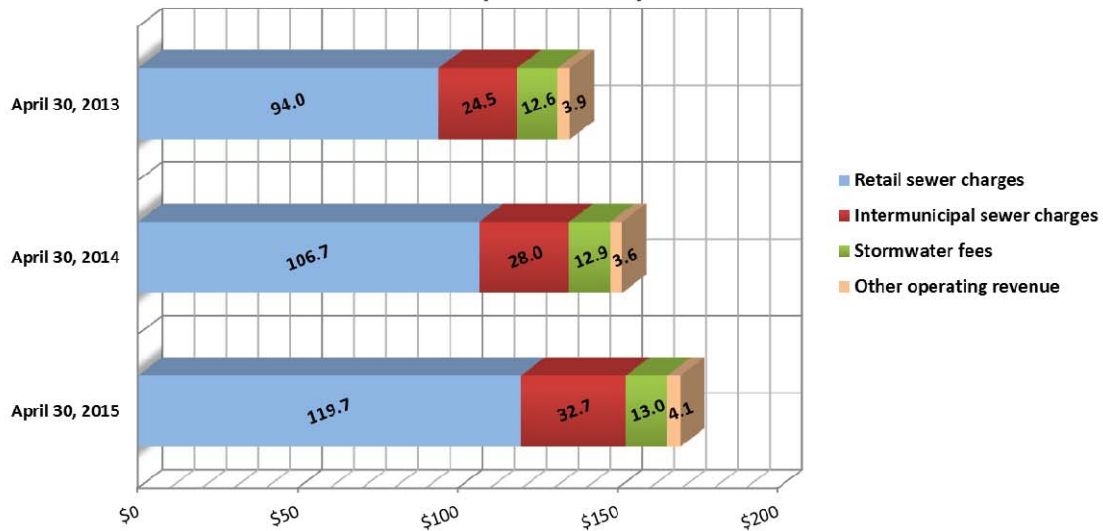
	Year Ended April 30		
	2015	2014	2013
Operating revenues	\$ 169,494	\$ 151,251	\$ 134,982
Operating expenses	(109,783)	(97,223)	(92,820)
Operating income	59,711	54,028	42,162
Nonoperating expenses, net	(5,186)	(5,496)	(5,383)
Increase in net position before capital contributions	54,525	48,532	36,779
Capital contributions	22,217	30,856	5,693
Change in net position	76,742	79,388	42,472
Total net position - beginning of the year, as previously reported	829,658	750,270	710,675
Adjustment for change in accounting principle	-	-	(2,877)
Net position - beginning of the year, as adjusted	829,658	750,270	669,380
Total net position - end of the year	\$ 906,400	\$ 829,658	\$ 750,270

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

	Year Ended April 30		
	2015	2014	2013
Retail sewer charges	\$ 119,720	\$ 106,691	\$ 93,951
Intermunicipal sewer charges	32,701	28,047	24,508
Stormwater fees	12,980	12,866	12,649
Other operating revenue	4,093	3,647	3,874
<b>Total operating revenues</b>	<b>\$ 169,494</b>	<b>\$ 151,251</b>	<b>\$ 134,982</b>

Total operating revenues increased by \$18.2 million or 12.1% in FY 2015. Residential and commercial retail sewer charges contributed \$13.0 million or 71.4% to the increase, primarily due to the scheduled 15% sewer rate increase in effect all year. Revenue from inter-jurisdictional services contributed \$4.7 million or 25.5% to the increase in operating revenue. Sales to inter-jurisdictional customers increased by 16.6% over the prior year due in part to higher metered flow, as well as higher service rates under inter-jurisdictional agreements. Stormwater fees remained stable during the year. There was a slight increase 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)



At the close of FY 2014, total operating revenues increased by \$16.3 million or 12.1%. The increase was attributable mostly to the scheduled 15% sewer rate increase in effect all year. Additional sales, net of bad debt expense, to residential and commercial retail customers contributed \$12.7 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 decreased by approximately \$0.3 million or 6.2%.

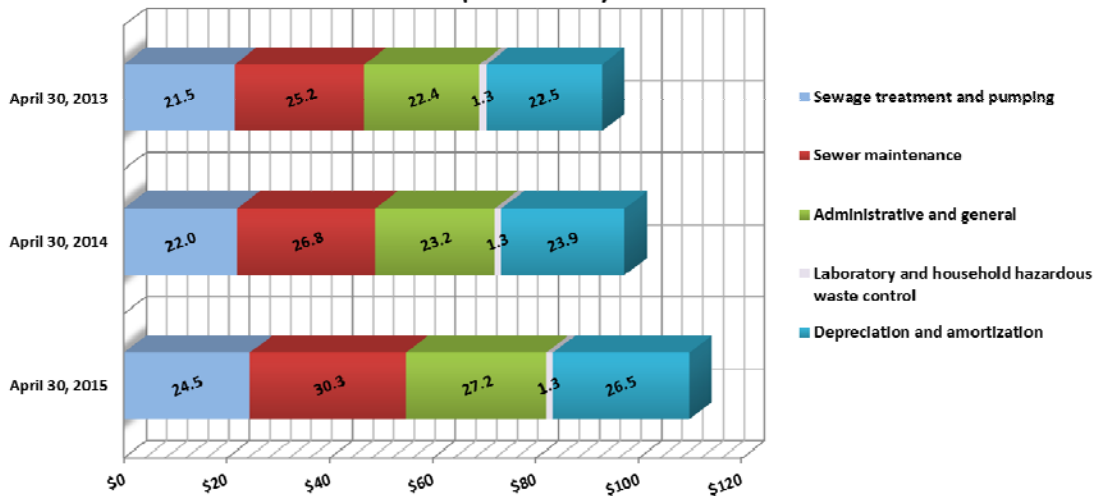


**Summary of Operating Expenses**  
(In thousands)

	Year Ended April 30		
	2015	2014	2013
Sewage treatment and pumping	\$ 24,479	\$ 22,026	\$ 21,530
Sewer maintenance	30,296	26,767	25,170
Administrative and general	27,193	23,206	22,351
Industrial and household hazardous waste control	1,323	1,277	1,318
Depreciation and amortization	26,492	23,947	22,451
<b>Total operating expenses</b>	<b>\$ 109,783</b>	<b>\$ 97,223</b>	<b>\$ 92,820</b>

Total operating expenses increased by \$12.6 million or 12.9% 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). Sewage treatment and pumping expenses increased by \$2.5 million or 11.1%, sewer maintenance expenses increased by \$3.5 million or 13.2%, administrative and general expenses increased by \$4.0 million or 17.2% and depreciation and amortization expenses increased by \$2.5 million or 10.6%.

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

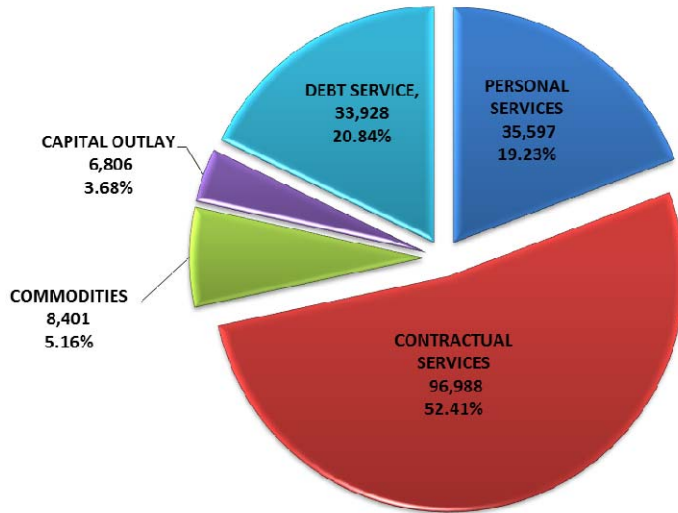


In FY 2014, total operating expenses increased by \$4.4 million or 4.7% over the previous year. The Fund continues investing in sewer system improvements in order to comply with the Overflow Control Program (OCP) as mandated by the Environmental Protection Agency (EPA). Sewage treatment and pumping expenses increased by \$.5 million or 2.3%, sewer maintenance expenses increased by \$1.6 million or 6.3%, administrative and general expenses increased by \$.9 million or 3.8% and depreciation and amortization expenses increased by \$1.5 million or 6.7%.

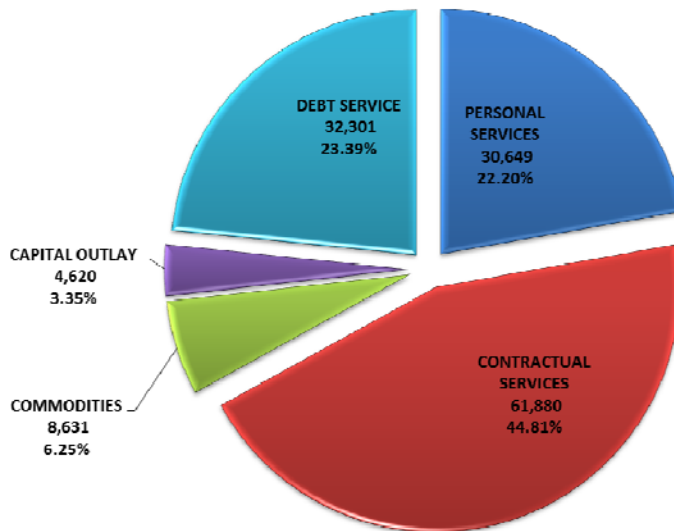
### Comparison of Budget to Actual Expenditures for FY 2015

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

**BUDGETED EXPENDITURES  
(IN THOUSANDS)  
2014-15**



**ACTUAL EXPENDITURES  
(IN THOUSANDS)  
2014-15**



## **Capital Assets**

At April 30, 2015, capital assets totaled \$1,010.5 million (net of accumulated depreciation) and accounted for 79.8% 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 \$82.8 million were completed. The investment in infrastructure included \$62.7 million for sanitary sewer rehabilitation and replacement; \$16.8 million for storm sewer improvements; and \$5.6 million for treatment plant upgrades; and \$1.5 million for pumping stations and equipment. In addition to completed projects, there was \$4.0 million in contributed assets from property developers, and \$7.8 million of assets transferred from Public Works. Additions and replacements of machinery and equipment totaled \$0.3 million. The increases in depreciable capital assets were offset by disposals and retirements of \$10.0 million.

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.

## **Overflow Control Program**

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 will have invested approximately \$600 million over five years in capital improvement projects. Of this amount, \$362 million is committed to the 25-year federally mandated OCP. 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.

## **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 \$74.1 million outstanding of Sanitary Sewer System Improvement and Refunding Revenue Bonds, Series 2012A issued in December 2012. Bond proceeds will fund treatment plant, pumping station and sewer conveyance system improvements. Additionally, the bonds proceeds refunded a portion of the outstanding Series 2004A bonds for expected interest cost savings. Concurrently, Moody's has affirmed the Aa2 rating on the junior lien revenue debt outstanding of 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 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 63<sup>rd</sup> Street  
 Kansas City, MO 64130

**City of Kansas City, Missouri Sewer Fund**  
**Statements of Net Position**  
**April 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 7,484,942	\$ 4,819,414
Investments	7,163,752	14,076,877
Accounts receivable, net	24,808,554	21,759,406
Accrued interest receivable	373,542	255,326
Inventories	469,121	454,822
Due from other funds	14,602	109,868
Total unrestricted current assets	40,314,513	41,475,713
Restricted assets		
Cash and cash equivalents	7,496,524	7,801,015
Investments	11,824,989	4,755,546
Accrued interest receivable	219,800	283,070
Total restricted current assets	19,541,313	12,839,631
Total current assets	59,855,826	54,315,344
Investments	130,232,728	98,197,397
Restricted assets - investments	65,929,406	106,687,212
Capital assets, depreciable, net	943,870,313	867,188,508
Capital assets, nondepreciable	66,662,257	81,462,568
Total assets	1,266,550,530	1,207,851,029
<b>Deferred Outflows of Resources</b>	802,806	945,949
Total assets and deferred outflows of resources	\$ 1,267,353,336	\$ 1,208,796,978

See Notes to Financial Statements

	<u>2015</u>	<u>2014</u>
<b>Liabilities and Net Position</b>		
Current liabilities		
Accounts payable	\$ 12,382,478	\$ 8,854,566
Current portion of compensated absences	580,035	558,546
Accrued payroll and related expenses	1,032,354	854,912
Contracts and retainage payable	1,012,301	869,102
Other liabilities	190,312	307,012
Current portion of due to other funds	-	131,722
Current portion of claims liability	<u>1,376,581</u>	<u>1,360,098</u>
Total current liabilities, less liabilities payable from restricted assets	<u>16,574,061</u>	<u>12,935,958</u>
Liabilities payable from restricted assets		
Accrued interest and fiscal agent fees	4,496,378	4,779,252
Current portion of revenue bonds and notes payable	18,282,100	19,116,658
Contracts and retainage payable	<u>1,784,855</u>	<u>2,765,676</u>
Total liabilities payable from restricted assets	<u>24,563,333</u>	<u>26,661,586</u>
Total current liabilities	<u>41,137,394</u>	<u>39,597,544</u>
Compensated absences	1,831,573	1,715,561
Claims liability	4,195,777	4,456,715
Other post-employment benefit obligation	4,374,267	4,250,758
Pension liability	3,614,516	3,954,436
Revenue bonds and notes payable, net of current portion	<u>305,800,165</u>	<u>325,164,052</u>
Total liabilities	<u>360,953,692</u>	<u>379,139,066</u>
Net position		
Net investment in capital assets	733,946,847	693,704,508
Restricted-expendable	31,483,449	22,724,620
Unrestricted	<u>140,969,348</u>	<u>113,228,784</u>
Total net position	<u>906,399,644</u>	<u>829,657,912</u>
Total liabilities and net position	<u>\$ 1,267,353,336</u>	<u>\$ 1,208,796,978</u>

**City of Kansas City, Missouri Sewer Fund**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended April 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Operating Revenues</b>		
Retail sewer charges	\$ 119,719,601	\$ 106,689,690
Intermunicipal sewer charges	32,700,685	28,047,478
Stormwater fees	12,980,291	12,866,145
Other operating revenues	4,093,029	3,647,080
	<u>169,493,606</u>	<u>151,250,393</u>
<b>Operating Expenses</b>		
Sewage treatment and pumping	24,479,377	22,025,549
Sewer maintenance	30,295,934	26,767,154
Administrative and general	27,192,886	23,205,978
Industrial and household hazardous waste control	1,322,689	1,277,181
Depreciation and amortization	26,491,741	23,947,433
	<u>109,782,627</u>	<u>97,223,295</u>
	<u>59,710,979</u>	<u>54,027,098</u>
<b>Operating Income</b>		
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	2,612,752	1,073,477
Interest expense and fiscal agent fees	(7,760,680)	(6,813,348)
Other	(38,763)	244,250
	<u>(5,186,691)</u>	<u>(5,495,621)</u>
	<u>54,524,288</u>	<u>48,531,477</u>
<b>Excess of Revenues Over Expenses Before Capital Contributions</b>		
<b>Capital Contributions</b>	<u>22,217,444</u>	<u>30,856,082</u>
<b>Increase in Net Position</b>	<u>76,741,732</u>	<u>79,387,559</u>
<b>Net Position, Beginning of Year</b>	<u>829,657,912</u>	<u>750,270,353</u>
<b>Net Position, End of Year</b>	<u>\$ 906,399,644</u>	<u>\$ 829,657,912</u>

**City of Kansas City, Missouri Sewer Fund**  
**Statements of Cash Flows**  
**Years Ended April 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Operating Activities</b>		
Cash received from customers	\$ 166,276,063	\$ 147,257,149
Receipts from interfund services provided	263,661	257,739
Cash paid to employees, including benefits	(29,216,929)	(28,741,478)
Cash paid to suppliers	(47,946,932)	(38,865,385)
Cash paid for interfund services used	(8,810,192)	(9,046,099)
Net cash provided by operating activities	80,565,671	70,861,926
<b>Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(57,363,049)	(64,196,892)
Proceeds from sale of capital assets	205,962	401,377
Proceeds from issuance of revenue bonds and notes payable, net of premium and discount	-	3,666,462
Principal payments on revenue bonds and notes payable	(19,116,658)	(18,808,700)
Fiscal agent fees and interest paid on revenue bonds and notes payable	(13,054,852)	(13,221,578)
Net cash used in capital and related financing activities	(89,328,597)	(92,159,331)
<b>Investing Activities</b>		
Investment purchases	(74,996,940)	(133,429,558)
Investment maturities and sales	83,152,857	152,550,101
Interest received on investments	2,968,046	529,354
Net cash provided by investing activities	11,123,963	19,649,897
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	2,361,037	(1,647,508)
<b>Cash and Cash Equivalents, Beginning of Year</b>	12,620,429	14,267,937
<b>Cash and Cash Equivalents, End of Year</b>	\$ 14,981,466	\$ 12,620,429



**City of Kansas City, Missouri Sewer Fund**  
**Statements of Cash Flows (Continued)**  
**Years Ended April 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 59,710,979	\$ 54,027,098
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	26,491,741	23,947,433
Changes in assets and liabilities		
Accounts receivable and special assessments receivable	(3,049,148)	(3,681,495)
Inventories	(14,299)	7,577
Due from other funds	95,266	(54,010)
Accounts payable	(2,274,523)	(4,118,527)
Compensated absences	137,501	24,115
Accrued payroll and related expenses	177,442	84,581
Other liabilities	(116,700)	(286,115)
Due to other funds	(131,722)	117,569
Claims payable	(244,455)	346,893
Pension liability	(339,920)	180,402
Other post-employment benefit obligation	123,509	266,405
Total adjustments	20,854,692	16,834,828
Net cash provided by operating activities	\$ 80,565,671	\$ 70,861,926
<b>Components of Cash and Cash Equivalents at End of Year</b>		
Unrestricted	\$ 7,484,942	\$ 4,819,414
Restricted	7,496,524	7,801,015
	\$ 14,981,466	\$ 12,620,429
<b>Noncash Activities</b>		
Contributions of capital assets	\$ 22,217,444	\$ 30,856,082
Change in fair value of investments	410,240	(721,826)
Accounts payable incurred for purchase of capital assets	8,120,196	9,426,712

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

**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, 2015 and 2014, and for the years then ended in conformity with accounting principles generally accepted in the United States of America. The Sewer Fund includes sewer and stormwater accounts. The Sewer Fund is supported wholly by sewer service charges and is responsible for the administration, promotion, operation and maintenance of the wastewater and stormwater systems.

***Basis of Accounting and Presentation***

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

***Cash and Cash Equivalents***

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

***Investments***

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

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

***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 that could indicate asset impairment.

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

Interest costs capitalized on project-related debt for the years ended April 30, 2015 and 2014 totaled \$4,072,654 and \$5,557,662, respectively.

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

***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, 2015 and 2014, the Fund's deferred outflows of resources of \$802,806 and \$945,949, 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, 2015 and 2014

#### **Reclassifications**

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

#### **New Accounting Pronouncements Not Adopted**

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

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

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

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

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB Statement No. 73). The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
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governments whose employees—both active employees and inactive employees—are provided with pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended. This statement will have no impact on the Fund.

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

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

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

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB Statement No. 77). Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts and others with information they need to evaluate the financial health of governments, make decisions and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current year revenues were sufficient to pay for current year services (known as

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

### April 30, 2015 and 2014

interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them and (4) a government's financial position and economic condition and how they have changed over time. Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The Fund will implement GASB Statement No. 77 beginning with the year ending April 30, 2017.

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

#### Note 2: Deposits and Investments

The City maintains a cash and investment pool that is available for use by all funds. The pool is comprised of demand and time deposits, repurchase agreements and other investments with maturities of less than five years. At April 30, 2015 and 2014, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately \$42,900,000 and \$28,200,000, respectively, which was covered by federal depository insurance or by collateral held by the City's agents under joint custody agreements in accordance with the City's administrative code. The Sewer Fund's allocation of deposits was \$9,363,342 and \$6,215,095 at April 30, 2015 and 2014, respectively.

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

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

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2015 and 2014

- e. U.S. Government Agency Mortgage-Backed Securities (MBS, CMO, Pass-Thru Securities). Restricted to securities with final maturities of five (5) years or less or have the final projected payment no greater than four (4) years when analyzed in a +300 basis point interest rate environment.
3. *Repurchase Agreements.* The City may invest in contractual agreements between the City and commercial banks or primary government securities dealers. The Bond Market Association's guidelines for the Master Repurchase Agreement will be used and will govern all repurchase agreement transactions. All repurchase agreement transactions will be either physical delivery or tri-party.
4. *Bankers' Acceptances.* The City may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.
5. *Commercial Paper.* The City may invest in commercial paper issued by domestic corporations, which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that have total assets in excess of five hundred million (\$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.



**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

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

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of the City's investments will decrease as a result of an increase in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the final maturity on any security owned to a maximum of five years. In addition, the City compares the weighted average maturity of its portfolio to the weighted average maturity of the Bank of America Merrill Lynch 1-3 year government/agency index, and relative to the index, may decrease the weighted average maturity of the portfolio during periods of rising interest rates or increase it during periods of declining rates.

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

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

The Sewer Fund's allocation of pooled investments at April 30, 2015 was \$171,832,874. The Sewer Fund's non-pooled investments at April 30, 2015 were \$43,318,000.

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

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	<u>195,567</u>	<u>88,402</u>	<u>10,947</u>	<u>4,995</u>	<u>91,223</u>	<u>2.30</u>
Total pooled	<u>689,879</u>	<u>218,084</u>	<u>158,673</u>	<u>84,282</u>	<u>228,840</u>	<u>2.09</u>
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	<u>32,755</u>	<u>12,120</u>	<u>9,010</u>	<u>4,997</u>	<u>6,628</u>	<u>1.72</u>
Total non-pooled	<u>193,968</u>	<u>115,420</u>	<u>42,020</u>	<u>17,968</u>	<u>18,560</u>	<u>1.15</u>
	<u>\$ 883,847</u>	<u>\$ 333,504</u>	<u>\$ 200,693</u>	<u>\$ 102,250</u>	<u>\$ 247,400</u>	<u>1.88</u>

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.

Some of the restricted assets are held by a trustee associated with the proceeds from sewer state revolving bonds. The amount held by the trustee includes investments that are insured or registered or for which the securities are held by the Sewer Fund or its agent in the Sewer Fund’s name or under joint custody agreements. Restricted assets held by the trustee were \$5,618,125 and \$6,120,141 at April 30, 2015 and 2014, 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, 2015 and 2014, the total fair value of the City’s callable bond portfolio (pooled and non-pooled) is \$212,300,603 and \$228,322,207, respectively.

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2015 and 2014

### **Credit Risk**

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

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

As of April 30, 2015, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard & Poor's (amounts are in thousands):

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

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

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

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

### April 30, 2015 and 2014

#### ***Custodial Credit Risk***

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

The City's investment policy requires that all funds on deposit with any financial institution be secured with collateral securities in an amount equal to at least 102 percent of the deposit less any amount insured by the Federal Deposit Insurance Corporation (FDIC), or any other governmental agency performing a similar function. As of April 30, 2015, all deposits were adequately and fully collateralized except for the account at Bank of America. On April 30, 2015, the City received into its account at Bank of America an unexpected ACH credit in the amount of \$8,345,058 for the Revenue division. The resulting overnight balance of \$12,555,690 was secured by \$250,000 FDIC Insurance and collateral securities with a collateral value of \$11,926,143, resulting in a small collateral deficiency of (\$379,547). A wire transfer in the amount of \$4,000,000 was immediately sent from the account at Bank of America to the City's operating account at Commerce Bank the next business morning to return the account to a fully collateralized level. As of April 30, 2014, all deposits were adequately and fully collateralized.

The City's investment policy required that all investment securities be held in the City's name in the City's safekeeping account at its safekeeping institution, thereby mitigating custodial credit risk. As of April 30, 2015 and 2014, all investment securities were in the City's name in the City's safekeeping accounts at its safekeeping institutions. In addition, all collateral securities were in the City's joint custody account(s) at the Federal Reserve Bank and were either U.S. Treasury (U.S. government guaranteed) or U.S. agency (Aaa/AA+ rated) obligations.

#### ***Concentration of Credit Risk***

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

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

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

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

**Summary**

The following is a complete listing of cash and investments held by the Sewer Fund at April 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Deposits	\$ 9,363,342	\$ 6,215,095
Pooled investments	171,832,874	150,488,726
Non-pooled investments	43,318,000	73,513,499
Trustee accounts	<u>5,618,125</u>	<u>6,120,141</u>
Total	<u>\$ 230,132,341</u>	<u>\$ 236,337,461</u>

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

	<u>2015</u>	<u>2014</u>
Current assets		
Unrestricted		
Cash and cash equivalents	\$ 7,484,942	\$ 4,819,414
Investments	7,163,752	14,076,877
Restricted		
Cash and cash equivalents	7,496,524	7,801,015
Investments	11,824,989	4,755,546
Investments	130,232,728	98,197,397
Restricted investments	<u>65,929,406</u>	<u>106,687,212</u>
Total	<u>\$ 230,132,341</u>	<u>\$ 236,337,461</u>

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

**Note 3: Accounts Receivable**

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

	<u>2015</u>	<u>2014</u>
Sewer customers	\$ 21,150,700	\$ 18,187,867
Unbilled utility revenue	7,944,285	7,417,637
Intermunicipal sewer customers	7,741,793	6,419,179
Other accounts receivable	225,280	90,526
	<u>37,062,058</u>	<u>32,115,209</u>
Less allowance for doubtful accounts	<u>12,253,504</u>	<u>10,355,803</u>
Net accounts receivable	<u>\$ 24,808,554</u>	<u>\$ 21,759,406</u>

**Note 4: Capital Assets**

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

	<u>May 1, 2014</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>April 30, 2015</u>
Depreciable assets				
Sewerage treatment plant and other facilities	\$ 336,229,072	\$ 7,292,193	\$ (4,339,131)	\$ 339,182,134
Sewer lines	786,937,215	82,046,304	(2,497,198)	866,486,321
Equipment	79,980,023	14,616,391	(3,123,522)	91,472,892
Total depreciable assets	<u>1,203,146,310</u>	<u>103,954,888</u>	<u>(9,959,851)</u>	<u>1,297,141,347</u>
Accumulated depreciation				
Sewerage treatment plant and other facilities	(209,289,137)	(8,043,463)	4,339,131	(212,993,469)
Sewer lines	(88,478,438)	(13,186,514)	2,497,198	(99,167,754)
Equipment	(38,190,227)	(5,754,110)	2,834,526	(41,109,811)
Total accumulated depreciation	<u>(335,957,802)</u>	<u>(26,984,087)</u>	<u>9,670,855</u>	<u>(353,271,034)</u>
Total depreciable assets, net	<u>867,188,508</u>	<u>76,970,801</u>	<u>(288,996)</u>	<u>943,870,313</u>
Nondepreciable assets				
Land and permanent right of ways	12,632,011	107,477	-	12,739,488
Construction in process	68,830,557	67,875,871	(82,783,659)	53,922,769
Total nondepreciable assets	<u>81,462,568</u>	<u>67,983,348</u>	<u>(82,783,659)</u>	<u>66,662,257</u>
Capital assets, net	<u>\$ 948,651,076</u>	<u>\$ 144,954,149</u>	<u>\$ (83,072,655)</u>	<u>\$ 1,010,532,570</u>

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

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

	<b>May 1, 2013</b>	<b>Additions</b>	<b>Retirements/ Adjustments</b>	<b>April 30, 2014</b>
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, 2015 and 2014**

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

Revenue bonds and notes payable outstanding consist of the following at April 30, 2015 and 2014:

Issue	Interest Rates	Maturing Through	2015	2014
State Series 1995B	4.50% – 7.75%	January 2015	\$ -	\$ 1,460,000
State Series 1996A	3.60% – 7.00%	January 2016	1,940,000	3,775,000
State Series 1997A	3.95% – 5.75%	January 2017	2,695,000	3,995,000
State Series 1998A	3.90% – 5.25%	January 2019	2,590,000	3,165,000
State Series 1999A	3.625% – 5.25%	January 2020	2,025,000	2,375,000
State Series 2000A	4.60% – 5.75%	July 2020	4,480,000	5,165,000
State Series 2000B	4.25% – 5.625%	July 2020	4,040,000	4,660,000
Stormwater 2000	1.70%	December 2020	427,700	495,000
Stormwater 2001 & 2002	1.60%	December 2021	2,255,000	2,559,000
State Series 2001B	3.00% – 5.375%	July 2022	7,780,000	8,645,000
State Series 2002J	2.00% – 5.50%	July 2022	4,635,000	5,145,000
Series 2004H	3.00% – 5.25%	January 2025	5,810,000	6,305,000
Series 2005B	3.00% – 5.00%	January 2025	9,300,000	10,040,000
Stormwater 2007	1.40%	June 2027	282,000	301,000
Series 2007A	4.00% – 5.00%	January 2032	32,085,000	33,355,000
Series 2009A	2.50% – 5.25%	January 2034	59,755,000	61,820,000
Series 2009B	1.480%	July 2030	11,371,600	12,002,958
Series 2011A	2.00% – 5.00%	January 2037	81,555,000	84,140,000
Series 2012A	2.00% – 5.00%	January 2037	74,055,000	76,795,000
			<u>307,081,300</u>	<u>326,197,958</u>
Add premiums			17,567,955	18,690,589
Less				
Current portion			(18,282,100)	(19,116,658)
Discount			(566,990)	(607,837)
			<u>\$ 305,800,165</u>	<u>\$ 325,164,052</u>



**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

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

	<b>May 1, 2014</b>	<b>Additions</b>	<b>Reductions</b>	<b>April 30, 2015</b>
Revenue bonds and notes payable	\$ 326,197,958	\$ -	\$ (19,116,658)	\$ 307,081,300
Less				
Unamortized bond discount	(607,837)	-	40,847	(566,990)
Add				
Unamortized bond premium	18,690,589	-	(1,122,634)	17,567,955
Total revenue bonds and notes payable	<u>\$ 344,280,710</u>	<u>\$ -</u>	<u>\$ (20,198,445)</u>	<u>\$ 324,082,265</u>

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	-	(651,430)	18,690,589
Total revenue bonds and notes payable	<u>\$ 360,047,386</u>	<u>\$ 3,666,462</u>	<u>\$ (19,433,138)</u>	<u>\$ 344,280,710</u>

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

<b>Year Ending April 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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
2109	16,646,300	11,216,210	27,862,510
2020	16,524,000	10,500,884	27,024,884
2021 – 2025	74,754,600	42,399,517	117,154,117
2026 – 2030	65,805,800	27,429,899	93,235,699
2031 – 2035	63,015,000	11,938,781	74,953,781
2036 – 2037	19,025,000	1,201,187	20,226,187
	<u>\$ 307,081,300</u>	<u>\$142,491,396</u>	<u>\$449,572,696</u>

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

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:

<b>Account</b>	<b>Restriction</b>
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, 2015. 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, 2015, the Sewer Fund's debt service coverage ratio was above the 130% threshold, so the remaining bond reserve accounts, except the 2009A Series, were not required to be funded. The 2009A Series did not have the 130% threshold or a purchased insurance policy, as such, the Sewer Fund held a cash debt service reserve in the amount of \$5,008,338 as of April 30, 2015.

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

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

	<b>2015</b>	<b>2014</b>
Principal and interest	\$ 12,733,592	\$ 13,191,738
Debt service reserve	5,021,251	5,019,761
Renewal and replacement	18,046,409	11,501,215
Retention pond maintenance	50,976	50,547
Construction	49,618,491	89,763,582
	\$ 85,470,719	\$ 119,526,843

**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 \$7,901,750, which is expected to require 2% 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 \$438,507,817 and is expected to require 22% of net sewer revenues. The stormwater loans are payable from stormwater revenues. Total principal and interest on those loans is \$3,163,129 and is expected to require 11% of net stormwater revenues. Principal and interest paid for the year ended April 30, 2015 and net revenues for the Sewer Fund were \$33,364,164 and \$88,815,472, respectively.

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

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

	<b>2015</b>		<b>2014</b>	
	<b>Due from</b>	<b>Due to</b>	<b>Due from</b>	<b>Due to</b>
Water fund	\$ 14,381	\$ -	\$ 109,319	\$ 131,722
General fund	221	-	549	-
	\$ 14,602	\$ -	\$ 109,868	\$ 131,722

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, 2015 and 2014

### 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, 2015 and 2014 are presented as administrative and general expenses and are as follows:

	<u>2015</u>	<u>2014</u>
Administrative, data processing and accounting	\$ 5,265,400	\$ 4,525,688

Payments to the City of Kansas City, Missouri Water fund for billing, collecting and accounting services were \$3,358,859 and \$3,115,782 for the years ended April 30, 2015 and 2014, 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 fiduciary net position restricted for pensions.

At May 1, 2014, the actuarial accrued liability of the Plan was approximately \$1,149,884,000 and the actuarial value of assets of the Plan was approximately \$962,152,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$35,879,000 to each participating fund. The Sewer Fund's allocation was approximately \$3,615,000 as of April 30, 2015.

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.

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, 2015 and 2014**

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

	<u>City</u>	<u>Fund</u>
Annual required contribution (ARC)	\$ 24,540,893	\$ 2,597,321
Interest on net pension obligation	2,933,363	296,583
Adjustment to annual required contribution	(3,137,062)	(315,971)
Annual pension cost (APC)	24,337,194	2,577,933
Contributions made (employer)	(27,569,434)	(2,917,853)
Change in net pension obligation	(3,232,240)	(339,920)
Net pension obligation, April 30, 2014	39,111,502	3,954,436
Net pension obligation, April 30, 2015	<u>\$ 35,879,262</u>	<u>\$ 3,614,516</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 health care plan that provides health care benefits to retirees and their dependents, including medical, dental and vision coverage. The City requires the retirees to pay 100% of the same medical premium charged to active participants. The rates being paid by retirees for benefits are typically lower than those for individual health insurance policies. The difference between these amounts is the implicit rate subsidy, which is considered OPEB under GASB 45.

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

**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

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

	<u>City</u>	<u>Fund</u>
Annual required contribution (ARC)	\$ 9,736,738	\$ 632,072
Interest on net OPEB obligation	3,011,751	191,284
Adjustment to annual required contribution	(4,019,035)	(255,260)
Annual OPEB cost (expense)	8,729,454	568,096
Contributions made (employer)	(6,848,686)	(444,587)
Change in net OPEB obligation	1,880,768	123,509
Net OPEB obligation, April 30, 2014	<u>66,927,791</u>	<u>4,250,758</u>
Net OPEB obligation, April 30, 2015	<u>\$ 68,808,559</u>	<u>\$ 4,374,267</u>

***Funded Status and Funding Progress***

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

Although determinations of the actuarial status were not made for individual funds, the City has allocated its 2015 and 2014 overall net OPEB obligation of approximately \$68,809,000 and \$66,928,000, respectively, to each participating fund. For the years ended April 30, 2015 and 2014, the Sewer Fund's allocation was approximately \$4,374,000 and \$4,251,000, 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, 2015 and 2014**

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

#### **Note 11: Commitments**

At April 30, 2015 and 2014, the City had made purchase commitments, primarily for additions to plant, on behalf of the Sewer Fund of approximately \$63,331,000 and \$52,922,000, respectively. These commitments will be funded by a combination of existing resources and future debt issuances.

#### **Note 12: Risk Management**

The Sewer Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Sewer Fund is self-insured for workers' compensation and general liability exposures and participates in the City's self-insurance programs. The City has purchased insurance to limit the exposure to \$1,000,000 on workers' compensation claims per occurrence occurring prior to fiscal year 1997, \$500,000 exposure for all claims originating in fiscal year 1997, \$400,000 exposure for all claims originating in fiscal year 1998, \$2,000,000 exposure for all claims originating in fiscal years 2003 through 2007, \$1,000,000 exposure for all claims originating in fiscal years 2008 through 2011 and \$2,000,000 for all claims originating thereafter. The City also purchases an excess liability policy to cover torts, which are not barred by sovereign immunity. The policy has a \$2,700,000 retention and a \$5,000,000 loss limit. Current sovereign tort immunity statutes and law limit general liability and automobile claim exposure to a maximum of \$409,123 per person and \$2,727,489 per occurrence. Settled claims have not exceeded the self-insured retention in any of the past three fiscal years.

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

# City of Kansas City, Missouri Sewer Fund

## Notes to Financial Statements

April 30, 2015 and 2014

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, 2015 and 2014 is summarized as follows:

	<b>2015</b>	<b>2014</b>
Balance, beginning of the year	\$ 5,816,813	\$ 5,469,920
Current year claims incurred and changes in estimates for claims incurred in prior years	2,049,335	2,311,594
Claims and expenses paid	(2,293,790)	(1,964,701)
Balance, end of the year	5,572,358	5,816,813
Less current portion	(1,376,581)	(1,360,098)
Noncurrent portion	\$ 4,195,777	\$ 4,456,715

### Note 13: Net Position

Net investment in capital assets is comprised of the following:

	<b>2015</b>	<b>2014</b>
<b>Capital Related Assets</b>		
Land	\$ 12,739,488	\$ 12,632,011
Construction in progress	53,922,769	68,830,557
Treatment plant and other facilities	339,182,134	336,229,072
Sewer lines	866,486,321	786,937,215
Equipment	91,472,892	79,980,023
	1,363,803,604	1,284,608,878
Less accumulated depreciation	(353,271,034)	(335,957,802)
Total capital related assets	1,010,532,570	948,651,076
Deferred outflows of resources	802,806	945,949
<b>Less Related Liabilities</b>		
Current portion, bonds and notes payable	18,282,100	19,116,658
Bonds and notes payable, net of premium, discount and unspent proceeds	256,309,273	233,141,081
Contracts and retainage payable	2,797,156	3,634,778
Total capital related liabilities	277,388,529	255,892,517
Net investment in capital assets	\$ 733,946,847	\$ 693,704,508



**City of Kansas City, Missouri Sewer Fund**  
**Notes to Financial Statements**  
**April 30, 2015 and 2014**

Restricted-expendable net position as of April 30, 2015 and 2014 are as follows:

	<b>2015</b>	<b>2014</b>
Restricted Assets		
Cash and cash equivalents	\$ 7,496,524	\$ 7,801,015
Investments	77,754,395	111,442,758
Interest receivable	219,800	283,070
	<u>85,470,719</u>	<u>119,526,843</u>
Less Liabilities from Restricted Assets		
Debt related to unspent bond proceeds	49,490,892	92,022,971
Accrued interest and fiscal agent fees	4,496,378	4,779,252
	<u>53,987,270</u>	<u>96,802,223</u>
Restricted-Expendable Net Position	<u>\$ 31,483,449</u>	<u>\$ 22,724,620</u>

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

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

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

**City of Kansas City, Missouri Sewer Fund**  
**Supplementary Information**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended April 30, 2015**

	<b>Wastewater</b>	<b>Stormwater</b>	<b>Total</b>
<b>Operating Revenues</b>			
Retail sewer charges	\$ 119,719,601	\$ -	\$ 119,719,601
Intermunicipal sewer charges	32,700,685	-	32,700,685
Stormwater fees	-	12,980,291	12,980,291
Other operating revenues	3,408,833	684,196	4,093,029
	<u>155,829,119</u>	<u>13,664,487</u>	<u>169,493,606</u>
<b>Operating Expenses</b>			
Sewerage treatment and pumping	24,438,632	40,745	24,479,377
Sewer maintenance	24,154,900	6,141,034	30,295,934
Administrative and general	22,042,757	5,150,129	27,192,886
Industrial and household hazardous waste control	951,327	371,362	1,322,689
Depreciation and amortization	20,788,620	5,703,121	26,491,741
	<u>92,376,236</u>	<u>17,406,391</u>	<u>109,782,627</u>
	<u>63,452,883</u>	<u>(3,741,904)</u>	<u>59,710,979</u>
<b>Operating Income (Loss)</b>			
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	2,422,428	190,324	2,612,752
Interest expense and fiscal agent fees	(7,690,379)	(70,301)	(7,760,680)
Other	(37,032)	(1,731)	(38,763)
	<u>(5,304,983)</u>	<u>118,292</u>	<u>(5,186,691)</u>
	<u>58,147,900</u>	<u>(3,623,612)</u>	<u>54,524,288</u>
<b>Excess of Revenues Over (Under) Expenses Before Capital Contributions</b>			
	<u>5,037,840</u>	<u>17,179,604</u>	<u>22,217,444</u>
<b>Capital Contributions</b>			
	<u>\$ 63,185,740</u>	<u>\$ 13,555,992</u>	<u>\$ 76,741,732</u>
<b>Increase in Net Position</b>			