

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

Auditor's Report and Financial Statements

April 30, 2014 and 2013



**City of Kansas City, Missouri Water Fund**  
**April 30, 2014 and 2013**

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## Independent Auditor's Report

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

We have audited the accompanying basic financial statements, which are comprised of the statements of net position as of April 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents, of the City of Kansas City, Missouri Water Fund (the Water Fund).

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kansas City, Missouri Water Fund as of April 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matters***

As discussed in Note 1, the financial statements present only the Water Fund and do not purport to, and do not, present fairly the financial position of the City of Kansas City, Missouri as of April 30, 2014 and 2013, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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

***Required Supplementary Information***

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

**BKD, LLP**

Kansas City, Missouri  
December 11, 2014

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

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

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

Management's discussion and analysis (MD&A) of the City of Kansas City, Missouri's Water Fund (the Fund) provides readers a narrative overview and analysis of the Fund's financial statements and activities for the fiscal years ended April 30, 2014 and April 30, 2013, with selected comparative information for the fiscal year ended April 30, 2012. The Fund is an enterprise fund of the City of Kansas City, Missouri (the City) and is supported entirely by water service fees collected from residential, business and wholesale customers. The Fund is responsible for the operation and maintenance of the water collection, processing and distribution systems.

Readers are encouraged to consider the information presented here in conjunction with the financial statements and notes in order to provide a complete understanding of the financial performance and activities during the years ended April 30, 2014 and April 30, 2013.

#### ***Overview of the Financial Statements***

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

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

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

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

## Financial Position and Assessment

### Summary of Net Position (In thousands)

	April 30		
	2014	2013 * (as restated)	2012 * (as restated)
<b>Assets</b>			
Current assets - unrestricted	\$ 34,978	\$ 37,355	\$ 29,575
Current assets - restricted	19,235	36,031	21,435
Noncurrent investments - unrestricted	78,641	66,548	43,459
Noncurrent investments - restricted	81,996	74,473	59,262
Capital assets	744,855	715,976	681,377
Other assets	8,442	10,575	13,104
<b>Total assets</b>	<b>968,147</b>	<b>940,958</b>	<b>848,212</b>
<b>Deferred Outflows of Resources</b>			
	3,949	4,660	5,372
<b>Total assets and deferred outflows of resources</b>	<b>\$ 972,096</b>	<b>\$ 945,618</b>	<b>\$ 853,584</b>
<b>Liabilities</b>			
Current liabilities	\$ 16,666	\$ 11,269	\$ 9,798
Liabilities payable from restricted assets	26,587	25,661	25,152
Long-term liabilities	305,702	323,314	281,449
<b>Total liabilities</b>	<b>348,955</b>	<b>360,244</b>	<b>316,399</b>
<b>Net Position</b>			
Net investment in capital assets	513,054	488,843	470,155
Restricted-expendable	26,455	13,199	10,009
Unrestricted	83,632	83,332	57,021
<b>Total net position</b>	<b>623,141</b>	<b>585,374</b>	<b>537,185</b>
<b>Total liabilities and net position</b>	<b>\$ 972,096</b>	<b>\$ 945,618</b>	<b>\$ 853,584</b>

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

Total assets increased by \$27.2 million or 2.9% from the previous year. During the year, there were no new Water Revenue Bonds issued, whereas bonds were issued in the prior year and netted the Fund approximately \$54 million of new money to finance water treatment plant, pumping station and drainage improvements. Cash, cash equivalents and investments that are restricted for debt service costs, construction, renewal and replacement decreased by approximately 8.4%. Unrestricted assets used in daily operations increased by approximately 8.8%. The 12.5% rise in net accounts receivable is mostly attributable to the 10% scheduled increase in water service fees. However, notes receivable decreased by 24.3%. The decrease includes \$2.6 million of scheduled payments received from entities under intergovernmental construction cost sharing agreements, as well as early payoffs by two entities. Capital assets increased by \$28.9 million or 4.0% as anticipated from the ongoing capital improvements program.

Total liabilities decreased by \$11.3 million or 3.1%. As mentioned earlier, no bonds were issued during the year. Debt was reduced by the scheduled \$18.2 million retirement of outstanding bonds. The decrease in debt was partially offset by increases of \$4.8 million in trade accounts payable, \$2.1 million in claims liability and \$0.5 million in post-employment benefits.

At the close of the year, total assets and deferred outflows exceeded total liabilities resulting in net position of \$623.1 million. Of this amount, \$83.6 million is considered unrestricted. The unrestricted net position may be used to meet ongoing business activities of the Fund and may not be used to fund the City's governmental activities. Total net position increased by \$37.8 million or 6.5% over the previous year indicating that the Fund improved its financial position. The largest portion of net position, \$513.1 million or 82.3%, consists of investment in capital assets (e.g., land, buildings, treatment facilities, water utility lines and improvements, machinery, and equipment) less any outstanding debt related to those assets. Capital assets were used to provide services to customers of the water collection, processing and distribution systems.

In FY 2013, total assets increased by \$94.8 million or 11.2% from the previous year. Greater inflows of cash were generated from bond proceeds and increased water service fees. Accordingly, cash, cash equivalents and investments accounted for most of the 26.3% increase in unrestricted current assets and 68.1% increase in restricted current assets. Similarly, investments accounted for most of the 53.1% increase in unrestricted noncurrent assets and 25.7% increase in restricted noncurrent assets. Capital assets increased by \$34.6 million or 5.1% as we expected from the ongoing capital improvements program.

Total liabilities increased by \$44.6 million or 14.3%. During the year, the City issued \$54.0 million of Water Revenue Bonds, Series 2013A the proceeds from which will finance extensions and improvements to the water system. The increase in debt was partially offset by the scheduled \$18.1 million retirement of other water revenue bonds. Additionally, claims liability increased by \$1.5 million.

At the close of FY 2013, total assets exceeded total liabilities resulting in net position of \$587.4 million. Of this amount, \$83.3 million is considered unrestricted. The unrestricted net position may be used to meet ongoing business activities of the Fund and may not be used to fund the City's governmental activities. Total net position increased by \$50.3 million or 9.4% over the previous year indicating that the Fund improved its financial position. The largest portion of net position, \$490.9 million or 83.6%, consists of investment in capital assets (e.g., land, buildings, treatment facilities, water utility lines and improvements, machinery, and equipment) less any outstanding debt related to those assets. Capital assets were used to provide services to customers of the water collection, processing and distribution systems.

**Summary of Revenues, Expenses and Changes in Fund Net Position**  
(In thousands)

	Year Ended April 30		
	2014	2013 *	2012
Operating revenues	\$ 144,238	\$ 149,642	\$ 125,248
Operating expenses	<u>(99,647)</u>	<u>(93,075)</u>	<u>(87,044)</u>
Operating income	44,591	56,567	38,204
Nonoperating expenses, net	<u>(8,962)</u>	<u>(9,267)</u>	<u>(8,509)</u>
Increase in net position before capital contributions	35,629	47,300	29,695
Capital contributions	<u>2,138</u>	<u>2,617</u>	<u>4,515</u>
Change in net position	37,767	49,917	34,210
Total net position - beginning of the year, as previously reported	585,374	537,185	502,975
Adjustment for change in accounting principle	<u>-</u>	<u>(1,728)</u>	<u>-</u>
Net position, beginning of year, as adjusted	585,374	535,457	502,975
Total net position - end of the year	<u>\$ 623,141</u>	<u>\$ 585,374</u>	<u>\$ 537,185</u>

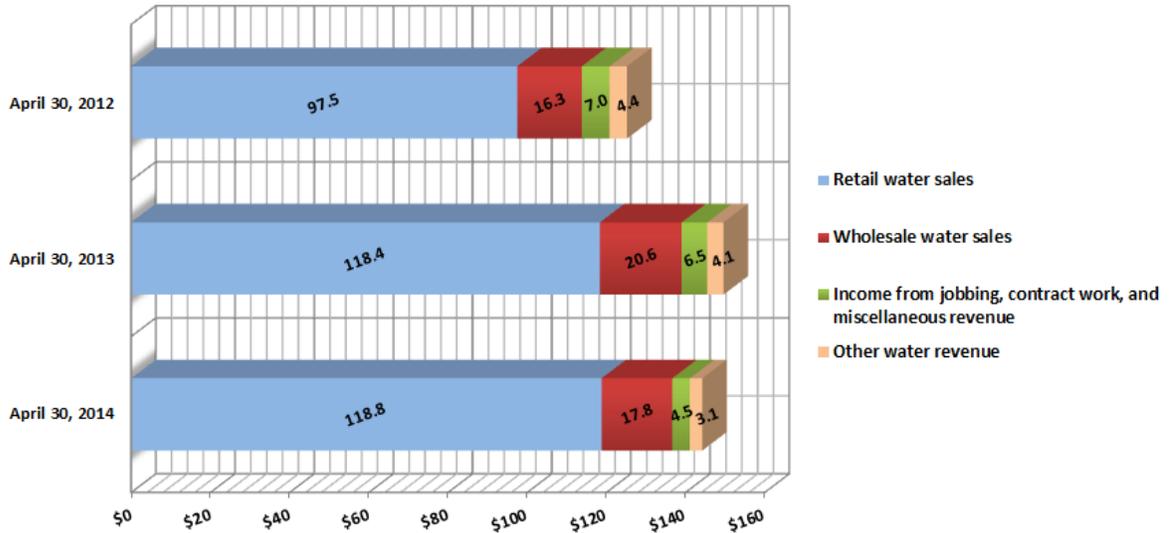
\* 2013 has been restated for adoption of GASB 65.

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

	Year Ended April 30		
	2014	2013	2012
Retail water sales	\$ 118,796	\$ 118,402	\$ 97,503
Wholesale water sales	17,849	20,641	16,292
Other water revenue	3,133	4,128	4,426
Income from jobbing, contract work and miscellaneous revenue	<u>4,460</u>	<u>6,471</u>	<u>7,027</u>
Total operating revenues	<u>\$ 144,238</u>	<u>\$ 149,642</u>	<u>\$ 125,248</u>

Total operating revenues decreased slightly by \$5.4 million or 3.6%. Several factors contributed to the decrease. Although the full year effect of the scheduled 10% rate increase contributed additional revenue, water consumption declined. This usually occurs during a milder, rainier season. Water consumption by retail residential and commercial customers declined by 3.0 million CCF (hundred cubic feet) or 11.0%, contributing only 1.7% to retail water sales. Consumption by wholesale or governmental customers declined by 2.1 million CCF or 18.9%, resulting in a sales decline of \$2.8 million or 13.5%. Other water revenue consists primarily of interest on notes receivable from inter-governmental construction cost sharing agreements. Other water revenue decreased by \$1.0 million that includes regular interest payments received, as well as early payoffs by two entities. Income from jobbing, contract work and miscellaneous sources, decreased by approximately 31.0%.

### Summary of Operating Revenues (In millions)



At the close of FY 2013, total operating revenues increased by \$24.4 million or 19.5%. Additional sales of \$20.9 million to retail customers, net of bad debt expense, and additional sales of \$4.3 million to wholesale customers was attributable to the scheduled 12% rate increase during the year, as well as increased water consumption. Other water revenue consists primarily of interest on notes receivable from inter-governmental construction cost sharing agreements. Other water revenue decreased by \$0.3 million or 6.7%. Income from jobbing, contract work and miscellaneous sources decreased slightly by approximately 7.9%.

Total operating expenses increased by \$6.6 million or 7.0% over the previous year. As the result of decreased water consumption, there was also a decrease in operating costs, such as lower electric and gas power expense. Power and pumping expense decreased by \$0.5 million or 8.7%. However, general and electrical maintenance expense increased by \$0.4 million or 9.44%. The increase reflects the additional investment in plant equipment and structure improvements. The cost of chemicals used in water treatment remained stable. Consequently, there was only a slight 0.7% decrease in purification expense.

### Summary of Operating Expenses

(In thousands)

	Year Ended April 30		
	2014	2013 *	2012
		(as restated)	
Power and pumping	\$ 4,924	\$ 5,392	\$ 4,845
General and electrical maintenance	4,758	4,347	4,034
Purification	12,159	12,246	11,021
Laboratory services	2,594	2,472	2,472
Transmission and distribution	20,757	23,062	21,122
Customer service	8,230	7,851	7,237
Mechanical maintenance	2,928	2,930	2,751
Customer accounting and collection	9,216	5,651	5,184
Administrative and general	19,057	14,749	14,585
Depreciation and amortization	15,024	14,375	13,793
	<u>          </u>	<u>          </u>	<u>          </u>
Total operating expenses	<u>\$ 99,647</u>	<u>\$ 93,075</u>	<u>\$ 87,044</u>

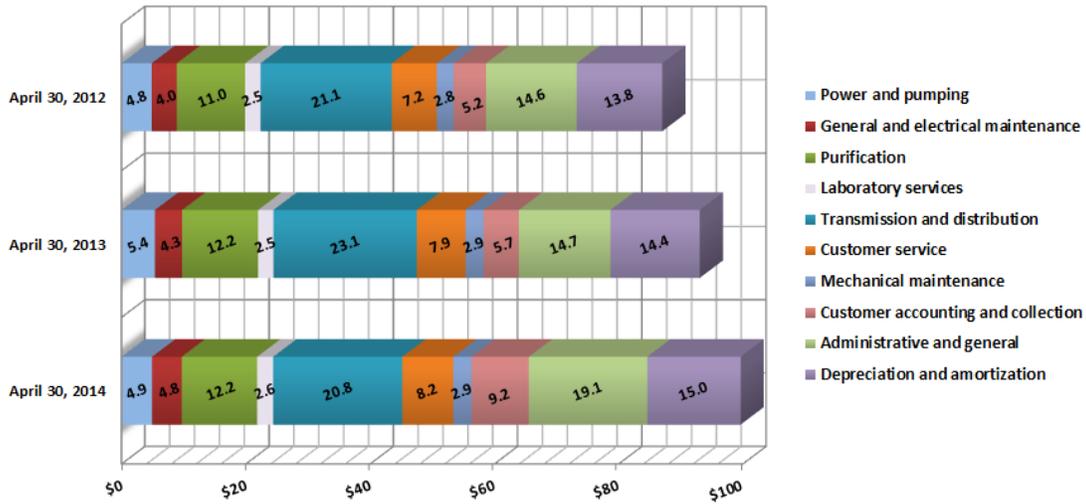
\* 2013 has been restated for adoption of GASB 65.

Transmission and distribution expense decreased by \$2.3 million or 10.0%. Several mixed factors are reflected in the net decrease. However, our commitment to replace undersized water mains throughout the City's water distribution system remains the same. This is evidenced by the \$1.0 million increase in repairs to sewers, streets and sidewalks. However, cost savings were realized in other areas of operations during the year.

Customer accounting and collection expense increased by \$3.6 million or 63.1% primarily due to the engagement of professionals who are implementing, over a two-year period, a Customer Service Improvement Plan, change management practices, and software upgrades.

Administrative and general increased by \$4.3 million or 29.2%. The primary expense is attributable the \$3.0 million increase in settlement of claims. Additionally, the Fund's share of the City's General Liability Insurance increased by \$2.1 million or 28.4%. Pension and other post-employment benefits (OPEB) rose by 5.5%. Liabilities of the City for automotive, general and workers' compensation liabilities are based on an actuarial estimate and review of legal claims and worker's compensation claims under the Self-Insurance Program. The resulting estimated liability for future claims is then allocated by the City to other funds. Depreciation and amortization increased by \$0.6 million or 4.5% as anticipated due to the ongoing capital improvement plan.

### Summary of Operating Expenses (In millions)

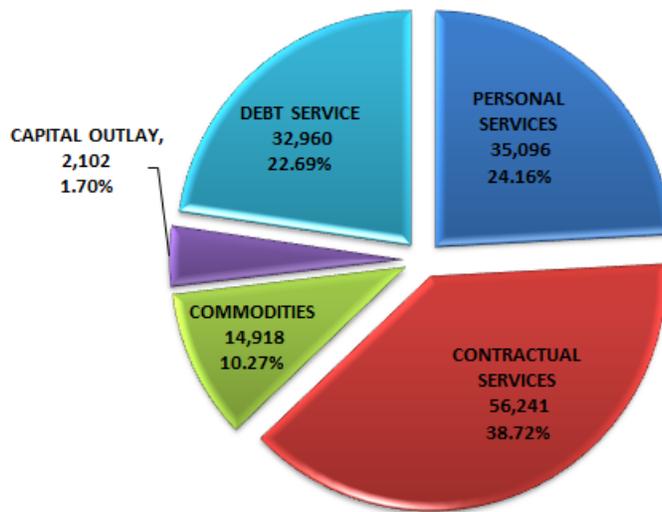


In FY 2013, total operating expenses increased by \$6.1 million or 7.0% over the previous year. Higher electric power expense affected most operations. Power and pumping expense increased by \$0.5 million or 11.3% due to higher electric power expense and increased volume of water usage. Purification expense increased by \$1.2 million or 11.1% as the result of higher chemicals cost, plant equipment repairs and facility improvements. Transmission and distribution expense increased by \$1.9 million or 9.2% reflecting our commitment to replace undersized water mains throughout the City’s water distribution system. As the result, there was a doubling of supplemental workforce contracts and more operating materials and supplies used to perform the work.

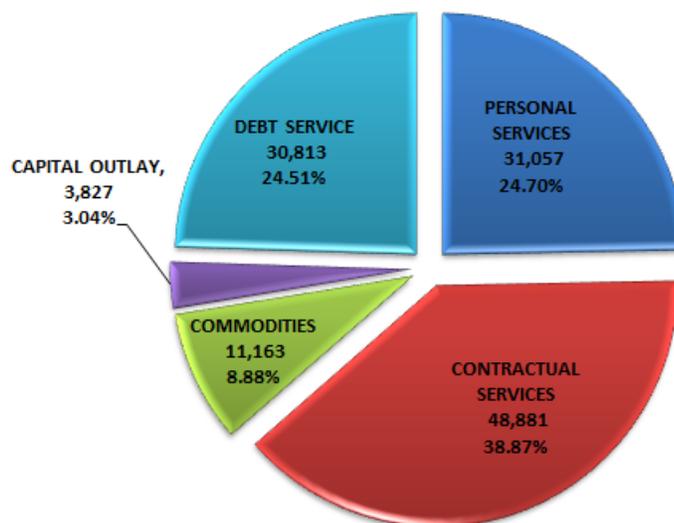
## Comparison of Budget to Actual Expenditures for FY 2014

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

### BUDGETED EXPENDITURES (IN THOUSANDS) 2013-14



### ACTUAL EXPENDITURES (IN THOUSANDS) 2013-14



**Capital Assets**

Capital assets totaled \$744.9 million (net of accumulated depreciation) and accounted for 76.9% of total assets at April 30, 2014. Construction activities are ongoing to replace undersized water mains throughout the City, upgrade and improve water treatment plant operations, and modernize infrastructure. During the year, projects totaling \$15.2 million were completed. They included \$13.8 million of constructed water mains and appurtenances, \$0.2 million for pumping stations and equipment, and \$1.2 million for treatment plant and equipment upgrades. In addition to completed projects, there was \$2.1 million in assets contributed from property developers. Additions and replacements of machinery and equipment totaled \$3.9 million. The increases in depreciable capital assets were offset by disposals and retirements of \$3.6 million.

At April 30, 2013, capital assets totaled \$716.0 million (net of accumulated depreciation) and accounted for 75.9% of total assets. Construction activities continue to replace undersized water mains throughout the City, upgrade and improve water treatment plant operations, and modernize infrastructure. During the year, projects totaling \$115.5 million were completed. They included \$89.8 million of constructed water mains and appurtenances, \$3.8 million for pumping stations and equipment, and \$21.9 million for treatment plant and equipment upgrades. In addition to completed projects, there was \$1.5 million in contributed assets from property developers. Additions and replacements of machinery and equipment totaled \$3.0 million. The increases in depreciable capital assets were offset by disposals and retirements of \$14.4 million.

**Capital Improvement Projects**

The Fund estimates that it will invest approximately \$360 million over the next five years in water capital improvement projects. Approximately 228 projects are dedicated to water distribution; replacement of water transmission mains; rehabilitation of water treatment plants and pump stations, and storage facilities. The largest allocation or 75.5% of the total capital investment is committed to the water distribution system. The projects are designed to improve system performance and reliability, reduce water main breaks, enhance fire protection, and deliver safe drinking water to customers.

In addition, the Fund estimates that it will invest approximately \$34.2 million over the next five years in a dedicated trenchless maintenance program. The extensive investment and the use of cost effective trenchless technologies will benefit both the utility and customers. Trenchless technologies include slip lining technique (new pipe of smaller diameter is inserted directly into the host pipe by pulling or pushing); directional drilling (horizontal, guided method of installing new small and medium sized pipes); and Cured-in-Place Pipe (CIPP). CIPP is one of the most widely used methods of repairing existing pipelines. The technology is jointless, seamless and trenchless with the capability to rehabilitate 4" - 110" diameter pipe. CIPP technology will allow crews to minimize disruptions of traffic, reduce customer inconvenience, overcome unfavorable site conditions, and avoid work site obstacles, such as rivers and railroad tracks, that may slow down the repair process.

**Slip lining**



**Directional drilling**



**Cured-in-place (CIPP) Pipe lining**



**Small Main Replacement Program.** Work continues to replace undersized water mains, i.e. pipe of 2 to 4 inch diameter. Directional drilling is being used to replace aging water mains throughout the City of Kansas City which reduces the time spent on restoration work. Under the capital improvement program, most of the small mains have been systematically replaced with larger pipes. Larger pipes deliver better water pressure, and are easier to maintain and repair. Slip lining is being used to rehabilitate existing water transmission mains.

Small Distribution Water Main Replacement  
NE 43rd Street and N Holmes Street



Relocation of 20" Distribution Water Main  
Russell Road & Cleveland Ave



Relocation of 36" Transmission Water Main  
N Brighton & NE Russell Rd



**Debt Administration**

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

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

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

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

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

- Strong and diverse service area economy
- Strong liquidity, when including non-current cash and investments, and recent trend of good coverage of all debt service
- Moderate rates with timely rate increases
- Moderate debt to plant ratios

The City had approximately \$54.4 million remaining from its original \$250 million bond authorization that citizens approved in August 2005. In April 2014, the City received citizens’ approval of an additional \$500 million bond authorization for the purpose of extending and improving the water system.

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

### ***Request for Information***

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

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

**City of Kansas City, Missouri Water Fund**  
**Statements of Net Position**  
**April 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Assets</b>		<b>(as restated)</b>
Current assets		
Cash and cash equivalents	\$ 3,865,509	\$ 5,341,520
Investments	11,273,433	14,345,894
Accounts receivable, net	16,698,051	14,845,584
Accrued interest receivable	200,045	189,960
Current portion of notes receivable	444,331	556,188
Inventories	2,365,392	2,060,896
Due from other funds	131,722	14,673
Total unrestricted current assets	34,978,483	37,354,715
Restricted assets		
Cash and cash equivalents	5,427,229	6,990,836
Investments	13,592,167	28,797,196
Accrued interest receivable	215,478	242,883
Total restricted current assets	19,234,874	36,030,915
Total current assets	54,213,357	73,385,630
Investments	78,641,152	66,547,826
Restricted assets - investments	81,995,567	74,473,214
Notes receivable	6,152,604	8,163,055
Prepaid bond insurance, net of accumulated amortization	2,289,129	2,412,310
Capital assets, depreciable, net	704,505,308	694,324,652
Capital assets, nondepreciable	40,349,955	21,651,578
Total assets	968,147,072	940,958,265
<b>Deferred Outflows of Resources</b>	3,948,946	4,660,331
Total assets and deferred outflows of resources	\$ 972,096,018	\$ 945,618,596

<b>Liabilities and Net Position</b>	<b>2014</b>	<b>2013</b>
		<b>(as restated)</b>
Current liabilities		
Accounts payable	\$ 11,559,757	\$ 6,733,130
Current portion of compensated absences	756,231	765,220
Accrued payroll and related expenses	1,092,893	816,132
Contracts and retainage payable	334,202	128,492
Other liabilities	313,139	863,980
Current portion of due to other funds	494,319	385,331
Current portion of claims liability	2,115,022	1,576,740
	<u>16,665,563</u>	<u>11,269,025</u>
Liabilities payable from restricted assets		
Accrued interest and fiscal agent fees	4,877,101	4,561,591
Current portion of revenue bonds and capital leases payable	19,052,596	18,236,293
Contracts and retainage payable	844,956	1,368,566
Customer deposits	1,812,141	1,494,532
	<u>26,586,794</u>	<u>25,660,982</u>
Total current liabilities	<u>43,252,357</u>	<u>36,930,007</u>
Claims liability	7,474,590	5,891,987
Compensated absences	2,586,986	2,458,139
Pension liability	4,706,461	4,502,908
Other post-employment benefit obligation	5,041,284	4,740,414
Revenue bonds and capital leases payable, net of current portion	285,893,794	305,721,452
	<u>348,955,472</u>	<u>360,244,907</u>
Total liabilities	<u>348,955,472</u>	<u>360,244,907</u>
Net position		
Net investment in capital assets	513,054,370	488,842,664
Restricted-expendable	26,454,618	13,199,410
Unrestricted	83,631,558	83,331,615
	<u>623,140,546</u>	<u>585,373,689</u>
Total net position	<u>623,140,546</u>	<u>585,373,689</u>
Total liabilities and net position	<u>\$ 972,096,018</u>	<u>\$ 945,618,596</u>

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

	<b>2014</b>	<b>2013</b>
		<b>(as restated)</b>
<b>Operating Revenues</b>		
Water sales	\$ 136,645,032	\$ 139,044,243
Other water revenue	3,132,691	4,128,038
Income from jobbing and contract work and miscellaneous revenues	4,459,597	6,470,794
Total operating revenues	144,237,320	149,643,075
<b>Operating Expenses</b>		
Power and pumping	4,924,274	5,391,806
General and electrical maintenance	4,758,471	4,347,317
Purification	12,159,176	12,245,660
Laboratory services	2,593,992	2,471,376
Transmission and distribution	20,756,589	23,062,262
Customer service	8,229,725	7,851,497
Mechanical maintenance	2,928,413	2,929,851
Customer accounting and collection	9,215,812	5,650,757
Administrative and general	19,056,962	14,748,958
Depreciation and amortization	15,024,352	14,375,320
Total operating expenses	99,647,766	93,074,804
<b>Operating Income</b>	44,589,554	56,568,271
<b>Nonoperating Revenues (Expenses)</b>		
Interest income	632,555	977,115
Interest expense and fiscal agent fees	(9,586,155)	(9,772,564)
Other	(7,312)	(472,629)
Total nonoperating expenses, net	(8,960,912)	(9,268,078)
<b>Excess of Revenues Over Expenses Before Capital Contributions</b>	35,628,642	47,300,193
<b>Capital Contributions</b>	2,138,215	2,617,234
<b>Increase in Net Position</b>	37,766,857	49,917,427
<b>Net Position, Beginning of Year, as Previously Reported</b>	585,373,689	537,185,538
<b>Adjustment for Change in Accounting Principle</b>	-	(1,729,276)
<b>Net Position, Beginning of Year, as Adjusted</b>	585,373,689	535,456,262
<b>Net Position, End of Year</b>	\$ 623,140,546	\$ 585,373,689

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

	<b>2014</b>	<b>2013</b>
		<b>(as restated)</b>
<b>Operating Activities</b>		
Cash received from customers	\$ 142,585,413	\$ 149,488,601
Cash paid to employees, including benefits	(29,683,261)	(28,447,004)
Cash paid to suppliers	(49,011,841)	(46,186,976)
Net cash provided by operating activities	63,890,311	74,854,621
<b>Capital and Related Financing Activities</b>		
Acquisition and construction of capital assets	(38,293,976)	(44,817,993)
Proceeds from issuance of revenue bonds and capital leases, net of premium and discount	-	58,631,100
Principal payments on revenue bonds and capital leases	(18,236,293)	(18,100,341)
Fiscal agent fees and interest paid on revenue bonds and capital leases	(12,030,401)	(11,298,219)
Debt issuance costs	-	(427,632)
Proceeds from sale of capital assets	196,747	97,167
Proceeds from repayment of notes receivable	2,122,308	658,756
Net cash used in capital and related financing activities	(66,241,615)	(15,257,162)
<b>Investing Activities</b>		
Investment purchases	(90,405,777)	(101,336,876)
Investment maturities and sales	88,396,778	43,580,296
Interest received on investments	1,320,685	1,614,028
Net cash used in investing activities	(688,314)	(56,142,552)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(3,039,618)	3,454,907
<b>Cash and Cash Equivalents, Beginning of Year</b>	12,332,356	8,877,449
<b>Cash and Cash Equivalents, End of Year</b>	\$ 9,292,738	\$ 12,332,356

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

	<b>2014</b>	<b>2013</b>
<b>Reconciliation of Operating Income to Net Cash</b>	<b>(as restated)</b>	
<b>Provided by Operating Activities</b>		
Operating income	\$ 44,589,554	\$ 56,568,271
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	15,024,352	14,375,320
Changes in assets and liabilities		
Accounts receivable and special assessments receivable	(1,852,467)	(453,238)
Inventories	(304,496)	354,517
Due from other funds	(117,049)	15,479
Accounts payable	3,652,734	1,282,599
Compensated absences	119,858	401,782
Accrued payroll and related expenses	276,761	141,021
Other liabilities	(550,841)	-
Due to other funds	108,988	(2,955)
Claims liability	2,120,885	1,481,362
Customer deposits	317,609	283,285
Pension liability	203,553	192,335
Other post-employment benefit obligation	300,870	214,843
Total adjustments	19,300,757	18,286,350
Net cash provided by operating activities	\$ 63,890,311	\$ 74,854,621
<b>Components of Cash and Cash Equivalents at End of Year</b>		
Unrestricted	\$ 3,865,509	\$ 5,341,520
Restricted	5,427,229	6,990,836
	\$ 9,292,738	\$ 12,332,356
<b>Noncash Activities</b>		
Contributions of capital assets	\$ 2,138,215	\$ 2,617,234
Change in fair value of investments	(670,810)	(643,576)
Accounts payable incurred for purchase of capital assets	7,083,180	4,766,570

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

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

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

The City of Kansas City, Missouri Water Fund (the Water Fund) is a fund of the City of Kansas City, Missouri (the City) and is operated by the Water Services Department. The financial statements present only the Water Fund and are not intended to present fairly the financial position of the City, and the respective changes in its financial position and cash flows as of April 30, 2014 and 2013, and for the years then ended in conformity with accounting principles generally accepted in the United States of America. The Water Fund is supported wholly by water service charges and is responsible for the administration, promotion, operation and maintenance of the water system.

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

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

During the year ended April 30, 2014, the Water Fund adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that recognize, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows and deferred inflows of resources, such as limiting the use of the term “deferred” in the financial statement presentations. Adoption of GASB 65 resulted in a decrease of approximately \$1.7 million in net position as of May 1, 2012, and a decrease in the change in net position for the year ended April 30, 2013 of approximately \$340,000. These changes resulted from the requirement in GASB 65 that debt issuance costs be recognized as an expense in the period incurred. Other changes resulting from the implementation of GASB 65 are the reclassification of the deferred loss on refunding to deferred outflow of resources.

#### ***Cash and Cash Equivalents***

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

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

### ***Investments***

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

### ***Accounts Receivable***

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

### ***Revenue Recognition***

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

### ***Inventories***

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

### ***Prepaid Bond Insurance***

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

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

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

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

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

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

## **Notes to Financial Statements**

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

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

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

Interest costs capitalized on project-related debt for the years ended April 30, 2014 and 2013 totaled \$2,696,079 and \$2,116,305, respectively.

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

A deferred outflow of resources is a consumption of net position by the Water Fund that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period. As of April 30, 2014 and 2013, the Fund's deferred outflows of resources of \$3,948,946 and \$4,660,331, respectively, were comprised of deferred losses on bond refunding.

#### ***Compensated Absences***

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

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

#### ***Net Position***

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

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Reclassifications**

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on net earnings.

### **Note 2: Deposits and Investments**

The City maintains a cash and investment pool that is available for use by all funds. The pool is comprised of demand and time deposits, repurchase agreements and other investments with maturities of less than five years. As of April 30, 2014 and 2013, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately \$28,200,000 and \$45,069,000, respectively, which was covered by federal depository insurance or by collateral held by the City's agents under joint custody agreements in accordance with the City's administrative code. The Water Fund's allocation of deposits was \$5,229,349 and \$6,845,639 at April 30, 2014 and 2013, respectively.

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

1. *United States Treasury Securities (Bills, Notes, Bonds and Strips)*. The City may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. *United States Agency/GSE Securities*. The City may invest in obligations issued or guaranteed by any agency of the United States government and in obligations issued by any government-sponsored enterprise (GSE) that has a liquid market and a readily determinable market value that are described as follows:
  - a. U.S. Government Agency Coupon and Zero Coupon Securities.
  - b. U.S. Government Agency Callable Securities. Restricted to securities callable at par only.
  - c. U.S. Government Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed interest rate.
  - d. U.S. Government Agency Floating Rate Securities. Restricted to coupons with no interim caps that reset at least quarterly and that float off of only one index.

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

- e. U.S. Government Agency Mortgage-Backed Securities (MBS, CMO, Pass-Thru Securities). Restricted to securities with final maturities of five (5) years or less or have the final projected payment no greater than four (4) years when analyzed in a +300 basis point interest rate environment. Restricted to obligations of FNMA, FHLMC and GNMA only.
3. *Repurchase Agreements.* The City may invest in contractual agreements between the City and commercial banks or primary government securities dealers. The Bond Market Association's guidelines for the Master Repurchase Agreement will be used and will govern all repurchase agreement transactions. All repurchase agreement transactions will be either physical delivery or tri-party.
4. *Bankers' Acceptances.* The City may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.
5. *Commercial Paper.* The City may invest in commercial paper issued by domestic corporations, which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that have total assets in excess of five hundred million dollars (\$500,000,000) and are not listed on Credit Watch with negative implications by any nationally recognized rating agency at the time of purchase. In addition, the City's portfolio may not contain commercial paper of any one corporation, the total value of which exceeds 2% of the City's aggregate investment portfolio.
6. *Municipal Securities (State and Local Government Obligations).* The City may invest in municipal obligations that are issued in either tax-exempt or taxable form. The City's portfolio may not contain municipal obligations of any one issuer, the total value of which exceeds two percent (2%) of the City's aggregate investment portfolio, unless the obligation is pre-refunded or escrowed to maturity with securities guaranteed by the United States Government.
  - a. Any full faith and credit obligations of the State of Missouri rated at least A or A2 by Standard and Poor's or Moody's.
  - b. Any full faith and credit obligations of any city, county or school district in the State of Missouri rated at least AA or Aa2 by Standard and Poor's or Moody's.
  - c. Any full faith and credit obligations or revenue bonds of the City of Kansas City, Missouri rated at least A or Aa2 by Standard and Poor's or Moody's.
  - d. Any full faith and credit obligation of any state or territory of the United States of America rated at least AA or Aa2 by Standard and Poor's or Moody's.
  - e. Any full faith and credit obligations of any city, county or school district in any state or territory of the United States of America rated at least AAA or Aaa by Standard and Poor's or Moody's.

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

- f. Any revenue bonds issued by the Missouri Department of Transportation rated at least AA or Aa2 by Standard and Poor's or Moody's.
- g. Any municipal obligation that is pre-refunded or escrowed to maturity as to both principal and interest with escrow securities that are fully guaranteed by the United States Government, without regard to rating by Standard and Poor's or Moody's.

**Interest Rate Risk**

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

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

Investment Type	Fair Value	Investment Maturities (in Years)				Weighted Average
		Less Than 1	1 – 2	2 – 3	3 – 5	
Pooled investments						
U.S. Treasury notes/bonds	\$ 161,886	\$ 60,679	\$ 71,079	\$ 10,059	\$ 20,069	1.61
U.S. agency discounts	14,996	14,996	-	-	-	0.41
U.S. agencies – noncallable	317,430	54,007	76,647	69,228	117,548	2.29
U.S. agencies – callable	195,567	88,402	10,947	4,995	91,223	2.30
Total pooled	689,879	218,084	158,673	84,282	228,840	2.09
Non-pooled investments						
U.S. Treasury notes/bonds	48,322	32,055	16,267	-	-	0.84
U.S. agencies – noncallable	112,891	71,245	16,743	12,971	11,932	1.12
U.S. agencies – callable	32,755	12,120	9,010	4,997	6,628	1.72
Total non-pooled	193,968	115,420	42,020	17,968	18,560	1.15
	<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 Water Fund's allocation of pooled investments at April 30, 2014 was \$126,533,143. The Water Fund's non-pooled investments at April 30, 2014 were \$59,168,312.

Some of the restricted assets are held by a trustee associated with the proceeds from a capital lease. The amount held by the trustee includes investments that are insured or registered or for which the securities are held by the Water Fund or its agent in the Water Fund's name or under joint agreements. Restricted assets held by the trustee were \$3,864,253 at April 30, 2014 and consisted primarily of money market funds.

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

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

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

The Water Fund's allocation of pooled investments at April 30, 2013 was \$102,001,969. The Water Fund's non-pooled investments at April 30, 2013 were \$83,786,101.

Some of the restricted assets are held by a trustee associated with the proceeds from a capital lease. The amount held by the trustee includes investments that are insured or registered or for which securities are held by the Water Fund or its agent in the Water Fund's name or under joint agreements. Restricted assets held by the trustee were \$3,862,777 at April 30, 2013 and consisted primarily of money market funds.

**Callable Agency Securities.** The City actively monitors its callable bond portfolio with respect to probability of call relative to market rates of interest. As of April 30, 2014 and 2013, the total fair value of the City's callable bond portfolio (pooled and non-pooled) is \$228,322,207 and \$188,950,355, respectively.

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

### **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, 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	<u>673,639</u>	Aaa/AA+
	<u><u>\$ 883,847</u></u>	

As of April 30, 2013, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard & Poor's (amounts are in thousands):

	Fair Value	Moody's/ S&P Ratings
U.S. Treasury securities	\$ 200,171	Aaa/AA+
U.S. agency securities	<u>761,837</u>	Aaa/AA+
	<u><u>\$ 962,008</u></u>	

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

### April 30, 2014 and 2013

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

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

The City's investment policy requires that all funds on deposit with any financial institution be secured with collateral securities in an amount equal to at least 102 percent of the deposit less any amount insured by the Federal Deposit Insurance Corporation (FDIC), or any other governmental agency performing a similar function. As of April 30, 2014 and 2013, all deposits were adequately and fully collateralized.

The City's investment policy required that all investment securities be held in the City's name in the City's safekeeping account at its safekeeping institution, thereby mitigating custodial credit risk. As of April 30, 2014 and 2013, all investment securities were in the City's name in the City's safekeeping accounts at its safekeeping institutions. In addition, all collateral securities were in the City's joint custody account(s) at the Federal Reserve Bank and were either U.S. Treasury (U.S. government guaranteed) or U.S. agency (Aaa/AA+ rated) obligations, with the exception of an irrevocable Letter of Credit issued in the City's favor by the Federal Home Loan Bank in the amount of \$7,500,000 at April 30, 2013 to secure the City's deposits at Commerce Bank. The Letter of Credit is safe kept in the City's cash vault in the Cash Operations section of the Treasury Division.

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

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

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

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

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

**Summary**

The following is a complete listing of cash and investments held by the Water Fund at April 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Deposits	\$ 5,229,349	\$ 6,845,639
Pooled investments	126,533,143	102,001,969
Non-pooled investments	59,168,312	83,786,101
Trustee accounts	<u>3,864,253</u>	<u>3,862,777</u>
Total	<u>\$ 194,795,057</u>	<u>\$ 196,496,486</u>

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

	<u>2014</u>	<u>2013</u>
Current assets		
Unrestricted		
Cash and cash equivalents	\$ 3,865,509	\$ 5,341,520
Investments	11,273,433	14,345,894
Restricted		
Cash and cash equivalents	5,427,229	6,990,836
Investments	13,592,167	28,797,196
Investments	78,641,152	66,547,826
Restricted investments	<u>81,995,567</u>	<u>74,473,214</u>
Total	<u>\$ 194,795,057</u>	<u>\$ 196,496,486</u>

**Note 3: Accounts Receivable**

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

	<u>2014</u>	<u>2013</u>
Water customers	\$ 20,136,988	\$ 16,733,275
Unbilled utility revenue	<u>7,692,033</u>	<u>7,035,183</u>
	27,829,021	23,768,458
Less allowance for doubtful accounts	<u>11,130,970</u>	<u>8,922,874</u>
Net accounts receivable	<u>\$ 16,698,051</u>	<u>\$ 14,845,584</u>

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

### Note 4: Notes Receivable

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

Notes receivable outstanding consists of the following issues at April 30, 2014 and 2013:

Customer	Interest Rates	Loan Completion Date	2014	2013
Dogwood Energy	5.565%	February 2023	\$ 2,366,400	\$ 2,550,253
City of Kearney	5.565	November 2023	-	893,020
Platte County PWSD #2	4.126	April 2026	295,001	313,621
Platte County PWSD #9	4.126	April 2026	-	825,549
City of Dearborn	4.126	April 2026	489,209	517,314
Cass County PWSD #3	4.394	January 2028	119,992	126,212
Jackson County PWSD #12	5.565	March 2029	189,022	197,847
City of Harrisonville	4.238	March 2028	2,451,454	2,579,121
Cass County PWSD #10	4.238	November 2029	685,857	716,306
			<u>6,596,935</u>	<u>8,719,243</u>
Less current portion			(444,331)	(556,188)
			<u>\$ 6,152,604</u>	<u>\$ 8,163,055</u>

**City of Kansas City, Missouri Water Fund**  
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**Note 5: Capital Assets**

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

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

	<b>May 1, 2012</b>	<b>Additions</b>	<b>Retirements/ Adjustments</b>	<b>April 30, 2013</b>
Depreciable assets				
Buildings	\$153,017,940	\$ 23,292,587	\$ (4,433,774)	\$171,876,753
Utility lines and improvements	560,130,817	92,609,469	(4,929,353)	647,810,933
Machinery and equipment	50,802,668	7,478,373	(5,051,995)	53,229,046
Total depreciable assets	<u>763,951,425</u>	<u>123,380,429</u>	<u>(14,415,122)</u>	<u>872,916,732</u>
Accumulated depreciation				
Buildings	(79,601,256)	(2,280,365)	4,433,774	(77,447,847)
Utility lines and improvements	(70,424,302)	(9,053,537)	4,929,353	(74,548,486)
Machinery and equipment	(28,546,882)	(2,918,236)	4,869,371	(26,595,747)
Total accumulated depreciation	<u>(178,572,440)</u>	<u>(14,252,138)</u>	<u>14,232,498</u>	<u>(178,592,080)</u>
Total depreciable assets, net	<u>585,378,985</u>	<u>109,128,291</u>	<u>(182,624)</u>	<u>694,324,652</u>
Nondepreciable assets				
Land and permanent right of ways	3,971,949	107,009	-	4,078,958
Construction in process	92,026,267	42,515,637	(116,969,284)	17,572,620
Total nondepreciable assets	<u>95,998,216</u>	<u>42,622,646</u>	<u>(116,969,284)</u>	<u>21,651,578</u>
Capital assets, net	<u>\$681,377,201</u>	<u>\$151,750,937</u>	<u>\$(117,151,908)</u>	<u>\$715,976,230</u>

**City of Kansas City, Missouri Water Fund**  
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**Note 6: Revenue Bonds, Capital Leases and Restricted Assets**

Revenue bonds and capital leases outstanding consist of the following issues at April 30, 2014 and 2013:

Issue	Interest Rates	Maturity Through	2014	2013
2008 Series A	4.66%	December 2027	\$ 28,570,000	\$ 29,995,000
2009 Series A	2.00 - 5.25%	December 2032	141,205,000	153,125,000
2012 Series A	1.00 - 5.00%	December 2036	44,780,000	46,060,000
2013 Series A	2.00 - 4.00%	December 2037	54,000,000	54,000,000
AMR Capital Lease-2008	3.44%	December 2017	5,002,639	6,261,137
AMR Capital Lease-2009	4.06%	December 2019	15,293,661	17,646,456
			<u>288,851,300</u>	<u>307,087,593</u>
Add premiums			16,232,815	17,013,854
Less				
Current portion			(19,052,596)	(18,236,293)
Discount			<u>(137,725)</u>	<u>(143,702)</u>
			<u>\$ 285,893,794</u>	<u>\$ 305,721,452</u>

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

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

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

	May 1, 2012	Additions	Reductions	April 30, 2013
Revenue bonds and capital leases	\$ 271,187,934	\$ 54,000,000	\$ (18,100,341)	\$ 307,087,593
Less				
Unamortized bond discount	(72,928)	(73,992)	3,218	(143,702)
Add				
Unamortized bond premium	12,914,356	4,705,092	(605,594)	17,013,854
Total revenue bonds and notes payable	<u>\$ 284,029,362</u>	<u>\$ 58,631,100</u>	<u>\$ (18,702,717)</u>	<u>\$ 323,957,745</u>

**City of Kansas City, Missouri Water Fund**  
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The annual requirements to retire the bonds and capital leases outstanding as of April 30, 2014 are as follows:

<b>Year Ending April 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 19,052,596	\$ 12,432,121	\$ 31,484,717
2016	17,659,461	11,699,121	29,358,582
2017	18,402,109	10,953,527	29,355,636
2018	18,723,960	10,170,264	28,894,224
2019	18,156,357	9,383,816	27,540,173
2020 – 2024	78,146,817	36,285,394	114,432,211
2025 – 2029	53,090,000	21,027,780	74,117,780
2030 – 2034	43,780,000	10,064,425	53,844,425
2035 – 2039	21,840,000	2,137,600	23,977,600
	<u>\$ 288,851,300</u>	<u>\$ 124,154,048</u>	<u>\$ 413,005,348</u>

The amount of outstanding advance refunding of insubstance defeased debt as of April 30, 2014 and 2013 was a total of \$45,275,000 and \$47,585,000, respectively.

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

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

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

The bond ordinances also require that the Water Fund establish additional reserve accounts for the retirement of the bonds totaling \$22,068,427 at April 30, 2014. However, in lieu of setting aside cash, the ordinances allow the Water Fund to obtain insurance policies. The Water Fund has obtained insurance policies to satisfy \$15,304,827 of the reserve requirements. As of April 30, 2014 and 2013, the Water Fund's debt service coverage ratio was above the 130% threshold, so the remaining bond reserve account was not required to be funded.

Restricted accounts are reported on the accompanying statements of net position as restricted assets for 2014 and 2013 as follows:

	<u>2014</u>	<u>2013</u>
Principal and interest	\$ 11,275,992	\$ 10,678,813
Construction	72,104,312	95,320,882
Renewal and replacement	16,034,130	3,006,608
Customer deposits	1,816,007	1,497,826
	<u>\$101,230,441</u>	<u>\$110,504,129</u>

### Note 7: Pledged Revenues

The City has pledged revenues of the Water Fund, net of specified operating expenses, to repay \$288,851,300 in water revenue bonds and capital leases. The bonds were issued to provide improvements to the water system and facilities. Capital leases were issued to cover the installation of an automated meter reading (AMR) system and lab equipment. The various issues and maturity dates are listed in Note 6. The bonds and capital lease payments are payable solely from the revenues derived by the Water Fund. Annual principal and interest payments on the bonds and capital leases are expected to require 18% of net revenues on average over the next 24 years. The total principal and interest remaining to be paid on the bonds and capital leases is \$413,005,348. Principal and interest paid for the year ended April 30, 2014 and total net revenues were \$30,809,092 and \$66,876,697, respectively.

**City of Kansas City, Missouri Water Fund**  
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**Note 8: Due to/from Other Funds**

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

	2014		2013	
	Due from	Due to	Due from	Due to
Sewer fund	\$ 131,722	\$ 109,319	\$ 14,153	\$ 331
General fund	-	385,000	520	385,000
	\$ 131,722	\$ 494,319	\$ 14,673	\$ 385,331

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

**Note 9: Administrative Service Fees**

Payments to the General fund of the City for office space and certain administrative, data processing and accounting services for the years ended April 30, 2014 and 2013 are presented as administrative and general expenses and are as follows:

	2014	2013
Administrative, data processing and accounting	\$ 4,798,283	\$ 4,472,982

The Water Fund provides billing and collection services for the City of Kansas City, Missouri Sewer Fund and charged the City of Kansas City, Missouri Sewer Fund \$3,115,782 and \$4,485,554 for these services for the years ended April 30, 2014 and 2013, respectively.

**Note 10: Employee Retirement Plan**

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

At May 1, 2013, the actuarial accrued liability of the Plan was approximately \$1,115,165,000 and the actuarial value of assets of the Plan was approximately \$900,062,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$39,112,000 to each participating fund. The Water Fund's allocation was approximately

**City of Kansas City, Missouri Water Fund**  
**Notes to Financial Statements**  
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\$4,706,000 as of April 30, 2014. Contributions to the Plan made by the Water Fund during the year ended April 30, 2014 were approximately \$3,506,000.

At May 1, 2012, the actuarial accrued liability of the Plan was approximately \$1,070,752,000, and the actuarial value of assets of the Plan was approximately \$847,090,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$37,604,000 to each participating fund. The Water Fund's allocation was approximately \$4,503,000 as of April 30, 2013. Contributions to the Plan made by the Water Fund during the year ended April 30, 2013 were approximately \$2,190,000.

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

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

or by calling 816.513.1928.

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

	<b>City</b>	<b>Fund</b>
Annual required contribution (ARC)	\$ 27,568,194	\$ 3,719,733
Interest on net pension obligation	2,820,325	337,718
Adjustment to annual required contribution	(2,893,685)	(347,424)
Annual pension cost (APC)	27,494,834	3,710,027
Contributions made (employer)	(25,987,662)	(3,506,474)
Change in net pension obligation	1,507,172	203,553
Net pension obligation, April 30, 2013	37,604,330	4,502,908
Net pension obligation, April 30, 2014	\$ 39,111,502	\$ 4,706,461

**Note 11: Other Post-Employment Benefits**

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

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

### **Plan Description**

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

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

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

	<b>City</b>	<b>Fund</b>
Annual required contribution (ARC)	\$ 10,914,424	\$ 984,608
Interest on net OPEB obligation	2,869,263	213,319
Adjustment to annual required contribution	(3,828,893)	(284,663)
Annual OPEB cost (expense)	9,954,794	913,264
Contributions made (employer)	(6,788,408)	(612,394)
Change in net OPEB obligation	3,166,386	300,870
Net OPEB obligation, April 30, 2013	63,761,405	4,740,414
Net OPEB obligation, April 30, 2014	\$ 66,927,791	\$ 5,041,284

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

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

Although determinations of the actuarial status were not made for individual funds, the City has allocated its 2014 and 2013 overall net OPEB obligation of approximately \$66,928,000 and \$63,761,000, respectively, to each participating fund. For the years ended April 30, 2014 and 2013, the Water Fund's allocation was approximately \$5,041,000 and \$4,740,000, 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

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented in the City's comprehensive annual financial report as required supplementary information following the notes to the financial statements and presents multi-year trend information over time relative to the actuarial accrued liabilities for benefits.

### **Actuarial Methods and Assumptions**

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

In the May 1, 2012 actuarial valuation, the individual entry age actuarial cost method was used. The actuarial assumptions included a 3.0% inflation rate, a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets (of which there are none) and on the employer's own investments calculated based on the funded level of the plan at the valuation date and an annual healthcare cost trend rate of 9-10% annually, reduced by decrements to an ultimate rate of 4.5% after 11 years. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at April 30, 2012 was 30 years.

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

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

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

3. Changes to Pension Assumptions: Both the City of Kansas City, Missouri Employees' Retirement System and the City of Kansas City Missouri Firefighters' Pension System had experience studies performed in 2011 and updated their assumptions for use in the April 30, 2012 actuarial valuations in conjunction with those studies. The assumptions were used in the May 1, 2012 valuation accordingly.

### Note 12: Commitments

At April 30, 2014 and 2013, the City had made purchase commitments, primarily for additions to utility lines and improvements on behalf of the Water Fund of approximately \$42,824,000 and \$24,899,000, respectively. These commitments will be funded by a combination of existing resources and future debt issuances.

### Note 13: Risk Management

The Water Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Water Fund is self-insured for workers' compensation and general liability exposures and participates in the City's self-insurance programs. The City has purchased insurance to limit the exposure to \$1,000,000 on workers' compensation claims per occurrence occurring prior to fiscal year 1997, \$500,000 exposure for all claims originating in fiscal year 1997, \$400,000 exposure for all claims originating in fiscal year 1998, \$2,000,000 exposure for all claims originating in fiscal years 2003 through 2007, \$1,000,000 exposure for all claims originating in fiscal years 2008 through 2011, and \$2,000,000 for all claims originating thereafter. The City also purchases an excess liability policy to cover torts, which are not barred by sovereign immunity. The policy has a \$2,600,000 retention and a \$5,000,000 loss limit. Current sovereign tort immunity statutes and law limit general liability and automobile claim exposure to a maximum of \$403,138 per person and \$2,687,594 per occurrence. Settled claims have not exceeded the self-insured retention in any of the past three fiscal years.

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

# City of Kansas City, Missouri Water Fund

## Notes to Financial Statements

April 30, 2014 and 2013

All funds of the City participate in the program and make payments based on estimates of the amounts needed to pay prior and current year claims. The claims liability for the Water Fund includes an estimate of claims incurred but not reported (IBNR), which was determined based upon historical claims experience. Activity in the Water Fund's claims liability for the years ended April 30, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning of the year	\$ 7,468,727	\$ 5,987,365
Current year claims incurred and changes in estimates for claims incurred in prior years	6,399,200	3,877,991
Claims and expenses paid	<u>(4,278,315)</u>	<u>(2,396,629)</u>
Balance, end of the year	9,589,612	7,468,727
Less current portion	<u>(2,115,022)</u>	<u>(1,576,740)</u>
Noncurrent portion	<u>\$ 7,474,590</u>	<u>\$ 5,891,987</u>

**City of Kansas City, Missouri Water Fund**  
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**Note 14: Net Position**

Net investment in capital assets is comprised of the following:

	<u>2014</u>	<u>2013</u>
Capital Related Assets		
Land	\$ 4,079,624	\$ 4,078,958
Construction in progress	36,270,331	17,572,620
Buildings	172,709,031	171,876,753
Utility line and improvements	665,437,145	647,810,933
Machinery and equipment	56,476,880	53,229,046
	<u>934,973,011</u>	<u>894,568,310</u>
Less accumulated depreciation	(190,117,748)	(178,592,080)
Capital assets, net	<u>744,855,263</u>	<u>715,976,230</u>
Prepaid bond insurance, net	2,289,129	2,412,310
Total capital related assets	<u>747,144,392</u>	<u>718,388,540</u>
Deferred outflows of resources	<u>3,948,946</u>	<u>4,660,331</u>
Less Related Liabilities		
Current portion, bonds and capital leases payable	19,052,596	18,236,293
Bonds and capital leases payable, net of premium, discount and unspent proceeds	217,807,214	214,472,856
Contracts and retainages payable	1,179,158	1,497,058
Total capital related liabilities	<u>238,038,968</u>	<u>234,206,207</u>
Net investment in capital assets	<u>\$ 513,054,370</u>	<u>\$ 488,842,664</u>

**City of Kansas City, Missouri Water Fund**  
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Restricted net position at April 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Restricted-Expendable Assets		
Cash and cash equivalents	\$ 5,427,229	\$ 6,990,836
Investments	95,587,734	103,270,410
Interest receivable	215,478	242,883
	<u>101,230,441</u>	<u>110,504,129</u>
Less Liabilities from Restricted Assets		
Debt related to unspent bond proceeds	68,086,581	91,248,596
Accrued interest and fiscal agent fees	4,877,101	4,561,591
Customer deposits	1,812,141	1,494,532
	<u>74,775,823</u>	<u>97,304,719</u>
Restricted-Expendable Net Position	<u>\$ 26,454,618</u>	<u>\$ 13,199,410</u>

**Note 15: Change in Accounting Principle**

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

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Statement of Net Position			
Debt issuance costs, net	\$ 4,485,318	\$ (4,485,318)	\$ -
Prepaid bond issuance, net of accumulated amortization	-	2,412,310	2,412,310
Deferred loss on refunding, net	4,660,331	(4,660,331)	-
Deferred outflows of resources	-	4,660,331	4,660,331
Statement of Revenues, Expenses and Changes in Net Position			
Net position as of May 1, 2013	\$ 537,185,538	\$ (1,729,276)	\$ 535,456,262
Depreciation and amortization	14,459,219	(83,899)	14,375,320
Other expense	44,998	427,361	472,359

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

## **Notes to Financial Statements**

**April 30, 2014 and 2013**

### **Note 16: Subsequent Event**

In May 2014, subsequent to year end, the Water Fund issued a revenue bond, Series 2014A, in an amount of \$54,365,000.