



**Kansas City  
Board of Public Utilities**

**Comprehensive Annual  
Financial Report**

**For Year Ended  
December 31, 2008**

**An Enterprise Fund of the:**

**Unified Government of  
Wyandotte County  
Kansas City, Kansas**

**Prepared by:**

**Office of Accounting  
&  
Office of Public Affairs**



**Kansas City Board of Public Utilities  
Kansas City, Kansas**

**Comprehensive Annual  
Financial Report  
For Year Ended  
December 31, 2008**

**2008 Board of Directors**

**President - Loretta M. Colombel  
Vice President - Robert L. Milan, Sr.  
Secretary - Terry Eidson**

**Mary L. Gonzales  
Mark P. Jones  
John M. Pettey**

**General Manager  
Don L. Gray**



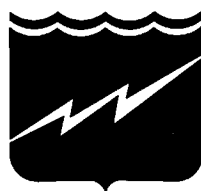
# Kansas City Board of Public Utilities

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# INTRODUCTORY SECTION

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May 20, 2009

To the Board of Directors and Citizens of the Kansas City Board of Public Utilities:

The Kansas City Board of Public Utilities operates as an enterprise fund of the Unified Government of Wyandotte County and Kansas City, Kansas. The 2008 Comprehensive Annual Financial Report (CAFR) is a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. We hereby issue the CAFR for the fiscal year ended December 31, 2008.

The CAFR was prepared by the Office of Accounting and is designed and presented in a manner to assist the reader in understanding its content. The report consists of three primary sections:

- The introductory section includes the Board President's message, the General Manager's message, this letter of transmittal, a copy of last year's Government Finance Officers Association (GFOA) Certificate of Achievement in financial reporting, and the Board of Public Utilities Organizational Chart.
- The financial section contains the Independent Auditor's Report, the Management Discussion and Analysis, the financial statements and footnotes and the Required Supplementary Information for the BPU. The combined financial statements provide a summary and overview of the financial position and results of operations of all the BPU's funds and account groups.
- The statistical section contains relevant statistical data including historical summaries of the level of expenses, revenues, and bond debt. The section also contains some general and demographic statistical information.

## **PRESIDENT'S MESSAGE**

The Board of Public Utilities (BPU), a not-for-profit municipal utility, has been providing electric and water service to Wyandotte County for nearly 100 years. BPU continues to be recognized as one of the top utilities in the United States, providing safe and reliable utility services, working to bring businesses and the jobs they create to the community, and through the support of its employees, donating thousands of dollars and hours of community service and support to the children, families and seniors who live here.

In 2008, BPU continued to focus on reducing costs, improving efficiencies, meeting customer growth demands, and bettering customer service while providing quality electric and water service at the most affordable price. BPU was also committed to maintaining and improving transparency, accountability, and responsibility in its operations and practices. Communications and outreach efforts with the community were expanded, and will remain that way, to ensure that all customers and stakeholders know what BPU is doing and have the opportunity to share their opinion on utility matters. BPU successfully achieved these goals while maintaining the same quality service and reliability its customers have come to expect.

BPU was one of only a few utilities nationwide to receive the Reliable Public Power Provider (RP3) designation in 2008, and is one of only seven in the country to have previously received the "Gold" award for its water system. BPU also received A+ bond ratings from national rating agencies based on its financial performance.

The 2008 budget reduced spending for the third year in a row, providing a further reduction in the number of BPU staff positions, while reducing capital spending by 25 percent. Moreover, utility rates remained comparable, and even lower, than many other local utilities.

BPU received its first delivery (13 mW) of Kansas wind power in 2008, after signing an agreement to purchase wind energy from the Smoky Hills Wind Farm located west of Salina, KS. BPU hosted the 3rd Annual Green Build Conference at the Reardon Center in April for more than 250 builders, developers, and residents to learn more about green technologies, and sponsored several Energy Savings workshops for customers around the community.

The utility also undertook a number of initiatives to improve customer service, including offering payment kiosks in local grocery stores, updating its website and allowing on-line bill payments, and developing a new outage management system (OMS) to better track and report outages. In one customer survey, BPU associates were given a 92 percent satisfaction rate for courtesy, knowledge, timeliness, and concern, and the utility received a 92 percent satisfaction rating for the dependability of its electric and water service.

In 2008, BPU and its 640 associates provided extensive volunteer, civic, financial, and philanthropic support to the community, ranking 1st in its class for contributions to the United Way Campaign and #18 metro-wide. More than \$400,000 was raised in 2008, with half donated by BPU employees. In addition, the annual BPU Charity Golf Tournament raised \$25,000 for the Kaw Valley Center in 2008, and has raised more than \$375,000 for other children's organizations since its inception.

raised \$25,000 for the Kaw Valley Center in 2008, and has raised more than \$375,000 for other children's organizations since its inception.

BPU also helped host the downtown holiday lighting ceremony and sponsored several Summer Youth Programs in the community, while the BPU Employees Foundation sponsored an Easter Egg Hunt for seniors, adopted families for the holidays, and raised funds for back-to-school supplies for local schools.

BPU achieved a number of accomplishments and recognitions in 2008. While notable, the BPU and its Board of Directors are committed to doing even better. The utility will continue working to meet the community's electric and water needs without losing sight that as a public utility, its primary mission is to ensure reliable and affordable utility services to its customers, while doing so in an open, transparent, and responsible manner.

Sincerely,



Loretta Colombel  
President, Board of Directors  
May 20, 2009

## **Board of Directors - 2008**

The Board of Directors is composed of six members, three of whom are elected at large and three of whom are elected by district. Every two years three members are elected for four-year terms. The Board chooses a president, vice president, and secretary from its own membership. The Board meets twice a month, on the first and third Wednesdays. Members receive a monthly salary of \$950. The treasurer of the Unified Government of Wyandotte County/Kansas City, Kansas is the ex-officio treasurer of the Board. The Board is charged with the duty to hire a General Manager, who serves as BPU's chief executive officer, and who administers the day-to-day operations of the utility.



**Loretta M. Colombel**  
**President**  
**Member, Second**  
**District**  
**Appointed 1998-1999**  
**Elected 1999-2001**  
**Re-elected 2001-2005**  
**Re-elected 2005-2009**

Ms. Colombel currently serves as President of the Board. In 2002, she was appointed to the Policy Makers' Council of the American Public Power Association's (APPA) and served as the organization's chair in 2007-2008.

In 2001 Ms. Colombel graduated from the FBI's Citizen's Academy. She is past President and co-founder of Wyandotte Countians Against Crime (WCAC), a former neighborhood organizer for the Regional Prevention Center, and was a member of Kansas City Kansas Chamber of Commerce Board of Directors. She owned a small business in downtown Kansas City, Kansas for several years, and also worked for Liveable Neighborhoods Task Force as a neighborhood organizer.

She attended Bishop Ward High School before moving to New Orleans, where she graduated from East Jefferson High School and attended Tulane University. Her husband is William Epperheimer, past publisher of the Kansan newspaper and current President & CEO of the Wyandotte Health Foundation. She is the mother of two sons, Keith and Mark.



**Robert L. Milan, Sr.**  
**Vice President**  
**Member, First District**  
**Elected 1991-1995**  
**Re-elected 1995-1999**  
**Re-elected 1999-2003**  
**Re-elected 2003-2007**  
**Re-elected 2007-2011**

Mr. Milan also served as President of the Board from 1995 to 1997, in 2002-2003, and in 2007-2008. In 2007, BPU recognized Mr. Milan's dedication to the utility by naming a new Water Division facility in his honor, the Robert L. Milan, Sr. Pump Station and Reservoir.

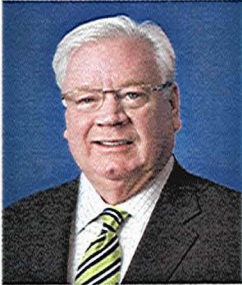
Mr. Milan worked at the U.S. Department of Labor for 32 years, retiring as a Federal Representative. He is active in the Northeast Optimist Club and NAACP. In 2001 he served as State President of AARP. He is past President of AFGE Local No. 1748, a government employees' union, and served as Secretary of the Kansas City, Kansas-Wyandotte County Port Authority. Mr. Milan is also a past Vice President of Turner House Inc.

Mr. Milan received the Annual Community Leadership Award from Saint Peter Christian Methodist Episcopal Church in 2007. The Kansas City Globe selected him as one of the 100 Most Influential People in 1998, and Grinter Heights Neighborhood Association voted him "Man of the Year" in 1993. He received the E.A. Freeman Humanitarian Award from the NAACP, KCK branch in 2003. Mr. Milan also received the Distinguished Service Award from the TWA Black Caucus in 1982.

A native of Kansas City, Kansas, he owned Milan's Roller Arena and Bowling establishment for many years. Mr. Milan is a Sumner High School graduate and attended Kansas City Kansas Community College, the University of Kansas extension, Donnelly College, the University of Colorado, Temple University and Pioneer College.



**Board of Directors – 2008 – (continued)**



**Terry Eidson**  
**Secretary**  
**Member, at Large**  
**Appointed 2007-2011**

Mr. Eidson is a life-long resident of Wyandotte County and local business leader. He and his wife Aileen have owned and operated Eidson's Florist and Travel for 37 years.

Mr. Eidson attended Washington High School, Kansas City Kansas Community College and the University of Kansas. He served four years in the Kansas Air National Guard, and worked as an elementary school teacher before taking over the family business in 1970. He has served in leadership roles in various industry organizations, and has been on the board of directors of the Wyandotte County Fair, the KCK Chamber of Commerce, the KCK YMCA and Children and Family Services.

For the past 31 years he has served on the board of directors of two local banks, Wyandotte County Bank and First Community Bank.



**Mary L. Gonzales**  
**Member at Large**  
**Elected 2001-2005**  
**Re-elected 2005-2009**

Ms. Gonzales served as President from 2005 to 2007. She also served previously as Vice President and Secretary of the Board.

Ms. Gonzales retired from teaching school in 2006 after a 33-year career. For many of those years she was an eighth-grade language arts teacher at Piper Middle School.

Besides her BPU Board and other community activities, she serves on the Board of Directors of El Centro and City Vision Ministries. She

also is active in the Ball Family Center Charter Advisory Council of the YMCA, and is a member of the American Public Power Association and the American Water Works Association.

A graduate of Leadership 2000, she was also District 5 Coordinator in the successful effort to consolidate the Wyandotte County/city governments, and served on the advisory board of the Wyandotte County Library. In addition, she is past President of Delta Kappa Gamma International Educational Society.

Ms. Gonzales has a Bachelor of Arts degree in Education from the University of Montevallo in Montevallo, Alabama, and a Master's degree in Curriculum and Instruction from Emporia State University.

Mary is married to John Mendez and has three sons and two step-daughters.



**Mark P. Jones**  
**Member at Large**  
**Elected 2003-2005**  
**Re-elected 2005-2009**

Mr. Jones is a native of Kansas City, Kansas, and graduated from Turner High School.

He also attended F.L. Schlegle and Washington High Schools.

Mr. Jones helped raise funds for the Athletic Department of the Kansas City Kansas Community College.

He is a member of the American Public Power Association and the American Water Works Association. He manages an auto repair service business.

**Board of Directors – 2008 – (continued)**



**John M. Pettey**  
**Member,**  
**Third District**  
**Elected 1995-1999**  
**Re-elected 1999-2003**  
**Re-elected 2003-2007**  
**Re-elected 2007-2011**

Mr. Pettey served as President of the Board in 2001-2002, and Secretary from 2005-2007.

A life-long resident of the Turner area, Mr. Pettey is semi-retired from the real estate and insurance business. He is a substitute teacher in the Turner School District and manages several properties. In addition, he is Vice President of the Turner Lions Club, on the board of United Way's Tri-County Smart Start program and President of the Argentine Activities Association.

He is Past President of the Independent Insurance Agents of Kansas City, Kansas. He was also an officer of the Wyandotte County Parks Board and Past President of the Argentine Breakfast Club.

He attended Ottawa University and Washburn University.

## GENERAL MANAGER'S MESSAGE

The Kansas City Board of Public Utilities (BPU) has been providing dependable, quality electric and water utility services to the community for nearly 100 years. As a publicly-owned agency of the Unified Government of Wyandotte County/Kansas City, Kansas, BPU is self-governed by an elected six-member board of directors.

As a not-for-profit publicly owned utility, BPU's primary focus has always been and remains its customers and the community. In 2008, BPU continued its on-going mission of providing low-cost electric and water service to the community in a safe, reliable manner.

The utility's regard for customer service, as well as industry-leading achievements in business operations, has resulted in BPU being recognized as one of the top public utilities in the country. In 2008, BPU was one of only 83 of the more than 2,000 public utilities nationwide to receive the Reliable Public Power Provider (RP3) award.

BPU provides electric service to 65,000 customers and water service to 51,000 customers over a 127 square mile area. The utility's electric system includes two active power stations, 29 substations, 3,000 miles of electrical lines, and responsibility for 9,000 traffic signal heads, 6,000 fire hydrants, and 19,000 street lights. The water system includes a state-of-the-art water treatment facility; the two largest horizontal collector wells in the country; three distribution pump stations; 5 million gallons of elevated storage; 27 million gallons of in-ground storage and 1,000 miles of water pipes.

In 2008, BPU continued to implement facets of its 20-year master plan and overall strategic plan, working to manage existing growth and prepare for future needs in the community. BPU electric and water rates are comparable, and even lower than most other local utilities. The utility has not increased rates since 2007, and no electric rate increase is proposed until at least 2010.

BPU operations and functions continued to exceed expectations in 2008. Highlights include, among others:

### *Electric Generation*

- BPU facilities generated approximately 2.6 million mWh in 2008, while procuring 250,000 mWh from wind and hydropower renewable energies, with over 80,000 mWh of green energy received from the Smoky Hills Wind Farm near Salina, KS.
- In addition, the utility completed a successful major overhaul of the Quindaro Unit 2, undertook evaluations and planning for an additional combustion turbine generator, completed preliminary engineering evaluations for installation of Low NOx Burners on the Nearman and Quindaro 2 Units, developed compliance programs to meet new NERC

Reliability and Cyber Security standards, and initiated a 1.5 mW landfill gas renewable power generation project.

#### *Electric Operations*

- BPU continued roll-out of a new Outage Management System (OMS) in 2008, in coordination with installation of new Porsche Interactive Voice Recorder (IVR) system to help locate, identify and handle outages and disconnects.
- On-going design and construction of Wolcott Substation, site selection and design of new East Fairfax Substation, and major modifications to extend life of three substation transformers were completed.
- Implemented new distribution system configuration for Schlitterbahn and Plaza at the Speedway developments, energized seven (7) new subdivisions and Phase One of Water One project, and made improvements to numerous traffic signal intersection systems.
- Development of new Parallel Generation and Interconnection, Net Metering, Voltage Regulation, and Power Quality Standard Policies.

#### *Water*

- BPU produced 11.7 billion gallons of water in 2008, replaced 3079 water meters, repaired and replaced 169 water valves and 197 fire hydrants, while achieving a five-year low in the number of main breaks.
- Completed the 18 MGD Actiflow Sedimentation Building and Basin Train at Nearman Water Treatment Facility, and started construction of the 2 million gallon elevated water tower at 51<sup>st</sup> and Gibbs road.
- BPU's water laboratory successfully completed two-year EPA-required study monitoring for e-coli & cryptosporidium, and testing and reporting for distribution system monitoring of disinfection by-products at site specific locations.
- BPU surpassed and exceeded all federal, state, and local water quality standards in its 2008 Water Quality Report.
- Completed policy changes for backflow protection on residential services with irrigation systems.
- BPU responded to 18,868 water service calls in 2008, performed 8,370 service turn on and turn-offs, and received 4,436 trouble calls.

#### *Environmental:*

- BPU joined the Greater Kansas City Chamber of Commerce Climate Protection Partnership and established an internal Climate Protection Committee to reduce the utility's carbon footprint.
- The utility hired an Air Quality Program Environmental Scientist to assist with its environmental initiatives and one of our senior BPU staff was appointed to the Governor's Wind Working Group.
- Hosted the 3<sup>rd</sup> Annual Green Build Conference with several hundred attendees, and sponsored numerous energy saving seminars in the community for BPU customers.

*General Issues:*

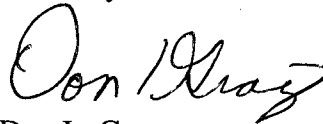
- Adopted a 2008 budget that reduced overall utility spending for the third year in a row, reduced staff positions by 10 percent from 2007, totaling 23 staff position reductions since 2006, and reduced capital project spending by 25 percent.
- Ratings agencies reaffirmed BPU bond rating of A2 (Moody's), A+ (Fitch), and A+ (Standard and Poor), and the Legislative Auditor of the Unified Government reported that BPU is financially sound and in good condition to take on additional debt if necessary.
- BPU partnered to provide payment kiosks at area grocery stores, providing more accessible service options for customers, made its website more customer friendly and online payment service available and consistently achieved 90 percent satisfaction rankings in customer service surveys in 2008.
- BPU established a Diversity Committee to provide a forum for open communication and awareness of cultural diversity within the workplace.
- Continued the utility's volunteer, civic, and financial support for organizations and charities within its service area, donating thousands of dollars and hours of community service.

As the community continues to grow, BPU continues working to address a number of important issues including maintenance and replacement of aging infrastructure, determining future power generation, improving internal BPU efficiencies to further reduce costs, and providing open and transparent communication with our customers.

BPU continues working today to meet the electric and water utility needs of the community tomorrow. We continually strive to remain one of the top-ranked public utilities in the country and remain resolute in our commitment to improving the overall quality of life in the communities we serve.

For more information about BPU, please visit our Web site at [www.bpu.com](http://www.bpu.com).

Sincerely,



Don L. Gray  
General Manager  
May 20, 2009

## **Senior Management – 2008**

### **Don L. Gray General Manager**

Don Gray has worked at BPU for more than 38 years. Before being appointed General Manager of the utility in 2006, he was Manager of Water Operations.

In the late 1990s he led the research, design and construction of the Nearman Water Treatment Plant with its state-of-the-art horizontal collector well, the largest alluvial well of its kind in the U.S. The plant opened in 2000. He has also served on various task forces and committees at the utility, including the Leadership Team for the BPU Strategic Plan.

In 2005, Mr. Gray was awarded the prestigious George Warren Fuller Award from the American Water Works Association (AWWA). The award recognizes Mr. Gray's long career and management of the BPU water utility and his leadership role in AWWA. He also serves on the Board of Directors of AWWA.

Mr. Gray serves on the board of the Kansas City Kansas Chamber of Commerce and is Co-Chair of the Chamber's Economic Infrastructure Committee. He is also a member of the American Public Power Association and Kansas Municipal Utilities.

Seventeen years ago Mr. Gray turned his favorite recreational activity into a way to aid local children when he helped establish the BPU Charity Golf Tournament. Since then the tournament has raised over \$300,000 for various children's charities in Wyandotte County.

Mr. Gray has bachelor's degrees in chemistry and microbiology. In 2003 he earned his M.B.A. from the University of St. Mary.

Gray lives in Kansas City, Kansas. He is married to Cindy Gray and has two grown children.

**Lori C. Austin, Manager  
Accounting and Finance/CFO**

**Darrell D. Dorsey, Manager  
Electric Production & Supply**

**James A. Epp, Manager  
Water Operations and Acting Chief  
Administrative Officer**

**James A. Mason, Manager  
Customer Services**

**William A. Johnson, Manager  
Electric Operations**

**Paul M. Pausick, Manager  
Information Technology**

**Nanette M. Wolf, Manager  
Purchasing and Supply**

## Executive Staff and Department Heads 2008

Robert D. Adam, Director  
Electric System Control

Leah D. Bennett, Director  
Air Quality Program

Laurie D. Brough, Director  
Administrative Services

Patrick J. Cassidy, Director  
Environmental Services

Blake L. Elliott, Director  
Electric Supply Planning

John D. Frick, Director  
Electric Production Engineering

John M. Fuentez, Director  
Electric Production Operations

Stephen E. Green, Director  
Water Distribution

Durward M. Johnson, Director  
Water Processing

William F. Kamm, Director  
Production Supply Services

Michael D. Kline, Director  
Electric Transmission & Distribution

Forrest A. Martinek, Director  
Customer Services

David E. Mehlhaff  
Public Affairs Officer

Patrick J. Morrill, Director  
Electrical Engineering

Randal J. Otting, Director  
Accounting

George A. Powell, Director  
Economic Development & Retail Sales

Dong T. Quach, Director  
Electric Production Maintenance

Chris D. Stewart, Director  
Civil Engineering

Sandra L. Whisler, Director  
Field Services

Kevin G. Williams, Director  
Employee Relations



## **FINANCE REPORT OVERVIEW**

The Kansas City Board of Public Utilities of Kansas City, Kansas (BPU) is an administrative agency of the Unified Government of Wyandotte County/Kansas City, Kansas charged by Kansas Statute with the responsibility for the daily management, operation, maintenance and control of the Unified Government of Wyandotte County/Kansas City, Kansas's electric and water facilities. By Kansas Statutes, the BPU's operational control and administration is under a six-member elected Board of Directors who appoints the General Manager to administer the day-to-day operations of the combined utility system. The Board of Directors serve four-year staggered terms, with three board members elected every two years. Three of the board members are elected by district and the remaining board members are elected at large. However, the Unified Government of Wyandotte County/Kansas City, Kansas possesses the corporate powers that would otherwise distinguish the BPU as being legally separate from the Unified Government of Wyandotte County/Kansas City, Kansas. The accompanying combined financial statements include only those operations related to the municipal electric and water utilities.

Responsibility for this report for the fiscal year ended December 31, 2008 with respect to both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the BPU. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the BPU. To enhance the reader's understanding of these financial statements, note disclosures have been included as an integral part of this document.

The BPU's financial statements have been audited by KPMG, LLP. The goal of the independent audit was to provide reasonable assurance that the financial statements of the BPU for the fiscal year ended December 31, 2008, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amount and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. KPMG concluded, based upon the audit, the financial statements present fairly, in all material respects, the financial position of the BPU as of December 31, 2008 and 2007, and the results of BPU's operations and cash flows for the years then ended in conformity with U. S. generally accepted accounting principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The BPU's MD&A can be found immediately following the report of the independent auditors.

The Employees' Retirement Pension Plan, established for the employees of the BPU, is a separate legal entity. The financial statements of the Employees' Retirement Pension Plan are not included in the accompanying combined financial statements, but can be obtained from the Board of Pension Trustees of the Retirement Pension Plan of the Kansas City Board of Public Utilities.



## **BPU Financial Controls and Performance**

### **Internal Controls**

Management of BPU is responsible for establishing and maintaining internal controls to ensure that the assets of BPU are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; (2) the evaluation of costs and benefits requires estimates and judgment by management.

### **Budgeting Controls**

BPU maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with provisions embodied in the annual appropriated budget approved by the elected Board, BPU's governing body. BPU is required to adopt an annual budget. The annual budget includes the fiscal year operating plan as well as a multi-year Capital Improvements Program. The level of budgetary control is established by cost centers and by resource expense line item activity. In certain cases, however, cost center budgets may be changed during the year under the following circumstances:

- Essential programs: If a program is essential for the operations of BPU or so urgently needed that implementation cannot be delayed.
- Required programs: If a program is needed to maintain BPU's activities at current levels of performance or required by the obligation to serve.

### **Financial Guidelines**

BPU maintains accountability of its financial performance through the use of financial responsibility statements guidelines as adopted by the Board. The following guidelines are to be used in the planning and development of the annual budget for the Kansas City Board of Public Utilities. These guidelines are developed according to the current financial policies; the current rate hearing stipulation agreements with our customer group; compliance with current bond indenture requirements; and in accordance with good and prudent financial planning and budget processes and recommended policies of the Government Finance Officers Association.

In addition to the financial responsibility statements in the current outstanding bond documents, BPU annually reviews its financial assumptions and guidelines to ensure conformance with statement indenture requirements and good business practices. The major financial guidelines include:

## **BPU Financial Controls and Performance – continued**

- ***Debt Service Coverage Ratios*** – BPU establishes a debt ratio that is consistent with the current provisions in the bond indenture document. This debt service ratio is a measure of the adequacy of cash to pay debt service and is the minimum amount necessary to prevent bond default. It should be considered a target for revenues needed by the Utility for its funding purposes in any given year.

BPU must maintain debt coverage of 1.2 to meet the coverage requirement imposed by the bond indenture and demonstrate that Net Revenues be at least 120 percent of the Maximum Annual Debt Service.

BPU also has a mandatory provision in its bond indentures for a debt service trigger when debt coverage is at 1.3 times or below the annual debt service payment amounts.

- ***Rate Stabilization Fund*** – The 2008 Financial Statements have assets, which are designated for a Rate Stabilization Fund. A Rate Stabilization Fund is needed to offset major changes in revenues and expenses including weather conditions and unanticipated spending requirements. As of December 31, 2008, the Rate Stabilization Fund had a balance of \$7.4 million.
- ***Improvement and Emergency Fund*** – BPU’s financial statements include a combined utility reserve of \$1.5 million to fund emergency related capital improvement costs. This reserve account allows BPU to fund capital improvements in cases of major replacement needs and/or emergency disasters.

### **Cash Management**

BPU has a comprehensive cash and investment management program. Various investment restrictions are contained in the indenture and ordinance authorizing the revenue bonds of the BPU utility system, along with statutory restrictions contained in state law. These restrictions basically identify the type of investments that may be authorized and do not restrict BPU to various terms. BPU prepares an annual cash flow worksheet, and a 90-day cash worksheet, all of which aids BPU in making the best investment decisions and has helped in short and long range planning. Through these procedures, BPU has been able to out-perform the 6-month T-bill rate.

### **Risk Management**

BPU has a comprehensive risk management program. This program includes coverage as provided for in the following policies: (1) Property/Boiler “All Risk,” (2) Comprehensive Crime (Employee Dishonesty), (3) Special Fuels or User Bond, (4) Umbrella Liability, (5) Excess Workers’ Compensation, (6) Public Official and Employee Liability, (7) Travel, and (8) Automobile Insurance. The risk management program is in compliance with the Trust Indenture of the outstanding bonds. Risk issues are addressed in a proactive manner by providing specific training, which will minimize or prevent risk exposure.

### **Long Term Financial Planning**

BPU's goals for the future include meeting the needs of the community as development continues within the county. BPU utilizes a five-year capital improvement program to prioritize projects, which will be scheduled over a number of years as financial resources are available. A few of the major goals for 2009 include:

- Continue to evaluate the feasibility of additional power generation resources and provide more reliable, low cost energy at the generating plants to minimize higher purchase power costs
- Complete construction of a 2 MG elevated tank in service area to increase water system reliability
- Complete wide-ranging cost of service study for both electric and water in order to meet future financial needs of the utility and provide support for improving generation system reliability
- Plan for issuance of revenue bonds of approximately \$58 million to help support the capital construction needs of the utility.
- Complete upgrades to the billing system to aid in the development of other business applications
- Review processes to reduce utility-wide inventory costs
- Continue construction of the substation and 161kV transmission line in western Wyandotte county to support a major customer and supply redundant energy to another substation in the service area
- Implement an outage management system and in addition evaluate operational and financial requirements to implement an automated meter reading information system to improve customer service and outage response time
- Continue the design, development and scheduling of construction of a new 161 kV substation servicing the industrial area in the eastern portion of our service territory to increase distribution capacity and improve service area

### **GFOA Certificate of Achievement Award**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Kansas City Board of Public Utilities for its comprehensive annual financial report for the year ended December 31, 2007. This was the twenty-seventh consecutive year that the BPU received this prestigious award.

In order to be awarded a Certificate of Achievement, BPU must publish an easily readable and efficiently organized comprehensive annual financial report. This report satisfied both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe this 2008 comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for a certificate for the twenty-eighth consecutive year.

In closing, I would like to thank the Accounting staff for their efforts in preparing and providing the financial information. Special thanks to David Mehlhaff, Public Affairs Officer, in coordinating the comments for the President's and General Manager's messages.

Respectfully submitted,

A handwritten signature in cursive script that reads "Lori C. Austin".

Lori C. Austin  
Manager of Accounting & Finance/  
Chief Financial Officer  
May 20, 2009

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Kansas City Board of Public Utilities, Kansas

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
December 31, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



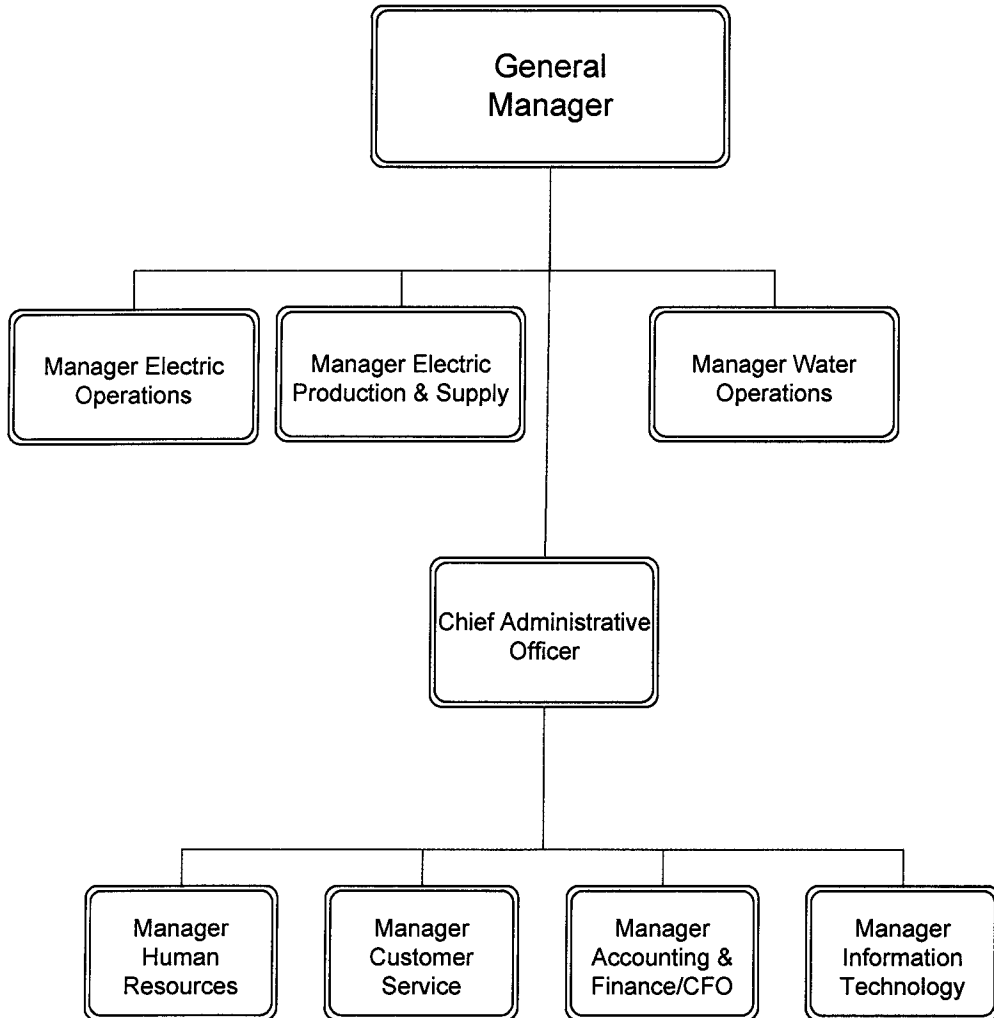
A handwritten signature in black ink, appearing to read "M. L. R. M.", written in a cursive style.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emer", written in a cursive style.

Executive Director

**Kansas City Board of Public Utilities  
2008 Organizational Chart**



Accounting Civil Engineering Construction / O & M Customer Service Electric Metering & Services Electric Production Engineering Electric Production Maintenance Electric Production Operations Electric System Control Electric Transmission & Distribution	Electrical Engineering Employee Relations Employment Environmental Services Grounds Maintenance Marketing Operations OH / UG Lines Planning Production Support Services Purchasing	Radio / Telecom & Cable Rates Stores Street Lights Substations Traffic Signal Transportation Water Distribution Water Processing Water System Support
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# FINANCIAL SECTION

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KPMG LLP  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

## Independent Auditors' Report

The Board of Directors  
Board of Public Utilities:

We have audited the accompanying balance sheets of the Board of Public Utilities of Kansas City, Kansas (the BPU) as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the BPU's management. 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; the *Kansas Municipal Audit Guide* (the Guide); and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the BPU's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the BPU enterprise fund and do not purport to, and do not, present fairly the financial position of the Unified Government of Wyandotte County, Kansas City, Kansas as of December 31, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Public Utilities of Kansas City, Kansas as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 10(d) to the financial statements, the BPU adopted in 2007 the recognition and disclosure provisions of Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

As discussed in note 1 (q) to the financial statements, the BPU adopted in 2008 the disclosure provisions in GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*.





In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2009 on our consideration of the BPU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying management's discussion and analysis on pages 21 through 27 and schedules of funding progress on pages 61 and 62 are not a required part of the financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on the information.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional combining information on pages 63 to 65 is presented for the purpose of additional analysis and is not a required part of the financial statements. This additional combining information is the responsibility of the BPU's management. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

KPMG LLP

Kansas City, Missouri  
May 20, 2009

## **BOARD OF PUBLIC UTILITIES**

### **Management Discussion and Analysis**

December 31, 2008 and 2007

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

This discussion and analysis is intended to serve as an introduction into the Board of Public Utilities of Kansas City, Kansas (BPU's) financial statements. The BPU's financial statements are comprised of two components: 1) financial statements and 2) notes to the financial statements. The last report contains other supplementary information in addition to the financial statements.

#### ***Financial Statements***

The financial statements are designed to provide readers with a broad overview of the BPU's finances in a manner similar to private-sector business.

The balance sheet presents information on all of the BPU's assets and liabilities, with the difference between the two reported as net assets. Over time, increases/decreases in net assets may serve as a useful indicator of whether the financial position of the BPU is improving/deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the BPU's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses reported in this statement for some items will only result in cash flows in future fiscal periods (for example, uncollected taxes and earned but unused vacation leave).

#### ***Notes to the Financial Statements***

The notes provide additional information essential to a full understanding of the data provided in the financial statements.

#### ***Other Information***

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information concerning the BPU's progress in funding its obligation to provide pension and postretirement benefits to its employees.

The combining statements for the BPU's electric and water utilities are presented immediately following the required supplemental information.

The BPU is an administrative agency of the Unified Government of Wyandotte County/Kansas City, Kansas (Unified Government).

The electric and water departments are reflected as an enterprise fund on the Unified Government's financial statements consisting of the balance sheet; statement of revenues, expenses, and changes in net assets; and statement of cash flows. This management's discussion and analysis of the BPU's financial report presents our discussion and analysis of the BPU's financial performance for the years ended December 31, 2008, 2007, and 2006. This analysis should be read in conjunction with the financial statements and notes thereto.

**BOARD OF PUBLIC UTILITIES**

Management Discussion and Analysis

December 31, 2008 and 2007

The following tables summarize the financial condition and operations of the BPU as of and for the three years ended December 31, 2008:

<b>Assets</b>	<b>Balance Sheet Summary</b>		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital assets, net	\$ 694,016,598	693,985,594	691,579,477
Current assets	104,154,283	107,957,722	87,952,907
Other noncurrent assets	15,808,449	16,492,476	60,189,860
	<u>\$ 813,979,330</u>	<u>818,435,792</u>	<u>839,722,244</u>
<b>Liabilities and Net Assets</b>			
Noncurrent liabilities	\$ 347,896,788	358,320,652	389,247,093
Current liabilities	51,705,139	49,568,961	66,743,099
Net assets:			
Invested in capital assets, net of related debt	355,442,301	344,102,801	353,530,446
Restricted	15,508,357	4,546,604	4,118,024
Unrestricted	43,426,745	61,896,774	26,083,582
	<u>\$ 813,979,330</u>	<u>818,435,792</u>	<u>839,722,244</u>

## BOARD OF PUBLIC UTILITIES

### Management Discussion and Analysis

December 31, 2008 and 2007

#### Statements of Revenues, Expenses, and Changes in Net Assets Summary

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues:			
Residential	\$ 69,179,353	69,103,742	71,900,832
Commercial	77,719,820	75,088,103	79,590,974
Industrial	46,366,895	44,340,186	55,822,224
Other	46,827,800	40,250,336	33,221,762
Payment-in-lieu of taxes	17,562,272	17,230,192	18,374,439
Total operating revenues	<u>257,656,140</u>	<u>246,012,559</u>	<u>258,910,231</u>
Operating expenses:			
Fuel	47,541,866	48,162,578	46,224,344
Purchased power	34,093,683	23,002,868	39,269,167
Production	38,522,571	36,856,747	33,505,494
Transmission and distribution	34,655,585	36,188,822	31,680,256
General and administrative	36,832,378	36,197,159	31,056,425
Depreciation and amortization	31,291,634	31,703,397	30,550,474
Total operating expenses	<u>222,937,717</u>	<u>212,111,571</u>	<u>212,286,160</u>
Operating income	<u>34,718,423</u>	<u>33,900,988</u>	<u>46,624,071</u>
Nonoperating income (expense):			
Interest income	1,038,169	2,615,833	3,895,121
Interest expense	(15,168,395)	(18,809,126)	(19,597,976)
Payment-in-lieu of taxes	(17,562,272)	(17,230,192)	(18,374,439)
Other	(660,872)	530,266	153,093
Total nonoperating expense, net	<u>(32,353,370)</u>	<u>(32,893,219)</u>	<u>(33,924,201)</u>
Contributions and transfers:			
Contributions from developers and others	1,466,171	880,873	1,403,996
Change in net assets	<u>\$ 3,831,224</u>	<u>1,888,642</u>	<u>14,103,866</u>
Total revenue	\$ 258,694,309	249,158,658	262,958,445
Total expense	256,329,256	248,150,889	250,258,575

#### Financial Highlights

##### 2008 Compared to 2007

- Net capital assets increased \$31,000 in 2008.
- Debt service coverage ratio for 2008 decreased to 2.01 times in comparison with 2.06 for the year ended 2007.
- Net assets increased by \$3.8 million during 2008.

## **BOARD OF PUBLIC UTILITIES**

### **Management Discussion and Analysis**

**December 31, 2008 and 2007**

In 2008, the BPU's operations performed slightly above budget in overall revenues. The BPU's revenues were approximately \$257.7 million, with the electric department recognizing revenues of \$221.6 million and the water department recognizing revenues of \$36.1 million. The average number of customer accounts remained stable from the prior year.

The BPU's total operating revenue increased by approximately \$11.6 million to \$257.7 million in 2008. The increase was due to higher fuel and purchased power costs in 2008 over 2007 with an overall average increase of less than one cent per kWh for the year. In addition, other sales showed an increase in revenue in comparison to 2007 of \$5.0 million within wholesale electric market sales. The water department experienced decreased water sales of \$1.0 million compared to 2007. The decrease in water sales was principally due to an unseasonable cool and wet summer period and a slowing economy resulting in lower water sales from the industrial and commercial classes. In comparison to the 2008 budgeted revenue, overall, the BPU collected 100% of the projected revenue.

Operating expenses for 2008 and 2007 were approximately \$222.9 million and \$212.1 million, respectively. The electric department represents \$193.6 million and \$182.4 million for 2008 and 2007, respectively, while the water department has \$29.3 million and \$29.7 million for 2008 and 2007, respectively, in operating expenses. The largest component of operating expenses is production, fuel, and purchased power expense. Overall, in 2008, production, fuel, and purchased power costs were higher than in the previous year by \$12.1 million, and also over the 2008 budget by \$5.0 million. Likewise, the largest increase in expenses in 2007 was within purchased power of \$11.1 million. In 2008, production time was impacted by several unscheduled outages at the Nearman plant and a planned outage at the Quindaro plant. In addition, there were higher than anticipated purchased power and gas costs which occurred during the summer period. These higher unexpected costs resulted in a 20% under collection of fuel and purchased power costs through the Energy Rate Component (ERC) rider. The BPU increased the ERC rate for the last two months of the summer period to collect a portion of the under collected amounts. The BPU's power supply mix for fiscal years 2008 and 2007 was 56% and 62% coal, 39% and 32% net power purchases, 3% and 4% gas, and 2% and 2% oil, respectively.

For 2008, net assets increased by \$3.8 million.

Recent market conditions in 2008 have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the Employees' Retirement Pension Plan. Significant reductions in plan assets have been experienced in 2008 and into 2009 consistent with overall market trends. Future costs and funding requirements may be materially higher than they have been over the past several years.

#### **2007 Compared to 2006**

- Net capital assets increased \$2.4 million in 2007, an increase of 0.35% over 2006.
- Debt service coverage ratio for 2007 decreased to 2.06 times in comparison with 2.33 for the year ended 2006.
- Net assets increased by \$26.8 million during 2007, which includes \$24.9 million related to adoption of new accounting standard.

## **BOARD OF PUBLIC UTILITIES**

### **Management Discussion and Analysis**

December 31, 2008 and 2007

In 2007, the BPU's operations performed below budget in overall revenues. The BPU's revenues from operations were approximately \$246.0 million, with the electric department recognizing revenues of \$208.9 million and the water department recognizing revenues of \$37.1 million. The average number of customer accounts did not change significantly from the prior year.

The BPU's total operating revenue decreased by approximately \$12.9 million to \$246.0 million in 2007. The electric department's operating revenues decreased \$13.1 million from \$222.0 million in 2006. The decrease was due to lower than anticipated sales from a few large industrial customers of approximately \$11.4 million. In addition, both residential and commercial sales showed a decrease in revenue in comparison to 2006 of \$3.4 million and \$4.6 million, respectively. Other sales showed the largest increase over 2006 of \$6.1 million as a result of increased wholesale sales. The water department experienced increased water sales of \$0.20 million compared to 2006. The water department's increase in operating revenue to \$37.1 million was due to the approved rate increase of 3.8% while usage was comparable to 2006. In comparison to the 2007 budgeted revenue, the BPU collected 95.0% of the projected revenue.

Operating expenses for 2007 and 2006 were approximately \$212.1 million and \$212.3 million, respectively. The electric department represents \$182.4 million and \$186.5 million, respectively, while the water department has \$29.7 million and \$25.8 million, respectively, in operating expenses. The largest component of operating expenses is production, fuel, and purchased power expense. Overall, in 2007, production, fuel, and purchased power costs were lower than in the previous year by \$11.0 million, and also under the 2007 budget by \$4.1 million. The largest decrease in expenses in comparison to 2006 was within purchased power of \$16.3 million. In 2006, the Nearman power station had a three-month major outage requiring power to be purchased during this time. In 2007, production time was not impacted by an outage. As a result, both production and fuel costs increased over 2006 by \$3.2 million and \$2.0 million, respectively. The BPU's power supply mix for fiscal years 2007 and 2006 was 62% and 41% coal, 32% and 50% net power purchases, 4% and 4% gas, and 2% and 5% oil, respectively.

For 2007, net assets increased by \$26.8 million over 2006 in comparison with a budgeted net increase of \$16.5 million. Due to the implementation of Governmental Accounting Standards Board Statement No. 45, BPU recognized an accounting principle change of \$24.9 million in 2007.

### **Capital Assets and Debt Administration**

#### ***Capital Assets***

#### **2008 Compared to 2007**

Net capital assets increased slightly by \$31,000 in 2008. The BPU experienced a narrow change to net capital assets. During 2008, work was completed on the transmission main, which connects to the Milan pump station. Capital asset additions were offset by approximately \$31.3 million of depreciation expense.

Refer to note 5 to the financial statements for additional information.

## **BOARD OF PUBLIC UTILITIES**

### **Management Discussion and Analysis**

December 31, 2008 and 2007

#### **2007 Compared to 2006**

Net capital assets increased \$2.4 million in 2007, an increase of 0.35% for the BPU. The components of the increase include significant capital projects that were completed in 2006 and added to property, plant and equipment in 2007. Accumulated depreciation increased \$28.8 million and construction work in progress decreased by \$6.5 million for the 2007 fiscal year. As a result, the BPU experienced a narrow change to net capital assets. During 2007, work was completed on the Milan pump station and ground storage as well as the construction of the transmission main to connect the pump station. Capital asset additions were offset by approximately \$31.7 million of depreciation expense.

Refer to note 5 to the financial statements for additional information.

#### ***Debt Administration***

#### **2008 Compared to 2007**

Non-current liabilities outstanding as of December 31, 2008 and 2007 were \$347.9 million and \$358.3 million, respectively. A portion of the overall decrease of \$10.4 million is due to lower debt service payments and payments on capital lease obligations.

The BPU maintains a debt ratio that is consistent with the current provisions in the bond indenture document. This debt service ratio is a measure of the adequacy of cash to pay debt service and is the minimum amount necessary to prevent bond default. The BPU must maintain debt coverage of 1.2. The coverage requirement imposed by the bond indenture is that operating revenues be at least 120% of the maximum annual debt service. The BPU also has a mandatory provision in its bond indentures for a debt service trigger when debt coverage is 1.3 times or below the annual debt service payment amounts.

As of December 31, 2008 and 2007, the BPU had debt coverage of 2.01 times and 2.06 times, respectively.

In February 2009, the BPU issued approximately \$57.6 million of bonds to finance improvements primarily for the power generating stations and the transmission system. This debt has an average coupon interest rate of 5.09% and is repayable through 2034.

The BPU's utility system bonds for both electric and water debt are rated A+ from both Fitch and Standard and Poor's Rating Services and A2 from Moody's Investors Service. The interest rate on the BPU's outstanding debt ranges from 3.0% to 6.9%. Interest on debt expense, net of amounts capitalized, for 2008 and 2007 was \$15.2 million and \$18.8 million, respectively.

Refer to note 6 to the financial statements for additional information.

#### **2007 Compared to 2006**

Non-current liabilities outstanding as of December 31, 2007 and 2006 were \$358.3 million and \$389.2 million, respectively. A portion of the overall decrease of \$30.9 million is due to a reduction in debt service payment and capital lease obligations.

The BPU uses the Kansas Department of Health and Environment state loan, for development of infrastructure for the water division. As funds are expended, a request is made to the state for reimbursement back to the BPU. During 2007, the reimbursements have totaled \$4.1 million.

## **BOARD OF PUBLIC UTILITIES**

### **Management Discussion and Analysis**

**December 31, 2008 and 2007**

The BPU maintains a debt ratio that is consistent with the current provisions in the bond indenture document. This debt service ratio is a measure of the adequacy of cash to pay debt service and is the minimum amount necessary to prevent bond default. The BPU must maintain debt coverage of 1.2. The coverage requirement imposed by the bond indenture is that operating revenues be at least 120% of the maximum annual debt service. The BPU also has a mandatory provision in its bond indentures for a debt service trigger when debt coverage is 1.3 times or below the annual debt service payment amounts.

As of December 31, 2007 and 2006, the BPU had debt coverage of 2.06 times and 2.33 times, respectively.

The BPU's utility system bonds for both electric and water debt are rated A+ from Fitch Ratings, A+ from Standard and Poor's Rating Services, and A1 from Moody's Investors Service. The BPU's bond interest rates range from 3.0% to 6.9%. Interest on debt for 2007 and 2006 was \$18.8 million and \$19.6 million, respectively.

Refer to note 6 to the financial statements for additional information.



**BOARD OF PUBLIC UTILITIES**

Balance Sheets

December 31, 2008 and 2007

<b>Assets</b>	<b>2008</b>	<b>2007</b>
	<hr/>	<hr/>
Noncurrent assets:		
Capital assets:		
Property, plant, and equipment	\$ 1,219,638,854	1,177,964,041
Less accumulated depreciation	<u>(576,483,277)</u>	<u>(548,704,848)</u>
Plant in service, net	643,155,577	629,259,193
Construction work in progress	<u>50,861,021</u>	<u>64,726,401</u>
Capital assets, net	<u>694,016,598</u>	<u>693,985,594</u>
Restricted assets:		
Cash and cash equivalents	4,919,669	3,442,049
Investments	<u>—</u>	<u>1,500,000</u>
Total restricted assets	4,919,669	4,942,049
Pension asset	<u>—</u>	54,114
Debt issue costs	5,010,772	5,166,730
System development costs	1,587,457	2,140,173
Regulatory assets	<u>4,290,551</u>	<u>4,189,410</u>
Total noncurrent assets	<u>709,825,047</u>	<u>710,478,070</u>
Current assets:		
Cash and cash equivalents	9,866,558	7,022,454
Investments	<u>—</u>	17,606,501
Cash and cash equivalents - restricted	1,971,151	4,925,675
Investments - restricted	12,037,206	10,606,971
Accounts receivable – customers and other	25,839,486	22,108,188
Accounts receivable – unbilled	9,763,254	9,141,140
Allowance for doubtful accounts	(1,742,130)	(1,463,760)
Inventories	37,806,180	34,931,555
Regulatory assets	6,736,148	1,165,997
Prepayments and other current assets	<u>1,876,430</u>	<u>1,913,001</u>
Total current assets	<u>104,154,283</u>	<u>107,957,722</u>
Total assets	<u>\$ 813,979,330</u>	<u>818,435,792</u>

(Continued)

**BOARD OF PUBLIC UTILITIES**

Balance Sheets

December 31, 2008 and 2007

<b>Liabilities and Net Assets</b>	<b>2008</b>	<b>2007</b>
	<u>                    </u>	<u>                    </u>
Net assets:		
Invested in capital assets, net of related debt	\$ 355,442,301	344,102,801
Restricted – debt service	15,508,357	4,546,604
Unrestricted	<u>43,426,745</u>	<u>61,896,774</u>
Total net assets	<u>414,377,403</u>	<u>410,546,179</u>
Liabilities:		
Noncurrent liabilities:		
Long-term debt – revenue bonds:		
Principal	308,110,760	314,495,795
Accreted interest	10,143,415	14,222,440
Government loans	21,693,505	22,713,285
Capital lease obligations	<u>650,042</u>	<u>187,671</u>
Total long-term debt and capital lease obligations	340,597,722	351,619,191
Postretirement benefit obligation	1,804,487	1,351,461
Reserve for compensated absences	5,159,000	5,350,000
Pension obligation	<u>335,579</u>	<u>—</u>
Total noncurrent liabilities	<u>347,896,788</u>	<u>358,320,652</u>
Current liabilities:		
Current maturities of revenue bonds	6,736,709	9,958,765
Current maturities of government loans	1,014,400	976,882
Current maturities of capital lease obligations	368,879	1,550,395
Accrued interest	5,245,988	5,363,862
Customer deposits	3,446,669	3,442,049
Accounts payable	22,063,036	14,822,852
Payroll and payroll taxes	1,907,665	3,264,427
Accrued claims payable	6,472,784	5,454,869
Other accrued liabilities	3,098,347	2,147,928
Regulatory liabilities	—	1,401,005
Payment-in-lieu of taxes	<u>1,350,662</u>	<u>1,185,927</u>
Total current liabilities	<u>51,705,139</u>	<u>49,568,961</u>
Total liabilities	<u>399,601,927</u>	<u>407,889,613</u>
Total liabilities and net assets	<u>\$ 813,979,330</u>	<u>818,435,792</u>

See accompanying notes to financial statements.

**BOARD OF PUBLIC UTILITIES**

Statements of Revenues, Expenses,  
and Changes in Net Assets

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Residential	\$ 69,179,353	69,103,742
Commercial	77,719,820	75,088,103
Industrial	46,366,895	44,340,186
Other	46,827,800	40,250,336
Payment-in-lieu of taxes	<u>17,562,272</u>	<u>17,230,192</u>
Total operating revenues	<u>257,656,140</u>	<u>246,012,559</u>
Operating expenses:		
Fuel	47,541,866	48,162,578
Purchased power	34,093,683	23,002,868
Production	38,522,571	36,856,747
Transmission and distribution	34,655,585	36,188,822
General and administrative	36,832,378	36,197,159
Depreciation and amortization	<u>31,291,634</u>	<u>31,703,397</u>
Total operating expenses	<u>222,937,717</u>	<u>212,111,571</u>
Operating income	<u>34,718,423</u>	<u>33,900,988</u>
Nonoperating income (expense):		
Interest income	1,038,169	2,615,833
Interest expense	(15,168,395)	(18,809,126)
Payment-in-lieu of taxes	(17,562,272)	(17,230,192)
Other	<u>(660,872)</u>	<u>530,266</u>
Total nonoperating expense, net	<u>(32,353,370)</u>	<u>(32,893,219)</u>
Income before contributions and transfers	2,365,053	1,007,769
Contributions and transfers:		
Contributions from developers and others	<u>1,466,171</u>	<u>880,873</u>
Change in net assets	3,831,224	1,888,642
Net assets, beginning of year	410,546,179	383,732,052
Effect of adoption of new accounting standard in 2007	<u>—</u>	<u>24,925,485</u>
Net assets, beginning of year – restated in 2007	<u>410,546,179</u>	<u>408,657,537</u>
Net assets, end of year	<u>\$ 414,377,403</u>	<u>410,546,179</u>

See accompanying notes to financial statements.

**BOARD OF PUBLIC UTILITIES**  
**Statements of Cash Flows**  
**Years ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Receipts from customers	\$ 278,212,885	289,756,989
Payments to suppliers	(158,164,459)	(169,951,770)
Payments to employees	(57,533,076)	(53,170,897)
Net cash provided by operating activities	<u>62,515,350</u>	<u>66,634,322</u>
Cash flows used in noncapital financing activities – payment in lieu of taxes	(17,397,535)	(17,187,950)
Cash flows from capital and related financing activities:		
Purchases of property, plant, and equipment	(28,394,128)	(31,694,183)
Payments on capital leases	(1,550,395)	(1,603,945)
Increase in Capital Lease Obligation	831,250	—
System development costs	(732,142)	(1,013,385)
Accounts payable related to capital activities	(2,643,467)	(6,959,738)
Increase in Debt Issue Cost	(21,523)	—
Payments on revenue bonds	(9,958,765)	(10,952,985)
Proceeds from government loans	—	4,106,075
Payments on government loans	(982,262)	(887,116)
Interest paid on utility system debt	(22,184,498)	(22,380,646)
Net cash used in capital and related financing activities	<u>(65,635,930)</u>	<u>(71,385,923)</u>
Cash flows from investing activities:		
Purchases of investments	(56,162,693)	(214,913,689)
Proceeds from sales and maturities of investments	73,838,961	216,648,086
Interest received	4,209,048	2,967,507
Net cash provided by investing activities	<u>21,885,316</u>	<u>4,701,904</u>
Net increase (decrease) in cash and cash equivalents	1,367,201	(17,237,647)
Cash and cash equivalents, beginning of year	15,390,177	32,627,824
Cash and cash equivalents, end of year	<u>\$ 16,757,378</u>	<u>15,390,177</u>
Components of cash and cash equivalents at end of fiscal year:		
Restricted	\$ 6,890,820	8,367,723
Unrestricted	9,866,558	7,022,454
	<u>\$ 16,757,378</u>	<u>15,390,177</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 34,718,423	33,900,988
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	31,291,634	31,703,397
Adjustment to prepaid pension asset	—	6,864,247
Changes in noncash assets and noncash liabilities:		
Accounts receivable – customers and other	(4,075,042)	930,637
Inventories	(2,874,625)	(3,285,965)
Prepayments and other current assets	36,571	12,018
Customer deposits	4,620	222,622
Accounts payable	9,883,650	(4,051,360)
Payroll and payroll taxes payable	(1,547,762)	364,778
Accrued claims payable	1,017,915	(635,864)
Other accrued liabilities	950,418	(1,107,257)
Deferred Purchased Power	(6,971,156)	(263,934)
Other non-current assets, net	80,704	1,980,015
Net cash provided by operating activities	<u>\$ 62,515,350</u>	<u>66,634,322</u>
Supplemental noncash disclosures:		
Contributions of capital assets from developers	\$ 1,466,171	880,873

See accompanying notes to financial statements.

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2008 and 2007

### (1) Summary of Significant Accounting Policies

#### (a) *Description of Business*

The Board of Public Utilities of Kansas City, Kansas (the BPU) consists of the municipal electric and water utility, which provide services to approximately 64,000 electric and 51,000 water customers.

Under Charter Ordinance of the Unified Government of Wyandotte County, Kansas City, Kansas (the Unified Government), pursuant to the Unified Government's constitutional home rule, the BPU is an administrative agency of the Unified Government and, as such, is a part of the Unified Government's primary government. However, the BPU's operational and administrative control is under a six-member elected board of directors (the Board). The accompanying financial statements represent the combination of only those operations related to the Unified Government's electric and water utility.

#### (b) *Basis of Accounting*

The BPU accounts for the water and electric utility as an enterprise fund. Significant interdepartmental accounts, including interdepartmental sales, have been eliminated. BPU uses the accrual basis of accounting under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are followed to the extent that those standards do not conflict with, or contradict guidance of, the Governmental Accounting Standards Board (GASB). The BPU also has the option of following subsequent private-sector guidance, subject to this same limitation but does not follow the guidance. In accordance with U.S. generally accepted accounting principles for rate regulated enterprises, certain costs or credits may be recorded as deferred charges or credits when it is probable that future rates established by the Board permit recovery of specific costs or require these credits to be returned to ratepayers. The BPU follows the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission and Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation*.

Revenues and expenses are classified as either operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with ongoing operations. Operating revenue includes activities that have characteristics of exchange transactions, including charges for services. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as grants, subsidies, and investment income. Operating expenses include the cost of service, payroll, administrative expenses, contractual services, and depreciation. All expenses not meeting the above criteria are classified as nonoperating.

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2008 and 2007

(c) ***Estimates and Assumptions***

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 and liabilities and disclosures 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. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts, fixed assets, inventory, investments, notes receivable; and reserves for employee benefit obligations, environmental liabilities, and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(d) ***Revenue Recognition***

Operating revenues are recognized when electric and water services are delivered to customers. Payments-in-lieu of taxes represent amounts billed and collected from the customers and remitted to the Unified Government through a supplemental rate rider.

Meters are read and bills are rendered on a cycle basis. Unbilled revenue represents services delivered to customers and not billed at the end of a period. Management accrues estimated delivered amounts each period.

As required by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, operating revenues reported in the statements of revenues, expenses, and changes in net assets are shown net of discounts and estimated allowances for doubtful accounts.

(e) ***Cash and Cash Equivalents***

Cash and cash equivalents include all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased.

(f) ***Capital Assets***

Capital assets are stated at actual purchased cost or cost of construction. These costs include payroll-related costs, including pensions and other fringe benefits. When capital assets are disposed, the net book value of assets retired plus the cost of removal, less salvage, is charged against accumulated depreciation with no gain or loss recognized. Repairs and maintenance are charged to maintenance expense. Contributions from developers and others are stated at fair market value at the date donated.

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2008 and 2007

**(g) Depreciation**

The BPU depreciates plant and equipment on a composite basis over their estimated useful lives on a straight-line basis. The following composite depreciation rates were used for 2008 and 2007:

	<u>Composite rates</u>	<u>Useful lives</u>
Production plant	1.67% – 4.00%	25 – 75 years
Transmission and distribution	1.67% – 6.67%	15 – 75
General plant	2.27% – 10.00%	10 – 44

**(h) Interest Capitalization**

Interest costs incurred to finance construction work in progress net of interest income from tax-exempt bonds, are capitalized. The BPU capitalized \$2.8 million in 2008.

**(i) Accounts Receivable**

An estimate is made for the provision for uncollectible accounts based on an analysis of the aged accounts receivable and historical write-offs, net of recoveries. Additional amounts may be included based upon management's evaluation of customer credit risks. Allowances for doubtful accounts totaled \$1,742,130 and \$1,463,760 in fiscal years 2008 and 2007, respectively.

**(j) Inventories**

Inventories are stated at the lower of average cost or market (net realizable value) and consist of the following:

	<u>2008</u>	<u>2007</u>
Fuel	\$ 15,655,174	12,889,833
Material and supplies	22,151,006	22,041,722
Total	\$ <u>37,806,180</u>	<u>34,931,555</u>

**(k) Deposits and Investments**

Investments consist of deposits, repurchase agreements, certificates of deposit, money market funds, and U.S. Treasury securities, which are recorded at fair value as determined by market prices. BPU's investment policies are governed by the Charter, management policies, and statutes established by the State of Kansas. Securities are held by the Utilities safekeeping agent. Cash deposits are held with banks insured by Federal Depository Insurance Corporation (FDIC) and maintain acceptable collateral for amounts above FDIC limits, equal to or greater than 102% of the funds deposited at all times.

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2008 and 2007

(1) ***Brushy Creek Coal Company and Liberty Coal Company***

The BPU holds an indirect 50% interest in Brushy Creek Coal Company (BCCC) and a 50% indirect interest in Liberty Coal Company (Liberty). The other 50% interest is indirectly owned by the City of Sikeston, Missouri (Sikeston). BCCC was the owner and operator of the coal mine-related equipment located in Illinois. BPU has had an interest in BCCC since 1979. BCCC discontinued mining operations in 1997. Upon cessation of operations at BCCC, the BPU became contractually responsible for 50% of asset retirement obligations related to the mine and for 50% of certain postretirement benefits to mine workers. At December 31, 2008 and 2007, the BPU has recorded an estimated liability of \$4.5 million and \$4.3 million, respectively, for its estimated remaining share of these obligations. Both the regulatory asset and accrued liability were increased by approximately \$0.1 million and \$0.1 million, respectively, in 2008 based upon revisions to estimates for the BPU's remaining obligations. Funding provided in 2008 for these obligations was \$0.5 million.

The amounts recorded for the BPU's portion of the asset retirement obligation and the miners' benefits require significant judgment and involve a number of estimates. The BPU has recorded its estimated obligations for each of these items using information currently available to management. These estimates could change significantly over time.

BCCC did not have material operations during the years ended December 31, 2008 and 2007.

Liberty, a Colorado limited liability company, was formed in 2002 for the purpose of opening a new mine. Western Fuels Illinois, through its ownership of BCCC, owns the land and coal at the mine and has assigned these interests, along with related equipment through a lease agreement, to Liberty. On July 13, 2006, Liberty indefinitely suspended operations. Liberty filed for bankruptcy protection on November 29, 2006 under Chapter 7 of the bankruptcy code. The bankruptcy plan contemplates a liquidation of assets. The bankruptcy trustee is currently evaluating various strategic options, which include, but are not limited to, pursuing potential buyers for Liberty's assets. There can be no assurances that such a buyer will be identified or a sales transaction will be completed.

Based upon information currently available to the BPU, management estimates that claims from Liberty's creditors will exceed its assets. BPU, after consultation with outside legal counsel, believes that in the event the liquidation of Liberty's assets does not provide sufficient funds to satisfy Liberty's outstanding obligations, the unpaid creditors have no recourse to seek amounts from the BPU. On or about May 13, 2008, the bankruptcy trustee filed a complaint against several defendants, including the BPU, seeking \$4 million to pay the remaining unsecured liabilities. On April 7, 2009, a summary judgment was granted in favor of the BPU and the other defendants. An appeal was then filed by the bankruptcy trustee to the federal district court on April 15, 2009. The BPU vigorously opposed this effort. The BPU will monitor the bankruptcy proceedings, which are in progress. Management does not believe the ultimate outcome of this matter will materially impact the BPU's financial condition or results of operations.



## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2008 and 2007

As of December 31, 2006, the BPU has abandoned its interests in BCCC and Liberty as this term is defined for accounting purposes. In accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, BPU has written off its interests in BCCC, and Liberty and recorded a liability for its portion of BCCC obligations that is expected to require funding by the BPU. Total costs based upon an engineering study are approximately \$4.13 million and BPU has recorded its 50% share of this estimate. If this estimate changes, BPU will attempt to recover additional amounts owed from its customers. If any amounts are not probable of recovery, they would be charged to operations in the period the estimated change becomes known. The BPU expects to fund this obligation as the work is performed. At this date, the timing of the work is not known and this effort could take several years to complete.

The estimated remaining postretirement liability is approximately \$4.5 million, and the BPU has recorded its 50% share of this estimate. On December 7, 2004, a lawsuit was filed in the U.S. District Court for the Southern District of Illinois against BCCC alleging BCCC breached its collective bargaining agreement with the United Mineworkers of America (UMWA) and violated provisions of Employee Retirement Income Security Act of 1974, as amended by unilaterally imposing benefit cuts to retired BCCC employees and refusing to provide benefits for other retired employees. BCCC prevailed in the lawsuit; however, the UMWA has filed an appeal. On October 18, 2007, the court upheld the ruling in favor of the BPU and other defendants.

**(m) *Deferred Charges and Amortization***

Costs incurred in the development of computer systems are deferred and amortized over the useful lives of the systems, which are estimated to be three to five years. Debt issuance costs are amortized using the effective-interest method over the lives of the related bonds.

As discussed in note 1(b), the BPU follows SFAS No. 71. Regulatory assets and liabilities are amortized over a set period of time corresponding to the time period permitted and authorized by the Board.

As discussed in note 1(l), the BPU's 50% interest in the future unfunded obligations for retiree medical and mine reclamation costs related to the BCCC mine is included in Accrued Claims Payable in the accompanying balance sheets. These costs have been built into a rate study and are being amortized over 10 years.

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2008 and 2007

**(n) Vacation and Sick Leave**

Under the terms of the BPU's personnel policy, employees are granted vacation and sick leave. In the event of termination, an employee is paid for accumulated vacation days. Employees may carry over, from year to year, a maximum of 80 hours of vacation hours earned after 1997. The liability for accumulated vacation of \$1,142,000 and \$1,143,000 includes current vacation of \$272,000 and \$256,000 at December 31, 2008 and 2007, respectively, which is included in reserve for compensated absences and payroll and payroll taxes in the accompanying balance sheets. Sick leave can be accrued up to 1,760 hours. Employees who resign with at least 15 years of service are paid for 75% of accumulated sick leave. All employees are paid for accumulated sick leave upon retirement or death. The liability for accrued sick leave of \$5,617,000 and \$5,807,000 includes current sick leave of \$1,328,000 and \$1,344,000 at December 31, 2008 and 2007, respectively, which is included in reserve for compensated absences and payroll and payroll taxes in the accompanying balance sheets.

		2008			
		Beginning balance	Additions	Reductions	Ending balance
Sick leave	\$	5,807,000	1,328,000	(1,518,000)	5,617,000
Vacation		1,143,000	272,000	(273,000)	1,142,000
		2007			
		Beginning balance	Additions	Reductions	Ending balance
Sick leave	\$	5,950,000	1,344,000	(1,487,000)	5,807,000
Vacation		1,175,000	256,000	(288,000)	1,143,000

**(o) Net Assets**

In the financial statements, equity is displayed in three components as follows:

- Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is generally the BPU's policy to use restricted resources first, then unrestricted resources as they are needed.
- Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2008 and 2007

**(p) Reclassifications**

During 2008, the BPU reclassified certain prior period balances to conform to current year presentation. These reclassifications resulted in an increase in non-current restricted cash and cash equivalents and investments totaling approximately \$10.1 million and \$5.4 million respectively and a decrease in current cash and cash equivalents and investments of \$4.9 million and \$10.6 million respectively. Current payroll and payroll taxes were reclassified to long-term liabilities by approximately \$5.4 million for compensated absences that are not expected to be paid within the next year. In addition, management decreased equity classified as invested in capital assets, net of related debt and increased unrestricted equity by approximately \$9.1 million to appropriately reflect unamortized debt issuance costs and for accreted interest on debt. Revisions to the cash flow statement reflect these reclassifications. These reclassifications did not impact total assets, total equity, or result in any change in the Statement of Changes in Revenue, Expenses and Changes in Net Assets as of and for the year ended December 31, 2007.

**(q) New Accounting Pronouncements Adopted during the Year**

Effective January 1, 2008, the BPU adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This statement establishes criteria for governments to use to account for the exchange of an interest in their expected receivables or specific future revenues for immediate cash payments. This statement also requires disclosures pertaining to future revenues that have been pledged or sold. Adoption of this statement had no impact on the financial statements other than disclosures.

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and clean-ups. GASB Statement No. 49 is effective for financial statements of the BPU for periods beginning after December 15, 2007. The BPU has evaluated the standard and determined there was no significant impact upon adoption.

In 2008, BPU adopted GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*. This statement more closely aligns the financial reporting requirements for pensions with those for Other Post Employee Benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. Adoption of this statement had no impact on the financial statements other than additional disclosures.

**(2) Accounting Pronouncements Not Yet Adopted**

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is intended to improve how state and local governments report information about derivative instruments, financial arrangements used by governments to manage specific risks or make investments, in their financial statements. The statement specifically requires governments to measure most derivative instruments at fair value in their financial statements. The guidance in this

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2008 and 2007

statement also addresses hedge accounting requirements and is effective for the BPU for the year ending December 31, 2010.

**(3) Cash and Investments**

Kansas State Statutes authorize the BPU, with certain restrictions, to invest in open accounts, time deposits, certificates of deposit, U.S. Treasury notes, and U.S. agency notes. All deposits with banks are collateralized at 102% of market value, as required by the BPU's Cash and Investment Policy and State Statute, less insured amounts.

The following represents the BPU's total cash and investments at December 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Cash and Certificates of Deposit (CDs)	\$ 327,834	470,753
U.S. Treasury	—	19,106,501
Repurchase agreements	15,888,062	11,423,855
U.S. Agency	10,616,827	14,096,791
Mutual funds	1,961,861	5,750
Total cash and investments	\$ 28,794,584	45,103,650

Cash and investments are included in the following balance sheet accounts at December 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Current assets:		
Cash and cash equivalents	\$ 11,837,709	11,948,129
Investments	12,037,206	28,213,472
Noncurrent assets:		
Cash and cash equivalents	4,919,669	3,442,049
Investments	—	1,500,000
	\$ 28,794,584	45,103,650

**(a) Deposits and Investments**

The BPU maintains a cash and investment program to pay for operating and capital requirements as well as for debt service requirements. The investment program consists of deposits, repurchase agreements, certificates of deposit, and U.S. Treasury securities. Other investments using U.S. agency and money market fund securities for the debt service program are managed by the bond trustee. Nearly all maturities of securities were less than one year. At December 31, 2008 and 2007, the bank balance and certificates of deposit were \$327,834 and \$470,753, respectively, which were covered by federal depository insurance or collateral held in safekeeping in the BPU's name.

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Notes to Financial Statements

December 31, 2008 and 2007

The fair values, as determined by market prices, of the BPU's cash and investments at December 31, 2008 are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities</u>		
		<u>Less than 6 months</u>	<u>6 – 12 months</u>	<u>Greater than 12 months</u>
Cash and CDs	\$ 327,834	327,834	—	—
Repurchase agreements	15,888,062	15,888,062	—	—
U.S. agency	10,616,827	8,626,659	1,990,168	—
Mutual funds	1,961,861	1,961,861	—	—
Total	\$ 28,794,584	26,804,416	1,990,168	—

The fair values, as determined by market prices, of the BPU's cash and investments at December 31, 2007 are as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities</u>		
		<u>Less than 6 months</u>	<u>6 – 12 months</u>	<u>Greater than 12 months</u>
Cash and CDs	\$ 470,753	470,753	—	—
U.S. Treasury	19,106,501	19,106,501	—	—
Repurchase agreements	11,423,855	9,993,751	—	1,430,104
U.S. agency	14,096,791	10,767,570	3,329,221	—
Mutual funds	5,750	5,750	—	—
Total	\$ 45,103,650	40,344,325	3,329,221	1,430,104

**Investment Policy**

The BPU has an investment policy that regulates investments in securities that have objectives of safety of principal, liquidity with all investments in U.S. dollars, and investment returns optimized within the constraints of safety and liquidity. Eligible securities are specific to Kansas State Statutes and the BPU's bond indenture agreements. All securities owned by the BPU are in conformance with the investment policy.

**Credit Risk**

Credit risk is the risk that an entity will not be able to honor its commitments in the event of liquidation. The BPU manages credit risk by requiring all investments, including the use of any external investment pools and money market mutual funds, be AAA rated or better by nationally recognized rating agencies. All securities held by the BPU meet the credit quality objective.

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2008 and 2007

#### Custody Risk

Custody risk is the risk that, in the event of the failure of the counterparty to a transaction, an entity will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The BPU believes it has no custodial risk. All securities are registered in the name of the BPU and held by a third-party safekeeping agent. Investments in money market mutual funds and the State of Kansas Municipal Investment Pool are not exposed to custodial risk because their existence is not evidenced by securities that exist in physical or book entry form.

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The BPU has a concentration of credit risk where it holds more than 5% of its investment portfolio in any one security issuer other than U.S. Treasury securities and in investment pools. The following U.S. agency securities held in safekeeping by the BPU's bond trustee are in excess of 5% of total investments as of December 31, 2008:

<u>Issuer</u>	<u>Rating</u>	<u>Amount</u>	<u>Percentage of total portfolio</u>
Federal Home Loan Bank	AAA	\$ 4,835,130	16.79%
Federal National Mortgage Association	AAA	3,139,364	10.90
Federal Home Loan Mortgage	AAA	2,642,333	9.18

The following U.S. agency securities held in safekeeping by the BPU's bond trustee are in excess of 5% of total investments as of December 31, 2007:

<u>Issuer</u>	<u>Rating</u>	<u>Amount</u>	<u>Percentage of total portfolio</u>
Federal Home Loan Bank	AAA	\$ 6,815,941	15.11%
Federal National Mortgage Association	AAA	4,543,381	10.07
Federal Home Loan Mortgage	AAA	2,737,469	6.07

#### Interest Rate Risk

Interest rate risk is the risk that the fair value of the BPU's investments will decrease as a result of the increase in interest rates. The BPU investment policy requires the minimization of the risk of market value change. This is accomplished by structuring the investment portfolio so that fixed-income securities mature to meet cash requirements for debt service and other disbursement requirements for ongoing operations and by keeping maturities short. The only investment securities maturing beyond one year relate to securities required by the BPU's office building lease, and this is a fixed rate nonmarketable repurchase agreement.

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2008 and 2007

#### Foreign Currency Risk

Foreign currency risk is the risk that fluctuations in exchange rates can lead to a loss in value of assets denominated in foreign currencies. The BPU investment policy does not allow for foreign currency denominated investments, and as a result, the BPU has no investments exposed to foreign currency risk. All investments are in U.S. dollars.

#### (b) Designated Assets

Certain cash and investment amounts have been designated by Board policy for specific purposes as follows:

	<u>2008</u>	<u>2007</u>
Economic development fund	\$ 87,709	33,700
Capital debt reduction	—	5,040,000
Reserve for liability insurance	2,100,000	2,100,000
Rate stabilization fund	7,406,273	11,906,273
System development reserve	—	5,250,216
Total	<u>\$ 9,593,982</u>	<u>24,330,189</u>

#### (4) Restricted Assets

Restricted assets were held in the following funds at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Debt service fund	\$ 14,008,357	15,532,646
Customer deposits	3,419,669	3,442,049
Improvement and emergency fund	1,500,000	1,500,000
Total restricted assets	<u>\$ 18,928,026</u>	<u>20,474,695</u>

The BPU is permitted to invest restricted funds in specified types of investments in accordance with its investment policy until the time such funds are required to be disbursed for their designated purposes.

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Notes to Financial Statements

December 31, 2008 and 2007

**(5) Capital Assets**

Capital asset activity for the year ended December 31, 2008 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ adjustments</u>	<u>Ending balance</u>
Electric:					
Production plant	\$ 529,600,816	11,881,181	(231,592)	21,658	541,272,063
Transmission and distribution	266,131,330	10,493,042	(714,218)	3,667	275,913,821
General plant	113,771,399	730,411	—	(16,111)	114,485,699
Total electric	<u>909,503,545</u>	<u>23,104,634</u>	<u>(945,810)</u>	<u>9,214</u>	<u>931,671,583</u>
Water:					
Production plant	113,997,188	704,549	—	—	114,701,737
Transmission and distribution	113,444,963	17,636,151	(311,107)	185,959	130,955,966
General plant	41,018,345	1,296,223	(5,000)	—	42,309,568
Total water	<u>268,460,496</u>	<u>19,636,923</u>	<u>(316,107)</u>	<u>185,959</u>	<u>287,967,271</u>
Property, plant, and equipment	1,177,964,041	42,741,557	(1,261,917)	195,173	1,219,638,854
Construction work in progress – not depreciable	64,726,401	28,243,295	—	(42,108,675)	50,861,021
Total capital assets	<u>1,242,690,442</u>	<u>70,984,852</u>	<u>(1,261,917)</u>	<u>(41,913,502)</u>	<u>1,270,499,875</u>
Less accumulated depreciation:					
Electric:					
Production plant	271,630,250	11,908,551	(231,592)	574	283,307,783
Transmission and distribution	152,114,050	7,739,858	(714,218)	15	159,139,705
General plant	43,440,216	4,093,927	—	(15)	47,534,128
Total electric	<u>467,184,516</u>	<u>23,742,336</u>	<u>(945,810)</u>	<u>574</u>	<u>489,981,616</u>
Water:					
Production plant	30,527,762	2,255,551	—	(574)	32,782,739
Transmission and distribution	28,193,150	2,060,741	(311,107)	—	29,942,784
General plant	22,799,420	981,718	(5,000)	—	23,776,138
Total water	<u>81,520,332</u>	<u>5,298,010</u>	<u>(316,107)</u>	<u>(574)</u>	<u>86,501,661</u>
Combined total	<u>548,704,848</u>	<u>29,040,346</u>	<u>(1,261,917)</u>	<u>—</u>	<u>576,483,277</u>
Capital assets, net	\$ <u>693,985,594</u>	<u>41,944,506</u>	<u>—</u>	<u>(41,913,502)</u>	<u>694,016,598</u>



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December 31, 2008 and 2007

Capital asset activity for the year ended December 31, 2007 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ adjustments</u>	<u>Ending balance</u>
<b>Electric:</b>					
Production plant	\$ 512,961,160	16,796,810	(90,673)	(66,481)	529,600,816
Transmission and distribution	254,027,678	12,551,747	(309,856)	(138,239)	266,131,330
General plant	109,206,271	4,777,221	(84,155)	(127,938)	113,771,399
Total electric	<u>876,195,109</u>	<u>34,125,778</u>	<u>(484,684)</u>	<u>(332,658)</u>	<u>909,503,545</u>
<b>Water:</b>					
Production plant	113,399,138	595,611	—	2,439	113,997,188
Transmission and distribution	109,911,357	3,582,873	(99,981)	50,714	113,444,963
General plant	40,704,253	400,557	(37,140)	(49,325)	41,018,345
Total water	<u>264,014,748</u>	<u>4,579,041</u>	<u>(137,121)</u>	<u>3,828</u>	<u>268,460,496</u>
Property, plant, and equipment	1,140,209,857	38,704,819	(621,805)	(328,830)	1,177,964,041
Construction work in progress – not depreciable	<u>71,256,397</u>	<u>24,894,799</u>	<u>—</u>	<u>(31,424,795)</u>	<u>64,726,401</u>
Total capital assets	<u>1,211,466,254</u>	<u>63,599,618</u>	<u>(621,805)</u>	<u>(31,753,625)</u>	<u>1,242,690,442</u>
<b>Less accumulated depreciation:</b>					
<b>Electric:</b>					
Production plant	259,986,448	11,734,474	(90,672)	—	271,630,250
Transmission and distribution	144,008,084	8,415,822	(309,856)	—	152,114,050
General plant	39,433,954	4,090,476	(84,214)	—	43,440,216
Total electric	<u>443,428,486</u>	<u>24,240,772</u>	<u>(484,742)</u>	<u>—</u>	<u>467,184,516</u>
<b>Water:</b>					
Production plant	28,211,562	2,316,200	—	—	30,527,762
Transmission and distribution	26,383,344	1,909,787	(99,981)	—	28,193,150
General plant	21,863,385	972,984	(36,949)	—	22,799,420
Total water	<u>76,458,291</u>	<u>5,198,971</u>	<u>(136,930)</u>	<u>—</u>	<u>81,520,332</u>
Combined total	<u>519,886,777</u>	<u>29,439,743</u>	<u>(621,672)</u>	<u>—</u>	<u>548,704,848</u>
Capital assets, net	<u>\$ 691,579,477</u>	<u>34,159,875</u>	<u>(133)</u>	<u>(31,753,625)</u>	<u>693,985,594</u>

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**(6) Long-Term Debt**

The BPU's indebtedness as of December 31, 2008 consists of the following obligations:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amount due in one year</u>
Revenue bonds:					
1992*	\$ 8,946,990	—	(2,763,765)	6,183,225	2,591,709
1998	45,575,000	—	(5,580,000)	39,995,000	1,275,000
1999	17,400,000	—	(450,000)	16,950,000	475,000
2001	14,120,000	—	(705,000)	13,415,000	740,000
2004 refunding	124,855,000	—	(460,000)	124,395,000	490,000
2004B	112,105,000	—	—	112,105,000	1,165,000
	<u>323,001,990</u>	<u>—</u>	<u>(9,958,765)</u>	<u>313,043,225</u>	<u>6,736,709</u>
Less unamortized loss on refunding	(1,573,322)	—	476,423	(1,096,899)	
Unamortized premium	3,415,052	—	(147,806)	3,267,246	
Unamortized discount	(389,160)	—	23,057	(366,103)	
Total revenue bonds	324,454,560	—	(9,607,091)	314,847,469	
Capital leases	1,738,066	831,250	(1,550,395)	1,018,921	368,879
Government loans	23,690,167	—	(982,262)	22,707,905	1,014,400
	<u>\$ 349,882,793</u>	<u>831,250</u>	<u>(12,139,748)</u>	<u>338,574,295</u>	<u>8,119,988</u>

\* Excludes accreted interest

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December 31, 2008 and 2007

The BPU's indebtedness as of December 31, 2007 consists of the following obligations:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amount due in one year</u>
Revenue bonds:					
1992*	\$ 11,899,975	—	(2,952,985)	8,946,990	2,763,765
1998	50,885,000	—	(5,310,000)	45,575,000	5,580,000
1999	17,825,000	—	(425,000)	17,400,000	450,000
2001	14,790,000	—	(670,000)	14,120,000	705,000
2004 refunding	125,290,000	—	(435,000)	124,855,000	460,000
2004B	113,265,000	—	(1,160,000)	112,105,000	—
	<u>333,954,975</u>	<u>—</u>	<u>(10,952,985)</u>	<u>323,001,990</u>	<u>9,958,765</u>
Less unamortized loss on refunding	(2,049,746)	—	476,424	(1,573,322)	
Unamortized premium	3,562,859	—	(147,807)	3,415,052	
Unamortized discount	(412,217)	—	23,057	(389,160)	
Total revenue bonds	<u>335,055,871</u>	<u>—</u>	<u>(10,601,311)</u>	<u>324,454,560</u>	
Capital leases	3,342,010	69,346	(1,673,290)	1,738,066	1,550,395
Government loans	20,471,208	4,106,075	(887,116)	23,690,167	976,882
	<u>\$ 358,869,089</u>	<u>4,175,421</u>	<u>(13,161,717)</u>	<u>349,882,793</u>	<u>12,486,042</u>

\* Excludes accreted interest

Details of utility system revenue bonds outstanding at December 31, 2008 and 2007 are as follows:

<u>Revenue bonds</u>	<u>Interest rate</u>	<u>Original amount</u>	<u>Maturity</u>	<u>2008</u>	<u>2007</u>
1992 Series	4.70% – 6.90%	\$ 80,445,000	9-01-16	\$ 6,183,225	8,946,990
1998 Series	4.00% – 5.25%	81,375,000	9-01-28	39,995,000	45,575,000
1999 Series	5.00% – 5.95%	25,325,000	9-01-28	16,950,000	17,400,000
2001 Series	4.00% – 5.95%	17,170,000	5-01-21	13,415,000	14,120,000
2004 Refunding	5.60% – 5.65%	126,005,000	9-01-23	124,395,000	124,855,000
2004B	3.00% – 5.00%	115,535,000	9-01-32	112,105,000	112,105,000
Subtotal				<u>313,043,225</u>	<u>323,001,990</u>
Unamortized loss on refunding				(1,096,899)	(1,573,322)
Current maturities				(6,736,709)	(9,958,765)
Unamortized premium				3,267,246	3,415,052
Unamortized discount				(366,103)	(389,160)
Total utility system revenue bonds				<u>\$ 308,110,760</u>	<u>314,495,795</u>

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Interest on portions of the Series 1992, 1998, 1999, 2001, 2004 refunding, and 2004B utility system revenue bonds are payable on a semiannual basis. Interest on a portion of the Series 1992 utility system revenue bond is payable at various dates through maturity. As of December 31, 2008 and 2007, the BPU was in compliance with all required debt covenant ratios.

The debt service to maturity on the outstanding BPU revenue bonds as of December 31, 2008 is as follows:

Bond year(s) ending December 31:	<u>Principal</u>	<u>Interest (including accrued)</u>
2009	\$ 6,736,709	21,518,011
2010	6,721,516	21,490,498
2011	12,575,000	15,680,620
2012	13,235,000	15,019,624
2013	13,940,000	14,319,354
2014 – 2018	72,805,000	60,129,050
2019 – 2023	86,100,000	39,067,885
2024 – 2028	57,930,000	19,733,611
2029 – 2032	43,000,000	5,505,500
	<u>\$ 313,043,225</u>	<u>212,464,153</u>

The utility system revenue bond indebtedness requires special reserves and accounts as follows:

<u>Account</u>	<u>Authorized expenditure</u>
Debt service and reserve	Paying current principal and interest on bonds.
Construction	Acquiring, constructing, and installing capital improvements.
Improvement and emergency	Financing major renewals, repairs, and replacements, and extraordinary or unforeseen expenditures.

The utility system revenue bond debt service and reserve account is held in escrow in a bank acting as trustee for the BPU. The utility system revenue bond indentures also provide for a bond reserve account to be held by the trustee for the future payments of principal and interest in the event that the net revenues of the utility system are less than or equal to 130% of the maximum annual debt service on the bonds. All amounts are reported on the accompanying balance sheets as restricted assets.

The current indentures also require the BPU to establish rates and collect charges sufficient to pay the operating, maintenance, and debt service costs of the utilities; to maintain the accounts listed above; and to provide net operating income, before depreciation and payment in lieu of taxes, of at least 120% of the maximum annual debt service due on the outstanding bonds. All of the BPU's utility plant facilities are pledged under the terms of the indentures.

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In prior years, the BPU completed an “in substance” defeasance of utility system revenue bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, neither the trust account asset nor the liabilities for the defeased bonds are included in the BPU’s financial statements. At December 31, 2008, outstanding utility system revenue bonds in the amount of \$6,333,149 are considered substantively defeased.

Total indebtedness also includes government loans, which represent the amounts borrowed from Kansas Department of Health and Environment for the purpose of capital improvements to be repaid in installments over 20 years ending 2027.

The debt service to maturity on the outstanding BPU government loans as of December 31, 2008 is as follows:

	<b>Principal</b>	<b>Interest (including accreted)</b>
Year(s) ending December 31:		
2009	\$ 1,014,400	795,786
2010	1,053,360	760,410
2011	1,093,820	723,672
2012	1,135,835	685,521
2013	1,179,467	645,903
2014 – 2018	6,612,872	2,579,785
2019 – 2023	7,984,891	1,333,941
2024 – 2027	2,633,260	169,654
	\$ 22,707,905	7,694,672

BPU has pledged specific revenue streams to secure the repayment of certain outstanding debt issues. The corresponding debt issues are for utility system revenue bonds and the purpose of the debt is for utility improvements. The following table lists those revenues, the amount and term of pledge remaining, the current year principal and interest on the debt, the amount of pledged revenue recognized during the current fiscal year, and the approximate percentage of the revenue stream that has been committed:

<b>Type revenue pledged</b>	<b>Amount of pledge</b>	<b>Term of commitment</b>	<b>Percentage of revenue pledged</b>	<b>Principal and interest for the year ended 2008</b>	<b>Pledged revenue recognized for the year ended 2008</b>
Electric and Water operating revenue	\$ 525,507,378	Through 2032	12.2%	\$ 31,666,839	38,000,207

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December 31, 2008 and 2007

**(7) Capital Lease Obligations**

The BPU is obligated under capital leases covering a coal dozer and software, which expire at various dates during the next four years. At December 31, 2008 and 2007, the gross amount of plant and equipment and related accumulated amortization recorded under capital leases was as follows:

	<u>2008</u>	<u>2007</u>
Office furniture and equipment	\$ 908,411	1,366,661
Transportation equipment	190,516	419,133
	<u>1,098,927</u>	<u>1,785,794</u>
Less accumulated amortization	80,006	47,728
	<u>\$ 1,018,921</u>	<u>1,738,066</u>

At December 31, 2008, the net present value of minimum lease payments on capital lease obligations was \$1,018,920; \$908,411 of which relates to capital software leases. Future lease payments under these capital leases are as follows:

Year ending December 31:	
2009	\$ 417,619
2010	302,804
2011	302,804
2012	<u>75,700</u>
Total minimum lease payments	1,098,927
Amounts representing interest at 3.3% – 3.8%	<u>80,006</u>
Present value of net minimum lease payments	<u>\$ 1,018,921</u>

**(8) Regulatory Assets and Liabilities**

The BPU is subject to the provisions of SFAS No. 71 and has recorded assets and liabilities on its balance sheet resulting from the effects of the rate-making process, which would not be recorded under U.S. generally accepted accounting principles for nonregulated entities. Regulatory assets represent costs incurred that have been deferred because future recovery in customer rates is probable. Regulatory liabilities generally represent probable future reductions in revenue or refunds to customers. Management regularly assesses whether regulatory assets and liabilities are probable of future recovery or refund by considering factors such as decisions by the BPU's rate case filings; decisions in other regulatory proceedings, including decisions related to other companies that establish precedence on matters applicable to the BPU; and changes in laws and regulations. If recovery or refund of regulatory assets or liabilities is not approved by the Board, which is authorized to approve rates charged to customers or is no longer deemed probable, these regulatory assets or liabilities are recognized in the current period results of

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operations. The BPU's continued ability to meet the criteria for application of SFAS No. 71 may be affected in the future by deregulation in the electric industry or by state legislative initiatives. In the event that SFAS No. 71 is no longer applied to a deregulated portion of the BPU's operations, the related regulatory assets and liabilities would be written off unless an appropriate regulatory recovery mechanism is provided. Additionally, these factors could result in an impairment of utility plant assets if the cost of the assets could not be expected to be recovered in customer rates. Regulatory assets and liabilities as of December 31, 2008 and 2007 are as follows:

	<u>Amortization ending</u>	<u>2008</u>	<u>2007</u>
Regulatory assets:			
Miner benefits and mine reclamation costs	2016	\$ 4,290,551	4,189,410
Fuel purchased power costs	2009	<u>6,736,148</u>	<u>1,165,997</u>
Total regulatory assets		<u>\$ 11,026,699</u>	<u>5,355,407</u>
Regulatory liabilities:			
Fuel purchased power costs	2008	\$ <u>—</u>	<u>1,401,005</u>
Total regulatory liabilities		<u>\$ <u>—</u></u>	<u>1,401,005</u>

Regulatory assets for which costs have been incurred have been included (or are expected to be included for costs incurred subsequent to the most recently approved rate case) in the BPU's rate base, thereby providing a return of invested costs when included in rate base. The BPU does not earn a return on its regulatory assets.

**(9) Payment-in-Lieu of Taxes (PILOT) and Community Contributions**

The BPU is exempt from federal and state income taxes and local property taxes because it is an administrative agency of the Unified Government. However, the BPU is required by a Charter Ordinance to pay a percentage of gross operating revenues to the Unified Government. The Charter Ordinance established a range of 5.0% – 15.0%. Currently, the payment-in-lieu of tax is established at 7.9%, which amounted to \$17,562,272 and \$17,230,192 during 2008 and 2007, respectively, as PILOT. The PILOT is collected by the BPU through incorporation in the rates as a supplemental rate rider. Effective January 1, 2009, the PILOT will increase to 9.9% of gross revenues for a two-year period.

In addition to these payments to the Unified Government, the BPU also contributes free services to the Unified Government, such as street lighting, fire hydrant services, traffic signals, and collection of the Unified Government sewer and trash charges. These service contributions approximated \$13,931,295 and \$11,382,100, or 5.4% and 4.6% of total operating revenue, for 2008 and 2007, respectively.

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### (10) Commitments and Contingencies

#### (a) Power Sales Agreements

In 1982 and 1983, the BPU entered into power agreements with the Kansas Municipal Energy Agency (KMEA) and the City of Columbia, Missouri (Columbia). The agreements entitle KMEA and Columbia to purchase 15.86% and 8.51%, respectively, of the net available capacity of the BPU's Nearman power station. The power agreements obligate KMEA and Columbia to pay a demand charge for kilowatts purchased a fuel charge, operation and maintenance charges, and the PILOT for their respective power purchases. Total revenue from the power sales agreements for the years ended December 31, 2008 and 2007 was approximately \$17,044,063 and \$16,676,547, respectively, and is included in other revenues in the statements of revenues, expenses, and changes in net assets.

On November 1, 2006, BPU entered into an agreement with Tenaska Power Services Company (Tenaska) to both purchase and market excess wholesale energy for BPU. The BPU's wholesale purchases and sales through Tenaska for 2008 and 2007 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Purchased power	\$ 20,954,669	15,114,952
Wholesale sales	1,913,715	2,555,430

#### (b) Coal Contracts

The BPU purchases all coal for its electric generating stations through contracts with Western Fuel Association (WFA) and affiliates. WFA, in turn, contracts with coal producers and railroads to meet its coal supply and delivery commitments to the BPU. The BPU is required to pay all costs incurred by WFA in acquiring and delivering the coal as well as a per ton management cost.

The BPU has an agreement with WFA for the purchase of coal for the BPU's Nearman power station. The BPU guarantees the performance by WFA of each and every obligation imposed under the provisions of a coal purchase agreement, as such obligations related to coal delivered or deliverable to the BPU's Nearman power station. Under provisions of the agreement, WFA is obligated to purchase for the Nearman power station all the coal required through December 31, 2017. The purchase price of the coal is based on WFA's cost of acquiring and delivering coal. Such costs are fixed by contract through December 31, 2009.

The delivery of the coal to Nearman is covered by contracts WFA has with the Union Pacific Railroad and the Burlington Northern/Santa Fe (BNSF) Railroad. The BNSF contract expires on December 31, 2009; however, WFA and the BPU have agreed that the Union Pacific Railroad will participate in deliveries to Nearman until December 31, 2017. The cost to deliver the coal is established in the contract with a base price, which is adjusted twice yearly by indices set out in the transportation contracts.



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The coal requirements for the Quindaro and Kaw stations are covered under an agreement with WFA. The agreement was part of a larger commitment to acquire coal from the Brushy Creek Coal Mine. This contract continues as long as costs are incurred to WFA in meeting its obligations to the BPU. A coal contract with Arch Coal Sales Company, Inc. began on January 1, 2006. The contract is a five-year contract to purchase coal at a price that is fixed for each year.

The BPU purchased approximately 1.74 million tons of coal during 2008. Quindaro station burned approximately 668,000 tons and Nearman station burned approximately 1,060,000 tons.

#### (c) *Employees' Retirement Pension Plan*

##### **Plan Description**

The Employees' Retirement Pension Plan (the Plan) of the BPU is a single-employer, contributory, defined benefit pension plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained from the Board of Pension Trustees of the Plan. The Plan is governed by state statutes, which, in essence, provide for the establishment of a Board of Pension Trustees and provides authorization for the Plan to take control and custody of all assets, property, and funds presently held, controlled, and in the possession of the Plan's Board of Pension Trustees. The BPU does not act in a fiduciary or trustee capacity for the Plan, and as such, the Plan's financial activities are not reported in the BPU's financial statements. The BPU's payroll for the years ended December 31, 2008 and 2007 was approximately \$50,389,000 and \$48,138,000, respectively, of which approximately \$49,429,000 and \$47,048,000, respectively, was payroll of plan participants.

All full-time BPU employees who are 25 years of age or older are eligible to participate in the Plan. Benefits vest after 5 years of service or at age 55, whichever comes first.

BPU employees who retire at or after age 55 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.2% of their average compensation multiplied by the years of credited service through December 31, 2003 and 1.8% of their average compensation multiplied by the years of credited service after December 31, 2003. Average annual compensation is defined as actual compensation paid, including overtime, but excluding workers' compensation, severance pay, and bonuses, averaged over the three 12-month periods (not necessarily consecutive periods) out of the last 120 months that produce the highest average. On January 1 of each year after retirement, the monthly benefit is increased by 3.0%, prorated for the number of months in the first retirement year. The Plan also provides death benefits. It is a governmental plan and, therefore, not subject to the Employee Retirement Income Security Act of 1974. Because the Plan has established a Board of Pension Trustees in accordance with Kansas State Statutes, neither the BPU nor the Unified Government act in a fiduciary or trustee capacity for the Plan, and as such, the Plan's financial activities are not reported in the BPU's financial statements.

##### **Funding Policy**

Funding is provided by contributions from plan members and the BPU based on rates established by the Board of Pension Trustees.

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Members contribute 5.5% of their annual compensation. The BPU contributes an amount that matches the member contributions plus an amount calculated by the Plan’s actuary to amortize the net past service liability over no more than the remaining portion of the 40-year period that began on January 1, 1970.

Total contributions were \$5,596,314 for the year ended December 31, 2008. Of the total contributions in 2008, the BPU contributed \$2,877,731 (5.8% of current covered payroll in 2008) and the plan participants contributed \$2,718,583 (5.5% of current covered payroll for 2008).

There were 640 retirees and beneficiaries currently receiving benefits as of December 31, 2007. The Plan uses the accrual basis of accounting. Investments are reported at fair value. Securities traded on a national or international exchange, which comprise a substantial majority of total investments, are valued at the last reported sales price at current exchange rates.

<u>Fiscal year ended</u>	<u>Three-year trend information</u>		
	<u>Annual pension cost</u>	<u>Percentage of annual pension cost contributed</u>	<u>Net pension (obligation) asset</u>
December 31, 2006	\$ 432,439	655.08%	\$ 6,477,747
December 31, 2007	2,420,273	116.10	54,114
December 31, 2008	3,267,424	88.07	(335,579)

The information presented in the required supplementary information was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2008
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	40 years beginning January 1, 1970
Asset valuation method	Average adjusted asset method
Actuarial assumptions:	
Investment rate of return	8.00%
Inflation rate assumption	3.25%

Projected salary increase based on age as follows:

<u>Age</u>	<u>Salary scale</u>
25	6.5%
70	4.5

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The annual pension cost and net pension asset (obligation) as of January 1, 2008 and 2007 are as follows:

	<b>2008</b>	<b>2007</b>
Annual required contribution	\$ 3,268,765	2,412,486
Interest on net pension (asset) obligation	(4,329)	26,835
Adjustment to annual required contribution	2,988	(19,047)
Annual pension cost	3,267,424	2,420,274
Contributions made	2,877,731	2,809,819
Increase (decrease) in net pension asset	(389,693)	389,545
Adjustment to net pension liability	—	(6,813,178)
Net pension asset, beginning of year, as adjusted	54,114	6,477,747
Net pension asset (obligation), end of year	\$ (335,579)	54,114

During the year ended December 31, 2007, an adjustment of \$6,813,178 was recorded to accurately state the net pension assets. This adjustment was not considered material to prior year financial statements, and the adjustment was reported in the 2007 statement of revenues, expenses, and changes in net assets.

### Funding Status and Funding Progress

The funding progress schedule as of December 31, 2008 and 2007 is as follows:

Actuarial valuation date, January 1	Actuarial value of assets	Actuarial accrued liability (AAL)	Funded ratio	Unfunded (overfunded) AAL (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ 433.4	381.4	113.6%	\$ (52.0)	47.0	(1.1)%
2008	444.0	403.2	110.1	(40.8)	49.4	(0.8)

### Actuarial Methods and Assumptions

An asset smoothing method is used in the actuarial valuation process. Gains/losses on the market value of assets are recognized equally over an eight-year period. Gains and losses are calculated based on the excess (shortfall) of the actual market value of assets compared to the expected value of assets, had the actuarial assumed rate been met exactly.

The Plan is funded through equal BPU Board and member contributions for future service benefits plus additional BPU Board contributions for back service benefits.

The balance of the actuarial present value of service retirement pensions, plus death benefits and termination benefits to the level of employee contributions, plus an allowance for expenses is funded through future BPU Board and member contributions related to annual compensation. The actuarial contribution rate for these benefits is funded by the entry-age method.

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2008 and 2007

In addition to depending upon the actuarial method used, actuarial cost estimates depend to an important degree on the assumptions made relative to various occurrences, such as rate of expected investment earnings by the fund, rates of mortality among active and retired employees, and rates of termination from employment.

Recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short-term liquidity associated with certain investments held by the Plan. Significant reductions in plan assets have been experienced in 2008 and into 2009 consistent with overall market trends. Based upon valuations made by a specialist BPU uses in connection with its pension plan, plan assets have decreased approximately 21% at December 31, 2008. The market decline experienced in 2008 and 2009 negatively affected the funded status of the Plan. The ultimate impact on the funded status is not known but will be determined later in 2009 based upon market conditions in effect when the annual valuation is performed. Because of declines in the value of plan assets, the future respective net pension obligations and pension cost recorded by the BPU are expected to increase. Future costs and funding requirements may be materially higher than they have been over the past several years.

**(d) *Postretirement Healthcare Benefits***

Effective January 1, 2007, the BPU adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions*. This statement requires the accounting for the annual cost of other postemployment benefits and the related outstanding liability using an actuarial approach similar to pensions. The BPU implemented this standard prospectively (zero net obligation at transition).

**Plan Description**

The BPU provides certain postemployment healthcare and life insurance benefits to eligible retirees and their dependents in accordance with provisions established by the BPU's Board. The plan is a single-employer defined benefit healthcare plan administered by the BPU. The plan does not issue separate financial statements. Employees are given a 90-day window to retire with medical coverage at ages 55 and above with 7 consecutive years of service. The retiree plan is a comprehensive major medical plan with a \$100 deductible per individual or \$200 per family. For individuals, the plan pays 80% of the next \$12,500 of allowable charges and 100% thereafter for the remainder of that calendar year. For families, the plan pays 80% of the next \$25,000 of allowable charges and 100% thereafter for the remainder of that calendar year. The plan has a lifetime maximum of \$750,000. Benefits cease at the first of the month that the retired employee attains age 65 or death. Spouse benefits end at the first of the month that the retired employee attains age 65, the end of the month of the retiree's death, or on the date of the spouse's death. Retirees are not required to contribute toward the cost of the postretirement benefits. There were 383 participants eligible to receive benefits under this plan as of January 1, 2009.

**Funding Policy**

The contribution requirements of plan members and the BPU are established and can be amended by the BPU's Board. Contributions are made to the plan based on a pay-as-you-go basis. For the years

**BOARD OF PUBLIC UTILITIES**

Notes to Financial Statements

December 31, 2008 and 2007

ended December 31, 2008 and 2007, the BPU paid \$2,731,455 and \$2,081,539, respectively, for retirees.

The BPU's, annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 are as follows:

	<u>Annual OPEB expense</u>		<u>Annual OPEB contributed</u>		<u>Net OPEB</u>
Fiscal year ended:					
December 31, 2008	\$ 3,184,481		86%	\$	1,804,487
December 31, 2007	3,433,000		61		1,351,461

The following table shows the components of BPU's annual OPEB expense for the year, the amount actually contributed to the plan, and changes in the BPU's net OPEB obligation:

	<u>2008</u>	<u>2007</u>
Normal costs	\$ 1,444,195	1,738,000
Amortization payment	1,742,495	1,695,000
Annual required contribution (ARC)	3,186,690	3,433,000
Amortization of net OPEB obligation	(56,268)	—
Interest on net OPEB obligation	54,059	—
Total OPEB expense	3,184,481	3,433,000
Annual employer contribution	2,731,455	2,081,539
Increase in OPEB obligation	453,026	1,351,461
Net OPEB obligation – beginning of year	1,351,461	—
Net OPEB obligation – end of year	\$ <u>1,804,487</u>	<u>1,351,461</u>

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2008 and 2007

#### Funded Status and Funding Progress

The funded status of the plan as of January 1, 2009 is as follows:

	<u>2008</u>	<u>2007</u>
Actuarial accrued liability (AAL)	\$ 42,624,607	41,851,842
Actuarial value of plan assets	—	—
Unfunded actuarial accrued liability (UAAL)	42,624,607	41,851,842
Funded ratio	—%	—%
Covered payroll	\$ 49,400,000	47,000,000
UAAL as a percentage of covered payroll	N/A	N/A

#### Actuarial Methods and Assumptions

Actuarial valuations on an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare 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, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan member to that point. The actuarial methods used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of plan assets, consistent with the long-term perspective of the calculations. In the January 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% projected investment rate of return and an annual healthcare cost trend of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after 5 years. The projected salary increase is 2.5%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of payroll.

#### (e) Risk Management

The BPU is exposed to various risks of loss related to tort claims; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The BPU is self-insured for workers' compensation, healthcare, certain general liability claims, and a portion of the automobile and small vehicle fleet. The BPU is responsible for the first \$350,000 of a workers' compensation claim per employee/per occurrence, and workers' compensation claims greater than \$350,000 and up to \$35,000,000 per employee/per occurrence are fully insured. The BPU is essentially 100% self-insured for healthcare claims and is responsible for the first \$500,000 of general liability and automobile insurance claims. In addition, any general liability or automobile

## BOARD OF PUBLIC UTILITIES

### Notes to Financial Statements

December 31, 2008 and 2007

claims greater than \$35,000,000 are the responsibility of BPU. Settlements did not exceed insurance coverage for the past three years. At December 31, 2008 and 2007, the BPU has established a liability of \$2,005,478 and \$972,492, respectively, which is based on estimates of the amounts needed to pay prior and current year claims. The liability is based on the requirement that a liability for claims incurred prior to the balance sheet date be recorded if information related to such claims is available prior to the issuance of the financial statements and the amount of loss can be reasonably estimated. The total amount of claims and judgments are expected to become due within one year. Changes in the claims liability for 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Beginning accruals	\$ 972,492	1,112,813
Additional accruals	10,320,666	9,553,900
Charges for claim payments	<u>(9,287,680)</u>	<u>(9,694,221)</u>
Ending accruals	<u>\$ 2,005,478</u>	<u>972,492</u>

(f) ***Environmental Compliance***

The BPU is subject to substantial regulation of air emissions and control equipment under federal, state, and county environmental laws and regulations. Nationwide, utilities with coal-fired generating units have been under heavy scrutiny and enforcement by the U.S. Environmental Protection Agency (EPA) and Department of Justice for matters related to permitting of modifications to those coal-fired units. This is referred to as “new source review permitting.” The BPU has engaged in critical self-evaluation of new source review permitting matters. A confidential letter, prepared by outside legal counsel retained by BPU evaluating aspects of new source review, was copied to the press inappropriately and provided to the government, the press, and members of the public. This letter included a partial analysis of selected projects performed at the BPU’s coal-fired units that may or may not have required new source review permitting. Subsequently, the BPU received inquiries from the EPA about its compliance with new source review permitting.

In 2007, the BPU received from the EPA a Clean Air Act Section 114 information request seeking information about the types of projects that have been the subject of new source review permitting investigations. On November 25, 2008, the BPU received a Notice of Violation of certain Clean Air Act regulations with respect to new source review permitting matters. On December 19, 2008, the BPU received a supplemental Clean Air Act Section 114 information request to the 2007 information request. The BPU is evaluating the EPA findings and is in discussions with the EPA with respect to such findings. At this time, the EPA has not filed a law suit. Management does not know the impact that these alleged violations of the Clean Air Act regulations will have on the BPU; however, the BPU could be subject to fines and/or penalties, and the amounts of any such fines and/or penalties could be material. The Notice of Violation states that such fines and/or penalties could be as much as \$25,000 to \$32,500 per day (depending upon when the violation occurred) commencing from the date of the violation. The EPA alleges that such Clean Air Act violations at the Nearman station commenced in 1994 and at the Quindaro station in 2001. The BPU could also be required to make material capital expenditures for air pollution control equipment as a result of resolution of the alleged violations that could cost hundreds of millions of dollars. The EPA has issued notices to

## BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2008 and 2007

many utilities alleging violation of new source review permitting. To date, the settlements of these notices have included penalties much less than \$25,000 to \$32,500 per day but have included requirements for significant capital expenditures for air pollution control equipment.

**(g) Other Legal Matters**

In the normal course of business, the BPU is subject to various lawsuits, actions, proceedings, claims, and other matters asserted under laws and regulations. Management believes the amounts provided in the financial statements, as prescribed by Generally Accepted Accounting Principles (GAAP), are adequate in light of the probable and estimable contingencies. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims, and other matters, and to comply with applicable laws and regulations, will not exceed the amounts reflected in the BPU's financial statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2008 cannot be reasonably determined.

In March 2008, a grand jury commenced in Wyandotte County, Kansas as a result of a citizen initiative. The citizen initiative alleges that BPU and certain of its managers have misspent public funds among other matters. The grand jury's term expired on September 5, 2008. Management and the Board cooperated with the grand jury. Two indictments were returned on October 3, 2008.

The indictments allege that during the period September 1, 2003 through April 30, 2008, false claims for services were submitted by the third party aggregating approximately \$400,000, and such claims were approved by the Chief Administrative Officer. The Board has hired independent legal counsel and an independent investigative firm to investigate whether there may have been other instances where the Chief Administrative Officer may have allowed any false claims to have been submitted and paid and, if so, whether any changes to accounting practices should occur. The results of the investigation found no instances of the BPU making any payments to outside vendors based upon the approval of the invoices by the Chief Administrative Officer that were not substantiated. The specific allegations made in the indictment were not investigated by independent counsel and the investigative firm in order to avoid the appearance that the BPU was interfering in any way with either the prosecution or defense of the criminal charges. The Board placed the Chief Administrative Officer on a leave of absence pending the results of this matter. In March, 2009, the state dismissed the charges against the Chief Administrative Officer after his death. The charges against the other defendant have also been dismissed by the Court. The prosecution does have the right to appeal. However, the BPU believes this resolution of the criminal matter establishes that there will not be a material adverse effect on its financial statements.



### ***Principal Customers***

Electric and water charges to the BPU's five largest retail customers and three largest wholesale customers expressed as a percentage of total operating revenues for the years ended December 31, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Principal retail customers:		
General Motors Corporation	3.3%	3.3%
Owens Corning	3.1	2.5
University of Kansas Medical Center	2.6	1.8
Certain Teed Corporation	1.9	2.7
Griffin Wheel	1.9	N/A
Johnson County Water One	N/A	1.9
Total principal retail customers	<u>12.8</u>	<u>12.2</u>
Principal wholesale customers:		
Kansas Municipal Energy Authority	3.8	3.9
City of Columbia, Missouri	2.4	2.5
Tenaska	0.7	1.0
Total principal wholesale customers	<u>6.9</u>	<u>7.4</u>
Principal customers	<u>19.7%</u>	<u>19.6%</u>

### **(11) Subsequent Event**

In February 2009, the BPU issued approximately \$57.6 million of bonds to finance improvements primarily for the power generating stations and the transmission system. This debt has an average coupon interest rate of 5.09% and is repayable through 2034.

**BOARD OF PUBLIC UTILITIES**  
 Required Supplementary Information  
 Schedule of Funding Progress – Pension  
 December 31, 2008  
 (Dollars in millions)  
 Unaudited-See accompanying auditors' report

Actuarial valuation date, January 1	Actuarial value of assets	Actuarial accrued liability (AAL)	Funded ratio	Unfunded (overfunded) AAL (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2006	\$ 347.6	173.4	200.4	(174.2)	\$ 45.1	(3.9)%
2007	433.4	381.4	113.6	(52.0)	47.0	(1.1)
2008	444.0	403.2	110.1	(40.8)	49.4	(0.8)

The information presented in the required supplementary information was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date January 1, 2008  
 Actuarial cost method Entry age  
 Amortization method Level percent closed  
 Remaining amortization period 40 years beginning  
 January 1, 1970  
 Asset valuation method Average adjusted asset method  
 Actuarial assumptions:  
 Investment rate of return 8.0%  
 Inflation rate assumption 3.25%  
 Projected salary increase based on age as follows:

Age (in years)	Salary scale
25	6.5%
70	4.5



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**BOARD OF PUBLIC UTILITIES**  
 Required Supplementary Information  
 Schedule of Funding Progress – Postretirement  
 December 31, 2008  
 (Dollars in millions)  
 Unaudited-See accompanying auditors' report

Actuarial valuation date, January 1	Actuarial value of assets	Actuarial accrued liability (AAL)	Funded ratio	Unfunded (overfunded) AAL (UAAL)	Covered payroll	UAAL as a percentage of covered payroll
2007	\$ —	41.9	—	41.9	47.0	(0.89)%
2008	—	42.6	—	42.6	49.4	(0.86)

The actuarial assumptions included a 4.0% projected investment rate of return and an annual health care cost trend of 9.0% initially, reduced by decrements to an ultimate rate of 5.0% after 5 years. The projected salary increase is 2.5%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percent of payroll.

## BOARD OF PUBLIC UTILITIES

Combining Balance Sheets

December 31, 2008 and 2007

	Electric		Water		Total Utility	
	2008	2007	2008	2007	2008	2007
Noncurrent assets:						
Capital assets:						
Property, plant, and equipment	\$ 931,671,583	909,503,545	287,967,271	268,460,496	1,219,638,854	1,177,964,041
Less accumulated depreciation	(489,981,616)	(467,184,516)	(86,501,661)	(81,520,332)	(576,483,277)	(548,704,848)
Plant in service, net	441,689,967	442,319,029	201,465,610	186,940,164	643,155,577	629,259,193
Construction work in progress	26,535,457	30,069,878	24,325,564	34,656,523	50,861,021	64,726,401
Capital assets, net	468,225,424	472,388,907	225,791,174	221,596,687	694,016,598	693,985,594
Restricted assets:						
Cash and cash equivalents	4,356,241	2,993,207	563,428	448,842	4,919,669	3,442,049
Investments	—	1,350,000	—	150,000	—	1,500,000
Total restricted assets	4,356,241	4,343,207	563,428	598,842	4,919,669	4,942,049
Prepaid pension	—	43,291	—	10,823	—	54,114
Debt issue costs	3,801,931	3,883,690	1,208,841	1,283,040	5,010,772	5,166,730
System development costs	989,022	1,376,475	598,435	763,698	1,587,457	2,140,173
Regulatory assets	4,290,551	4,189,410	—	—	4,290,551	4,189,410
Total noncurrent assets	481,663,169	486,224,980	228,161,878	224,253,090	709,825,047	710,478,070
Current assets:						
Cash and cash equivalents	6,045,587	1,673,163	3,820,971	5,349,291	9,866,558	7,022,454
Investments	—	10,288,272	—	7,318,229	—	17,606,501
Cash and cash equivalents - restricted	1,476,893	3,881,855	494,258	1,043,820	1,971,151	4,925,675
Investments - restricted	8,940,208	8,113,763	3,096,998	2,493,208	12,037,206	10,606,971
Accounts receivable – customers and other	22,211,581	18,663,383	3,627,905	3,444,805	25,839,486	22,108,188
Accounts receivable – unbilled	8,345,894	7,635,048	1,417,360	1,506,092	9,763,254	9,141,140
Allowance for doubtful accounts	(1,488,132)	(1,257,612)	(253,998)	(206,148)	(1,742,130)	(1,463,760)
Inventories	36,026,471	32,912,802	1,779,709	2,018,753	37,806,180	34,931,555
Regulatory assets	6,736,148	1,165,997	—	—	6,736,148	1,165,997
Prepayments and other current assets	1,695,805	1,731,355	180,625	181,646	1,876,430	1,913,001
Total current assets	89,990,455	84,808,026	14,163,828	23,149,696	104,154,283	107,957,722
Total assets	\$ 571,653,624	571,033,006	242,325,706	247,402,786	813,979,330	818,435,792

(Continued)

## BOARD OF PUBLIC UTILITIES

## Combining Balance Sheets

December 31, 2008 and 2007

	Electric		Water		Total Utility	
	2008	2007	2008	2007	2008	2007
Net assets:						
Invested in capital assets, net of related debt	\$ 245,636,927	241,367,577	109,805,374	102,735,224	355,442,301	344,102,801
Restricted - debt service	11,767,101	4,314,788	3,741,256	231,816	15,508,357	4,546,604
Unrestricted	49,586,613	58,673,066	(6,159,868)	3,223,708	43,426,745	61,896,774
Total net assets	306,990,641	304,355,431	107,386,762	106,190,748	414,377,403	410,546,179
Liabilities:						
Noncurrent liabilities:						
Long-term debt - revenue bonds:						
Principal	217,457,280	221,802,828	90,653,480	92,692,967	308,110,760	314,495,795
Accreted interest	8,417,006	11,801,781	1,726,409	2,420,659	10,143,415	14,222,440
Government loans	—	—	21,693,505	22,713,285	21,693,505	22,713,285
Capital lease obligations	364,024	187,671	286,018	—	650,042	187,671
Total long-term debt and capital lease obligations	226,238,310	233,792,280	114,359,412	117,826,911	340,597,722	351,619,191
Postretirement benefit obligation	1,442,916	1,081,169	361,571	270,292	1,804,487	1,351,461
Reserve for compensated absences	4,488,330	4,654,500	670,670	695,500	5,159,000	5,350,000
Pension obligation	295,742	—	39,837	—	335,579	—
Noncurrent liabilities	232,465,298	239,527,949	115,431,490	118,792,703	347,896,788	358,320,652
Current liabilities:						
Current maturities of revenue bonds	4,478,044	7,927,429	2,258,665	2,031,336	6,736,709	9,958,765
Current maturities of government loans	—	—	1,014,400	976,882	1,014,400	976,882
Current maturities of capital lease obligations	289,148	1,103,401	79,731	446,994	368,879	1,550,395
Accrued interest	3,709,071	3,800,475	1,536,917	1,563,387	5,245,988	5,363,862
Customer deposits	3,033,241	2,993,207	413,428	448,842	3,446,669	3,442,049
Accounts payable	20,458,284	11,575,606	1,604,752	3,247,246	22,063,036	14,822,852
Payroll and payroll taxes	1,488,100	3,219,756	419,565	44,671	1,907,665	3,264,427
Accrued claims payable	6,246,466	5,322,385	226,318	132,484	6,472,784	5,454,869
Other accrued liabilities	2,973,636	2,044,704	124,711	103,224	3,098,347	2,147,928
Regulatory liabilities	—	1,401,005	—	—	—	1,401,005
Payment in lieu of taxes	1,161,444	988,265	189,218	197,662	1,350,662	1,185,927
Interdepartmental balances	(11,639,749)	(13,226,607)	11,639,749	13,226,607	—	—
Total current liabilities	32,197,685	27,149,626	19,507,454	22,419,335	51,705,139	49,568,961
Total liabilities	264,662,983	266,677,575	134,938,944	141,212,038	399,601,927	407,889,613
Total liabilities and net assets	\$ 571,653,624	571,033,006	242,325,706	247,402,786	813,979,330	818,435,792

## BOARD OF PUBLIC UTILITIES

Combining Schedule of Revenues, Expenses, and Changes in Net Assets

Years ended December 31, 2008 and 2007

	Electric		Water		Total Utility	
	2008	2007	2008	2007	2008	2007
Operating revenues:						
Residential	\$ 50,853,676	50,728,377	18,325,677	18,375,365	69,179,353	69,103,742
Commercial	69,292,240	66,484,533	8,427,580	8,603,570	77,719,820	75,088,103
Industrial	43,507,292	41,001,666	2,859,603	3,338,520	46,366,895	44,340,186
Other	42,952,558	36,122,477	3,875,242	4,127,859	46,827,800	40,250,336
Payment-in-lieu of taxes	14,963,988	14,562,750	2,598,284	2,667,442	17,562,272	17,230,192
Total operating revenues	<u>221,569,754</u>	<u>208,899,803</u>	<u>36,086,386</u>	<u>37,112,756</u>	<u>257,656,140</u>	<u>246,012,559</u>
Operating expenses:						
Fuel	47,541,866	48,162,578	—	—	47,541,866	48,162,578
Purchased power	34,093,683	23,002,868	—	—	34,093,683	23,002,868
Production	34,133,719	32,734,541	4,388,852	4,122,206	38,522,571	36,856,747
Transmission and distribution	24,199,192	24,570,380	10,456,393	11,618,442	34,655,585	36,188,822
General and administrative	28,815,580	28,692,632	8,016,798	7,504,527	36,832,378	36,197,159
Depreciation and amortization	24,883,309	25,236,420	6,408,325	6,466,977	31,291,634	31,703,397
Total operating expenses	<u>193,667,349</u>	<u>182,399,419</u>	<u>29,270,368</u>	<u>29,712,152</u>	<u>222,937,717</u>	<u>212,111,571</u>
Operating income	<u>27,902,405</u>	<u>26,500,384</u>	<u>6,816,018</u>	<u>7,400,604</u>	<u>34,718,423</u>	<u>33,900,988</u>
Nonoperating income (expense):						
Interest income	772,394	2,006,714	265,775	609,119	1,038,169	2,615,833
Interest expense	(11,452,663)	(13,497,587)	(3,715,732)	(5,311,539)	(15,168,395)	(18,809,126)
Loss on disposal of assets	—	—	—	—	—	—
Payment-in-lieu of taxes	(14,963,987)	(14,562,750)	(2,598,285)	(2,667,442)	(17,562,272)	(17,230,192)
Other	377,061	1,178,151	(1,037,933)	(647,885)	(660,872)	530,266
Total nonoperating expense, net	<u>(25,267,195)</u>	<u>(24,875,472)</u>	<u>(7,086,175)</u>	<u>(8,017,747)</u>	<u>(32,353,370)</u>	<u>(32,893,219)</u>
Income (Loss) before contributions and transfers	<u>2,635,210</u>	<u>1,624,912</u>	<u>(270,157)</u>	<u>(617,143)</u>	<u>2,365,053</u>	<u>1,007,769</u>
Contributions and transfers:						
Contributions from developers and others	—	—	1,466,171	880,873	1,466,171	880,873
Change in net assets	<u>2,635,210</u>	<u>1,624,912</u>	<u>1,196,014</u>	<u>263,730</u>	<u>3,831,224</u>	<u>1,888,642</u>
Net assets, beginning of year	304,355,431	283,057,321	106,190,748	100,674,731	410,546,179	383,732,052
Effect of adoption of new accounting standard	—	19,673,198	—	5,252,287	—	24,925,485
Net assets, beginning of year – in 2007	<u>304,355,431</u>	<u>302,730,519</u>	<u>106,190,748</u>	<u>105,927,018</u>	<u>410,546,179</u>	<u>408,657,537</u>
Net assets, end of year	<u>\$ 306,990,641</u>	<u>304,355,431</u>	<u>107,386,762</u>	<u>106,190,748</u>	<u>414,377,403</u>	<u>410,546,179</u>

See accompanying independent auditors' report.



KPMG LLP  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with  
*Government Auditing Standards***

The Board of Directors  
Board of Public Utilities:

We have audited the financial statements of the Board of Public Utilities of Kansas City, Kansas (the BPU) as of and for the year ended December 31, 2008, and have issued our report thereon dated May 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the BPU's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BPU's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the BPU's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we



consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be a significant deficiency and that is described in the accompanying schedule of findings and responses as 2008-01. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the BPU's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

Kansas City, Missouri  
May 20, 2009

## BOARD OF PUBLIC UTILITIES

### Schedule of Findings and Responses

December 31, 2008

#### **Finding 2008-01: Financial Reporting**

##### **Significant Deficiency:**

Throughout the year, the BPU maintains the financial records on the modified-accrual basis of accounting in conformity with the BPU's budget practices. The BPU is responsible for implementing procedures for maintaining these financial records.

As part of its year-end financial reporting process, the BPU prepares information that converts the financial records from modified-accrual basis to full-accrual basis. The BPU's procedures should include internal controls designed to ensure that the information necessary to present the accrual financial statements is accurately and completely prepared by the BPU employees in the normal course of performing their assigned functions.

Our audit disclosed the following deficiencies in the BPU's internal control over financial reporting that collectively represent a significant deficiency:

- **Non-GAAP Process – capitalized interest –** The BPU had not been capitalizing any interest as stated and as required by GAAP. We noted that the effect of this in the current year was to overstate interest expense by approximately \$2.8 million and understate Construction Work in Progress (CWIP) by approximately \$2.8 million. The BPU should have internal control procedures in place to ensure interest is being capitalized into the cost of CWIP projects and depreciated over the life of the project.
- **Timely reviews and implementation of new accounting pronouncements –** The BPU should have effective processes in place to ensure appropriate classification of accounts within the balance sheet to help ensure the statement is accurate and complete and a process to ensure new accounting pronouncements are evaluated on a timely basis. This will make implementation more effective and help ensure adequate disclosure in the notes.
- **Cash flow statement preparation –** The BPU should ensure all needed adjustments are appropriately considered in the statement of cash flows.

##### **Effect:**

The BPU's procedures do not include updating and confirming Non-GAAP items, routinely addressing new accounting rules and appropriate consideration of cash flow matters. As a result, BPU had a number of revisions to its draft financial statements.

##### **Management's response:**

The BPU's management is addressing the deficiency identified by implementing a process to ensure timely review and application of new accounting pronouncements and non-GAAP items and to convert financial statements to the full-accrual basis for year-end reporting.



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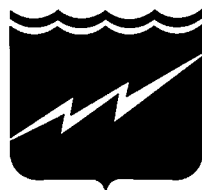
# STATISTICAL SECTION

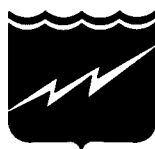
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Financial Trends  
Revenue Capacity  
Debt Capacity  
Demographic and Economic Information  
Operating Information

Statistical  
Section





**Statistical Section  
(Unaudited)  
December 31, 2008**

This part of the comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the utility's overall financial health.

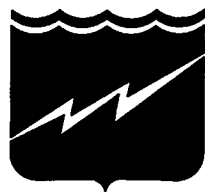
<i>Contents</i>	<i>Page</i>
<b><u>Financial Trends</u></b> These schedules contain trend information to help the reader understand how the utility's financial performance and well-being have changed over time.	70
<b><u>Revenue Capacity</u></b> These schedules contain information to help the reader assess the utility's most significant local revenue source.	72
<b><u>Debt Capacity</u></b> These schedules present information to help the reader assess the affordability of the utility's current levels of outstanding debt and the utility's ability to issue additional debt in the future.	74
<b><u>Demographic and Economic Information</u></b> These schedules offer demographic and economic indicators to help the reader understand how the information in the utility's financial activities take place.	75
<b><u>Operating Information</u></b> These schedules contain service and infrastructure data to help the readers understand how the information in the utility's financial report relates to the services the utility provides and the activities it performs.	80



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# Financial Trends

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**Net Assets By Component**  
**Last Seven Fiscal Years ( Since First Year of Inception)**

	2002	2003	2004	2005	2006	2007	2008
<b>Net Assets invested in Capital Assets, net of related Debt:</b>							
Capital assets, net of depreciation	\$ 553,615,779	\$ 563,037,948	\$ 601,673,285	\$ 662,002,748	\$ 691,579,477	\$ 693,985,594	\$ 694,016,598
<b>Bonds and notes payable:</b>							
Principal, long term	(239,529,922)	(229,953,073)	(355,025,906)	(334,704,196)	(324,102,885)	(314,495,795)	(308,110,760)
Government Loans	-	-	-	(15,930,490)	(19,666,793)	(22,713,285)	(21,693,505)
Capital Leases	(2,642,765)	(3,682,429)	(7,057,539)	(4,869,869)	(1,637,046)	(187,671)	(650,043)
Principal, current	(9,917,086)	(10,049,266)	(12,955,205)	(10,825,592)	(10,952,986)	(9,958,765)	(6,736,709)
Government Loans, current	-	-	(1,145,592)	(804,415)	(976,882)	(1,014,400)	(1,014,400)
Capital Leases, current	(1,526,420)	(1,534,509)	(3,169,641)	(3,095,489)	(1,704,964)	(1,550,395)	(368,879)
Bond proceeds for construction (unspent) (B)	9,375,000	9,375,000	99,503,451	60,732,997	19,609,783	-	-
<b>Net Assets invested in Capital Assets, net of Debt:</b>	<b>\$ 309,374,586</b>	<b>\$ 327,193,671</b>	<b>\$ 322,968,445</b>	<b>\$ 352,164,517</b>	<b>\$ 352,320,171</b>	<b>\$ 344,102,801</b>	<b>\$ 355,442,301</b>
<b>Restricted Net Assets (A)</b>							
Bond covenant requirements	\$ 20,701,568	\$ 17,426,577	\$ 115,468,360	\$ 78,532,304	\$ 37,190,172	\$ 4,546,604	\$ 15,508,357
Bond proceeds designated for project construction (B)	-	-	(99,343,514)	(60,732,997)	(19,609,783)	-	-
Funds segregated under City Ordinance due to	2,415,954	2,348,361	2,396,176	2,894,830	3,219,427	3,442,049	3,446,669
Liability for customer deposits	(2,415,954)	(2,348,361)	(2,396,176)	(2,894,830)	(3,219,427)	(3,442,049)	(3,446,669)
<b>Total Restricted Net Assets</b>	<b>\$ 20,701,568</b>	<b>\$ 17,426,577</b>	<b>\$ 16,124,846</b>	<b>\$ 17,799,307</b>	<b>\$ 17,580,389</b>	<b>\$ 4,546,604</b>	<b>\$ 15,508,357</b>
<b>Unrestricted net assets</b>							
Other designated funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserve funds	-	-	-	-	-	-	-
Funds held for future improvements	-	-	-	-	-	-	-
Project construction accounts	-	-	-	-	-	-	-
Unrestricted - Other	41,229,583	30,267,213	35,547,989	(335,638)	13,831,492	61,896,774	43,426,745
Unrestricted - Balancing entry	-	-	-	-	-	-	-
<b>Total Unrestricted Net Assets</b>	<b>\$ 41,229,583</b>	<b>\$ 30,267,213</b>	<b>\$ 35,547,989</b>	<b>\$ (335,638)</b>	<b>\$ 13,831,492</b>	<b>\$ 61,896,774</b>	<b>\$ 43,426,745</b>
<b>Total Net Assets</b>	<b>\$ 371,305,737</b>	<b>\$ 374,887,461</b>	<b>\$ 374,641,280</b>	<b>\$ 369,628,186</b>	<b>\$ 383,732,052</b>	<b>\$ 410,546,179</b>	<b>\$ 414,377,403</b>

**Footnote A**

Per Question 95 of "Guide to Implementation of GASB Statement 34 on Basic Financial Statements - and Management's discussion and Analysis - For State and Local Governments" (Implementation Guide), restricted net assets should be reported when constraints placed on net asset use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
- b. Imposed by law through constitutional provisions or enabling legislation.

The basic concept is that restrictions are not unilaterally established by the reporting government itself, and cannot be removed without the consent of those imposing the restrictions or through formal due process.

**Footnote B**

Per the Implementation Guide, if there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the "calculation of invested in capital assets, net of debt" . . . The unspent portion of the debt would be included in the calculation of net assets restricted for capital projects.

**Combined Operating Statements**  
Last Ten Fiscal Years

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Operating Revenues	\$ 171,636,967	\$ 172,162,933	\$ 172,707,167	\$ 191,351,509	\$ 201,535,316	\$ 207,407,693	\$ 221,945,484	\$ 258,910,231	\$ 246,012,539	\$ 257,656,140
Operating Expenses										
Production	(1) 73,573,271	70,843,348	71,995,460	71,575,197	74,595,079	85,103,214	92,375,693	118,999,005	108,022,193	120,158,120
Transmission & Distribution	19,309,273	26,841,255	26,421,663	23,691,279	28,687,267	28,456,949	29,926,086	31,680,256	36,188,822	34,655,585
Customer Service	6,331,772	-	-	-	-	-	-	-	-	-
General and Administrative	20,521,994	25,876,489	28,952,585	29,209,649	33,467,227	34,398,271	40,942,490	31,056,425	36,197,159	36,832,378
Payment-in-lieu of taxes	10,494,909	9,567,512	8,914,184	-	-	-	-	-	-	-
Depreciation & Amortization	23,160,282	24,415,475	24,441,114	24,622,061	24,472,383	23,369,264	28,545,254	30,550,474	31,703,397	31,291,634
Payroll Taxes	(5) -	-	-	-	-	-	-	-	-	-
Purchased Power Amortization	(6) -	-	-	8,254,930	8,676,326	6,275,808	-	-	-	-
Total Operating Expense	153,391,501	157,544,079	160,725,006	157,353,116	169,898,282	177,603,506	191,789,523	212,286,160	212,111,571	222,937,717
Operating Income	18,245,466	14,618,854	11,982,161	33,998,393	31,637,034	29,804,187	30,155,961	46,624,071	33,900,988	34,718,423
Interest Income/Expense	12,769,673	14,565,071	13,784,463	13,791,730	15,304,953	15,812,321	19,965,452	15,549,762	15,663,027	14,791,098
Payment-in-lieu of taxes	-	-	-	13,279,641	13,916,680	14,673,298	16,325,334	18,374,439	17,230,192	17,562,272
Nonoperating Income/Expense	12,769,673	14,565,071	13,784,463	27,071,371	29,221,633	30,485,619	36,290,786	33,924,201	32,893,219	32,353,370
Income/Loss	5,475,793	53,783	(1,802,302)	6,927,022	2,415,401	(681,432)	(6,134,825)	12,699,870	1,007,769	2,365,053
Contributions	-	-	-	379,843	1,166,323	275,314	1,281,668	1,403,996	880,873	1,466,171
Change in Net Assets	\$ 5,475,793	\$ 53,783	\$ (1,802,302)	\$ 7,306,865	\$ 3,581,724	\$ (406,118)	\$ (4,853,157)	\$ 14,103,866	\$ 1,888,642	\$ 3,831,224

Footnotes:

- (1) Includes fuel, purchased power and production
- (2) Included in general and administrative beginning in 2000
- (3) Includes general and administrative and provisions for doubtful accounts.
- (4) Payments in lieu of taxes. Pilot removed from operating expenses and considered a nonoperating expense beginning 2002 due to GASB 34.
- (5) Payroll taxes distributed to department's expense beginning in 1999.
- (6) GASB 34 implemented. Purchased power costs amortization added beginning in 2002.
- (7) Includes other non operating income
- (8) 2005 - Recognized Loss on Disposal of Assets
- (9) 1998 - Cumulative effect of accounting change due to the implementation of GASB 27. Adoption of GASB 33 and GASB 34 beginning in 2002.

# Revenue Capacity

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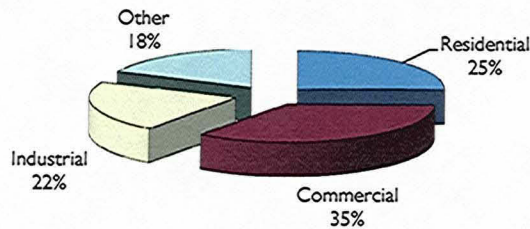
**ELECTRIC UTILITY SYSTEMS SALES**  
**LAST TEN FISCAL YEARS**

Residential					Commercial						
	Dollars/\$s	(Kwh)	Customers	Average kWh	Average Sales /\$s		Dollars/\$s	(Kwh)	Customers	Average kWh	Average Sales /\$s
1999	\$ 32,756,697	507,320,403	57,673	8,796	\$ 567.97	\$	44,516,785	816,154,726	6,819	119,688	\$ 6,528.35
2000	\$ 35,705,004	545,307,672	57,956	9,409	\$ 616.07	\$	45,193,739	822,626,899	6,892	119,360	\$ 6,557.42
2001	\$ 35,377,550	550,869,096	57,846	9,523	\$ 611.58	\$	44,657,134	802,679,313	6,943	115,610	\$ 6,431.97
2002	\$ 39,210,218	568,700,840	57,795	9,840	\$ 678.44	\$	46,848,425	806,031,040	7,147	112,779	\$ 6,554.98
2003	\$ 39,717,885	525,368,930	60,523	8,680	\$ 656.24	\$	50,243,742	814,699,133	7,870	103,520	\$ 6,384.21
2004	\$ 38,679,186	521,556,432	57,563	9,061	\$ 671.95	\$	52,158,752	834,722,758	6,651	125,503	\$ 7,842.24
2005	\$ 44,116,173	549,989,717	57,486	9,567	\$ 767.42	\$	56,254,173	846,528,035	6,672	126,878	\$ 8,431.38
2006	\$ 54,131,458	562,349,076	57,500	9,780	\$ 941.42	\$	71,126,503	910,094,493	6,733	135,169	\$ 10,563.86
2007	\$ 50,728,377	569,938,677	57,267	9,952	\$ 885.82	\$	66,484,533	896,367,753	6,799	131,838	\$ 9,778.58
2008	\$ 50,853,676	544,166,628	57,187	9,516	\$ 889.25	\$	69,292,240	856,957,838	6,905	124,107	\$ 10,035.08

Industrial					Other						
	Dollars/\$s	(Kwh)	Customers	Average kWh	Average Sales /\$s		Dollars/\$s	(Kwh)	Customers	Average kWh	Average Sales /\$s
1999	\$ 31,666,051	854,696,057	119	7,182,320	\$ 266,101.27	\$	24,246,571	414,335,800	264	1,569,454	\$ 91,843.07
2000	\$ 29,639,364	803,136,767	115	6,983,798	\$ 257,733.60	\$	23,947,011	288,171,475	262	1,099,891	\$ 91,400.81
2001	\$ 30,762,177	817,758,956	118	6,930,161	\$ 260,696.42	\$	22,615,413	519,123,634	252	2,060,014	\$ 89,743.70
2002	\$ 32,125,988	822,335,834	115	7,150,746	\$ 279,356.42	\$	17,997,722	425,479,947	246	1,729,593	\$ 73,161.47
2003	\$ 32,624,899	814,756,414	106	7,686,381	\$ 307,782.07	\$	18,797,472	520,060,228	250	2,080,241	\$ 75,189.89
2004	\$ 36,365,066	904,499,429	98	9,229,586	\$ 371,072.10	\$	19,858,369	585,014,156	223	2,623,382	\$ 89,050.98
2005	\$ 40,788,506	920,894,297	99	9,301,963	\$ 412,005.11	\$	20,708,393	572,925,408	224	2,557,703	\$ 92,448.18
2006	\$ 52,357,554	897,258,438	94	9,545,303	\$ 556,995.26	\$	19,978,877	457,359,735	242	1,889,916	\$ 82,557.34
2007	\$ 41,001,666	759,651,447	94	8,081,398	\$ 436,187.94	\$	31,468,641	502,448,866	225	2,233,106	\$ 139,860.63
2008	\$ 43,307,292	742,247,845	94	7,896,254	\$ 462,843.53	\$	36,760,714	482,736,551	222	2,174,489	\$ 165,588.80

\*Other includes Schools, Wholesale Sales, Highway Lighting and Public Authorities

**Percentage of Electric Utility Sales**

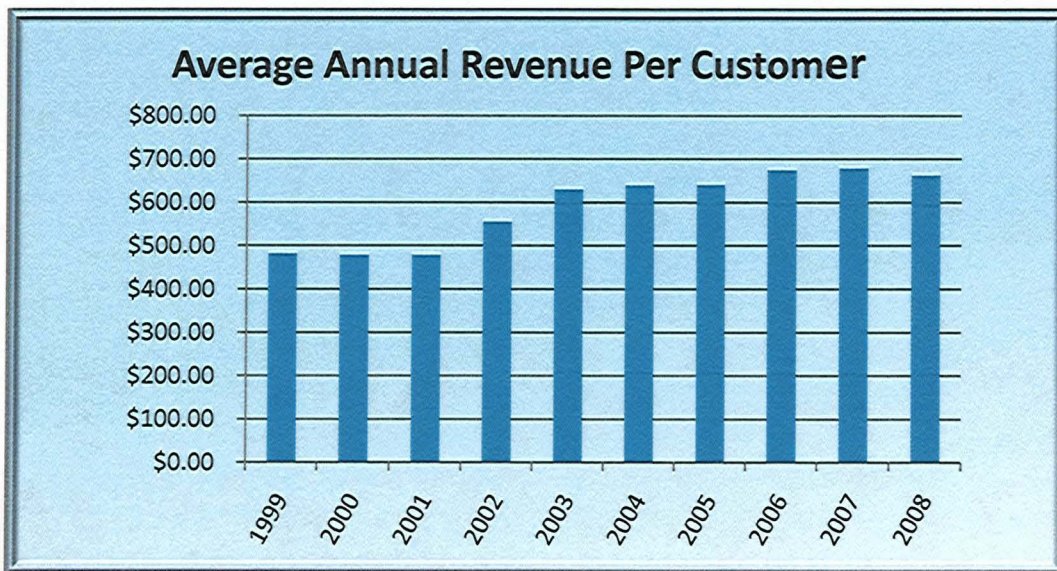


## BPU Water Sales

Last Ten Fiscal Years

Fiscal Year	Gallons Pumped	Gallons Sold	Operating Revenue	Average Number of Customers	Average Revenue Per Customer
1999	10,210,008,000	7,027,892,344	\$ 24,908,017	51,727	\$481.53
2000	10,468,487,000	7,082,452,212	\$ 24,924,356	52,021	\$479.12
2001	10,292,669,000	7,135,029,880	\$ 24,837,663	51,882	\$478.73
2002	11,229,470,000	7,264,262,588	\$ 28,768,379	51,793	\$555.45
2003	11,755,190,000	7,156,918,604	\$ 32,081,858	50,891	\$630.40
2004	12,513,350,000	7,088,525,972	\$ 32,281,307	50,442	\$639.97
2005	13,179,970,000	7,314,650,112	\$ 32,672,356	50,979	\$640.90
2006	12,754,110,000	7,317,225,371	\$ 34,270,444	50,756	\$675.20
2007	11,387,530,000	7,000,978,000	\$ 34,445,314	50,682	\$679.64
2008	11,703,670,000	6,260,264,000	\$ 33,488,102	50,521	\$662.86

**NOTE:** Gallons sold excludes internal BPU department use and water services provided to the Unified Government of Wyandotte County/Kansas City, Kansas.



# Debt Capacity

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**BPU**  
**Utility System Revenue Bonded Indebtedness**

Last Ten Fiscal Years

Fiscal Year	Gross Revenue (1)	Operating Expenses (2)	Current Year Net Revenue Available for Debt Service	Maximum Outstanding Annual Debt Service (3)	Debt Service			Coverage (4)
					Principal (3)	Interest (3)	Total (3)	
1999	\$ 174,920,936	\$ 119,736,307	\$ 55,184,629	\$ 26,142,132	263,603,000	261,796,000	525,399,000	2.11
2000	\$ 177,972,709	\$ 123,631,092	\$ 54,341,617	\$ 26,142,132	254,362,000	245,613,000	499,975,000	2.08
2001	\$ 175,399,140	\$ 127,369,706	\$ 48,029,434	\$ 26,142,132	245,565,239	228,956,357	474,521,596	1.84
2002	\$ 194,836,463	\$ 133,764,651	\$ 61,071,812	\$ 27,512,785	253,334,835	221,912,978	475,247,813	2.21
2003	\$ 202,691,757	\$ 145,425,897	\$ 57,265,860	\$ 27,127,411	243,417,749	204,317,279	447,735,028	2.11
2004	\$ 212,478,539	\$ 154,234,239	\$ 58,244,300	\$ 32,509,058	354,939,934	236,670,413	591,610,347	1.79
2005	\$ 229,794,624	\$ 163,244,271	\$ 66,550,353	\$ 34,463,496	360,731,614	284,858,425	645,590,039	1.93
2006	\$ 262,047,645	\$ 181,735,688	\$ 80,311,957	\$ 34,463,496	354,426,183	265,065,016	619,491,199	2.33
2007	\$ 249,572,589	\$ 180,408,175	\$ 69,164,414	\$ 33,557,926	346,692,157	242,696,750	589,388,907	2.06
2008	\$ 259,099,083	\$ 191,646,089	\$ 67,452,994	\$ 33,557,926	335,751,130	220,158,825	555,909,955	2.01

**NOTE:** The most restrictive bond ordinance provides for historical net revenue coverage at 120 percent of the Maximum Outstanding Annual Debt Service.

- (1) Total operating revenues, interest on investments (excluding Construction Fund) and other.
- (2) Total operating expenses exclusive of depreciation and amortization.
- (3) Beginning in 2004 the maximum outstanding annual debt service and debt service includes the payments required for the government loans.
- (4) Current Year Net Revenue Available for Debt Service divided by Maximum Outstanding Annual Debt Service



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# Demographic and Economic Information

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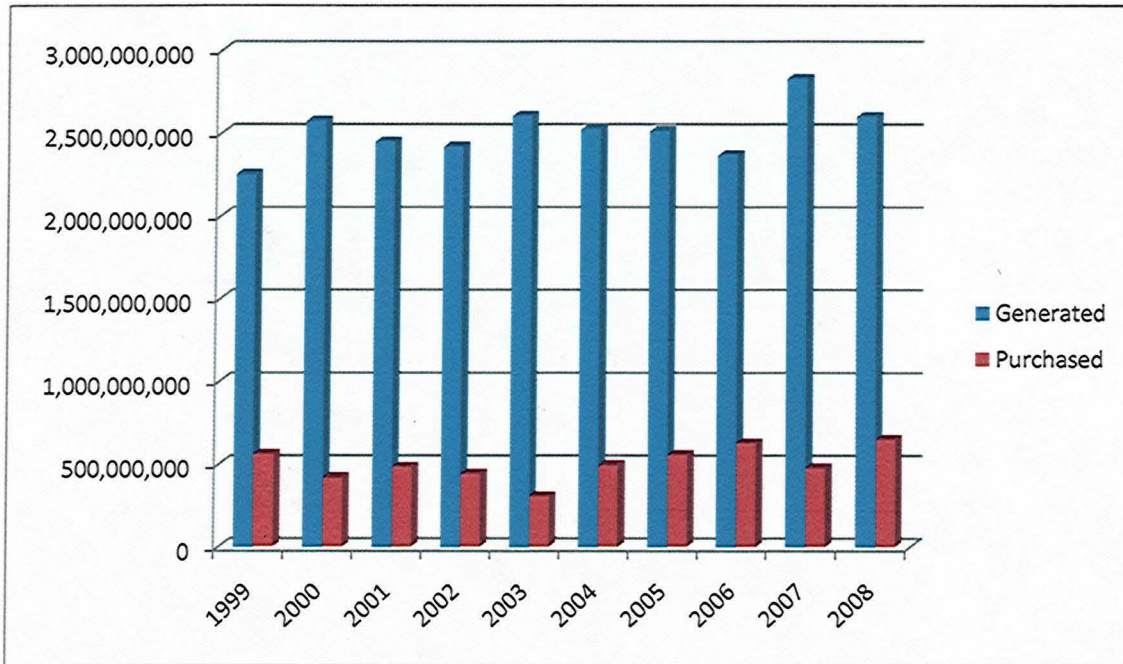
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# Electric Load Statistics in Kilowatts

## Last Ten Fiscal Years

<u>Fiscal Year</u>	<u>Generated</u>	<u>Purchased</u>	<u>Interchanged</u>	<u>Total Kilowatts Available</u>	<u>Maximum System Gross Demand kW</u>	<u>Maximum Net Capability</u>
1999	2,253,112,000	560,882,100	-369,264,000	2,444,730,100	495,000	645,000
2000	2,574,410,000	419,032,800	-528,562,000	2,464,880,800	494,000	645,000
2001	2,448,006,000	481,883,800	-480,901,000	2,448,988,800	496,000	591,000
2002	2,419,119,000	440,956,700	-377,928,000	2,482,147,700	479,000	591,000
2003	2,604,283,000	307,766,300	-441,378,000	2,470,671,300	520,000	606,000
2004	2,524,179,000	493,322,600	-515,878,000	2,501,623,600	490,000	619,000
2005	2,511,552,000	555,384,500	-455,827,000	2,611,109,500	501,000	553,000
2006	2,368,434,000	627,907,900	-357,109,000	2,639,232,900	529,000	579,000
2007	2,830,038,000	476,192,000	-719,077,000	2,587,153,000	512,000	611,000
2008	2,599,420,000	646,850,000	-733,169,000	2,513,101,000	492,000	611,000

**NOTES:** Generated amounts are net of system usage.  
 Purchased amounts are net of borderline.  
 Interchanged amounts include sales for resale which reduces total kilowatts available.



**PRINCIPAL CUSTOMERS (Ten year history)**

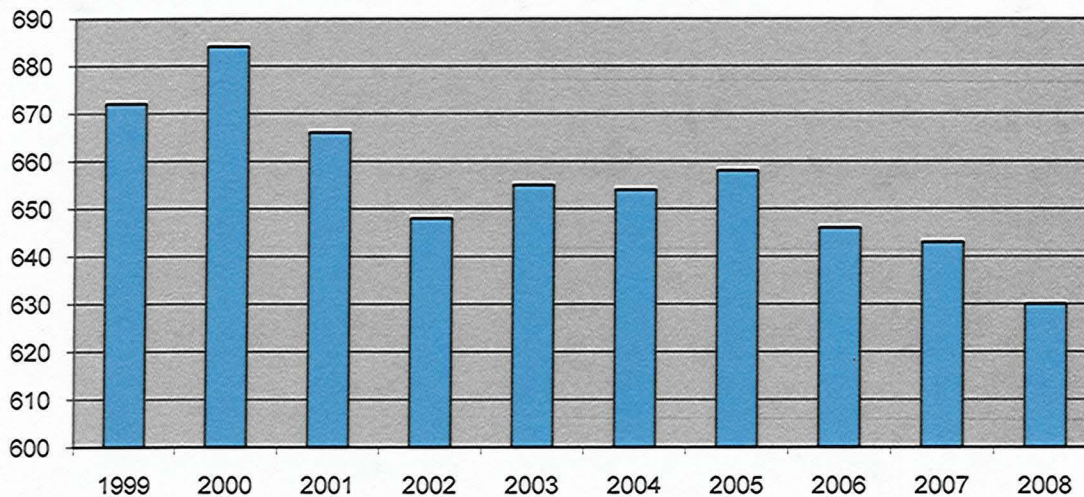
1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<p>KME/A - Kansas Municipal Energy Agency (Wholesale)</p> <p>Owens Corning Fiberglass (Insulation)</p> <p>General Motor's Corp. (Auto Production)</p> <p>CertainTeed Corp. (Insulation)</p> <p>City of Columbia, MO (Wholesale)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>Procter &amp; Gamble Co. (Cleaning Products)</p> <p>Griffin Wheel (Railroad Wheels)</p> <p>Ameritcold (Cold Storage)</p>	<p>Owens Corning Fiberglass (Insulation)</p> <p>KME/A - Kansas Municipal Energy Agency (Wholesale)</p> <p>CertainTeed Corp. (Insulation)</p> <p>General Motor's Corp. (Auto Production)</p> <p>City of Columbia, MO (Wholesale)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>Procter &amp; Gamble Co. (Cleaning Products)</p> <p>Griffin Wheel (Railroad Wheels)</p> <p>Amour Swift-Eckrich Inc. (Food Manufacturer)</p>	<p>Owens Corning Fiberglass (Insulation)</p> <p>CertainTeed Corp. (Insulation)</p> <p>General Motor's Corp. (Auto Production)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>Procter &amp; Gamble Co. (Cleaning Products)</p> <p>Griffin Wheel (Railroad Wheels)</p> <p>Amour Swift-Eckrich Inc. (Food Manufacturer)</p> <p>Colgate Palmolive Co. (Soap Manufacturer)</p> <p>BNSF (Railroad)</p>	<p>CertainTeed Corp. (Insulation)</p> <p>Owens Corning Fiberglass (Insulation)</p> <p>General Motor's Corp. (Auto Production)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>Procter &amp; Gamble Co. (Cleaning Products)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>USD#500 KCK (Public School Dist.)</p> <p>Griffin Wheel (Railroad Wheels)</p> <p>Amour Swift-Eckrich Inc. (Food Manufacturer)</p> <p>Constar Plastics (Plastic Containers)</p>	<p>CertainTeed Corp. (Insulation)</p> <p>General Motor's Corp. (Auto Production)</p> <p>Owens Corning Fiberglass (Insulation)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>Procter &amp; Gamble Co. (Cleaning Products)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>USD#500 KCK (Public School Dist.)</p> <p>Griffin Wheel (Railroad Wheels)</p> <p>ConAgra (Food Manufacturer)</p> <p>Colgate Palmolive Co. (Soap Manufacturer)</p>	<p>Owens Corning Fiberglass (Insulation)</p> <p>General Motor's Corp. (Auto Production)</p> <p>CertainTeed Corp. (Insulation)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>USD#500 KCK (Public School Dist.)</p> <p>Griffin Wheel (Railroad Wheels)</p> <p>Colgate Palmolive Co. (Soap Manufacturer)</p> <p>ConAgra (Food Manufacturer)</p>	<p>Owens Corning Fiberglass (Insulation)</p> <p>CertainTeed Corp. (Insulation)</p> <p>KME/A - Kansas Municipal Energy Agency (Wholesale)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>City of Columbia, MO (Wholesale)</p> <p>Procter &amp; Gamble Co. (Cleaning Products)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>USD#500 KCK (Public School Dist.)</p> <p>Griffin Wheel (Railroad Wheels)</p>	<p>Owens Corning Fiberglass (Insulation)</p> <p>General Motor's Corp. (Auto Production)</p> <p>CertainTeed Corp. (Insulation)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>KME/A - Kansas Municipal Energy Agency (Wholesale)</p> <p>Griffin Wheel (Railroad Wheels)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>USD#500 KCK (Public School Dist.)</p> <p>Procter &amp; Gamble Co. (Cleaning Products)</p> <p>City of Columbia, MO (Wholesale)</p>	<p>General Motor's (Auto Production)</p> <p>Owens Corning Fiberglass (Insulation)</p> <p>CertainTeed Corp. (Insulation)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>Griffin Wheel (Railroad Wheels)</p> <p>Procter &amp; Gamble Co. (Cleaning Products)</p> <p>Constar Plastics (Plastic Containers)</p> <p>GNB Battery (Battery Manufacturer)</p> <p>Burlington Northern/Sante Fe (Railroad)</p>	<p>General Motor's (Auto Production)</p> <p>Owens Corning Fiberglass (Insulation)</p> <p>Univ. of Kansas Medical Ctr. (Hospital)</p> <p>CertainTeed Corp. (Insulation)</p> <p>Griffin Wheel (Railroad Wheels)</p> <p>WaterOne of Johnson County (Water Utility)</p> <p>Procter &amp; Gamble Co. (Cleaning Products)</p> <p>USD#500 KCK (Public School Dist.)</p> <p>Sunshine Biscuit (Food Manufacturer)</p> <p>Burlington Northern/Sante Fe (Railroad)</p>
<p>Revenue</p> <p>\$ 6,827,000</p> <p>6,371,500</p> <p>5,931,000</p> <p>4,768,300</p> <p>4,173,600</p> <p>3,142,100</p> <p>2,928,800</p> <p>2,818,400</p> <p>2,561,300</p> <p>1,555,500</p>	<p>Revenue</p> <p>\$ 6,158,200</p> <p>5,245,100</p> <p>5,004,400</p> <p>3,772,400</p> <p>3,694,900</p> <p>3,313,300</p> <p>3,149,500</p> <p>2,422,300</p> <p>1,644,000</p> <p>1,502,100</p>	<p>Revenue</p> <p>\$ 5,399,800</p> <p>5,399,200</p> <p>4,782,600</p> <p>3,208,400</p> <p>3,173,600</p> <p>3,087,100</p> <p>2,260,400</p> <p>1,527,200</p> <p>1,313,600</p> <p>1,287,400</p>	<p>Revenue</p> <p>\$ 6,486,700</p> <p>5,141,900</p> <p>4,886,900</p> <p>4,431,800</p> <p>4,033,600</p> <p>3,840,500</p> <p>3,776,100</p> <p>2,835,300</p> <p>1,642,400</p> <p>1,619,500</p>	<p>Revenue</p> <p>\$ 7,199,000</p> <p>6,494,700</p> <p>6,342,700</p> <p>4,126,000</p> <p>4,074,200</p> <p>3,986,900</p> <p>3,731,400</p> <p>2,945,400</p> <p>1,575,200</p> <p>1,541,000</p>	<p>Revenue</p> <p>\$ 9,651,500</p> <p>9,347,800</p> <p>9,283,300</p> <p>7,236,500</p> <p>7,194,400</p> <p>5,468,500</p> <p>4,860,400</p> <p>4,649,700</p> <p>4,648,100</p> <p>4,562,600</p>	<p>Revenue</p> <p>\$ 8,013,000</p> <p>7,670,300</p> <p>7,487,800</p> <p>6,995,100</p> <p>4,916,900</p> <p>4,910,300</p> <p>4,486,100</p> <p>4,333,900</p> <p>3,926,300</p> <p>3,745,100</p>	<p>Revenue</p> <p>\$ 8,636,200</p> <p>8,114,700</p> <p>6,577,700</p> <p>5,120,500</p> <p>4,819,500</p> <p>4,557,700</p> <p>4,539,400</p> <p>4,457,100</p> <p>1,798,000</p> <p>1,785,000</p>		

# Employee Data

## Last Ten Fiscal Year

Fiscal Year	Salaries	Employee Benefits and Payroll Taxes (1)	Total Salary And Benefits (2)	Number of Employees As of December 31, (3)
1999	\$ 35,160,663	\$ 18,594,549	\$ 48,136,894	672
2000	\$ 36,302,707	\$ 19,860,821	\$ 50,550,827	684
2001	\$ 38,158,783	\$ 19,585,515	\$ 51,847,158	666
2002	\$ 39,083,161	\$ 21,652,804	\$ 54,300,512	648
2003	\$ 40,973,315	\$ 22,986,055	\$ 57,383,705	655
2004	\$ 42,828,183	\$ 23,675,917	\$ 59,620,450	654
2005	\$ 44,713,512	\$ 25,027,720	\$ 62,554,049	658
2006	\$ 46,424,254	\$ 27,000,469	\$ 65,114,208	646
2007	\$ 48,138,161	\$ 27,744,880	\$ 67,634,617	643
2008	\$ 50,389,000	\$ 27,197,277	\$ 68,694,751	630

- (1) Includes compensated absences that are also included in salaries
- (2) Excludes paid time not worked.
- (3) Excludes temporary employees and employees on long-term disability.



**UNIFIED GOVERNMENT OF WYANDOTTE COUNTY / KANSAS CITY, KANSAS**  
**DEMOGRAPHIC AND ECONOMIC STATISTICS**  
**Last Ten Fiscal Years**

Year	Population	Personal Income <i>(thousands of dollars)</i>	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
1999	157,980 <sup>(2)</sup>	\$ 3,008,381 <sup>(3)</sup>	\$ 19,043 <sup>(3)</sup>	29,733	
2000	157,882 <sup>(1)</sup>	\$ 3,121,250 <sup>(3)</sup>	\$ 19,771 <sup>(3)</sup>	29,694	6.3% <sup>(5)</sup>
2001	158,265 <sup>(2)</sup>	\$ 3,259,239 <sup>(3)</sup>	\$ 20,581 <sup>(3)</sup>	29,161	7.5%
2002	157,293 <sup>(2)</sup>	\$ 3,389,465 <sup>(3)</sup>	\$ 21,518 <sup>(3)</sup>	29,057	9.5%
2003	155,913 <sup>(2)</sup>	\$ 3,456,810 <sup>(3)</sup>	\$ 22,126 <sup>(3)</sup>	28,823	11.0%
2004	154,474 <sup>(2)</sup>	\$ 3,529,026 <sup>(3)</sup>	\$ 22,784 <sup>(3)</sup>	28,547	9.4%
2005	153,897 <sup>(2)</sup>	\$ 3,644,848 <sup>(3)</sup>	\$ 23,609 <sup>(3)</sup>	28,024	8.8%
2006	153,206 <sup>(2)</sup>	\$ 3,815,846 <sup>(4)</sup>	\$ 24,838 <sup>(4)</sup>	27,933	7.5%
2007	153,601 <sup>(2)</sup>	\$ 3,949,401 <sup>(4)</sup>	\$ 25,807 <sup>(4)</sup>	27,876	7.3%
2008	154,287 <sup>(2)</sup>	\$ 4,087,630 <sup>(4)</sup>	\$ 26,813 <sup>(4)</sup>	27,863	7.7%

Includes Kansas City Kansas #500, Turner #202, Piper #203, Bonner Springs #204 and the Parochial schools within Wyandotte County.

Notes:

<sup>1</sup> 2000 U.S. Census Counts

<sup>2</sup> U.S. Dept of Commerce, Bureau of Census, Local Population Estimates, March 2005

<sup>3</sup> Bureau of Economic Analysis

<sup>4</sup> Estimates based on trends

<sup>5</sup> Due to changes made by the Kansas Dept of Labor on how employment statistics are calculated, 2000 or later years are not comparable to prior years. Therefore, the data is not shown above.



**UNIFIED GOVERNMENT OF WYANDOTTE COUNTY / KANSAS CITY, KANSAS**  
**PRINCIPAL EMPLOYERS**  
**Current Year and Nine Years Ago**

	<b>Fiscal Year 2008</b>			<b>Fiscal Year 1999</b>		
	<b>Employees in County (Employment Range)</b>	<b>Rank</b>	<b>Percentage of Total County Employment</b>	<b>Employees in County</b>	<b>Rank</b>	<b>Percentage of Total County Employment</b>
Kansas City, Ks School District #500	3500-4000	1	4.43%	3,402	3	4.10%
Kansas University Hospital	2500-4000	2	3.96%	-	-	-
University of Kansas Medical Center	2500-3499	3	3.24%	4,960 *	1	5.98%
General Motors Corporation	2500-3499	4	3.18%	3,325	2	4.01%
Burlington Northern/Santa Fe Railroad	2500-3499	5	2.94%	1,649	5	-
Unified Government of Wyandotte Co/KCK	1000-2499	6	2.84%	2,300	4	2.77%
Providence Medical Center	1000-2499	7	1.41%	982	8	1.18%
Nebraska Furniture Mart	1000-2499	8	1.40%	-	-	-
Associated Wholesale Grocers	1000-2499	9	1.23%	1,177	6	-
United Parcel Service	750-999	10	1.09%	900	9	-
Bethany Medical Center	-	-	-	1,033	7	1.24%
Board of Public Utilities	-	-	-	697	10	0.84%
	<b>21,863</b>		<b>25.72%</b>	<b>20,425</b>		<b>20.12%</b>

\*Combined figure for Kansas University and Hospital.

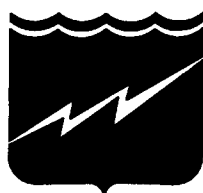
Source: Unified Government Building Inspection Division.



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# Operating Information

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Utility System Plant Additions  
Last Ten Fiscal Years

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Electric</b>	34,217,766	16,590,921	19,481,720	20,953,383	24,866,773
<b>Water</b>	34,237,699	2,688,813	5,091,476	5,238,346	6,216,693
<b>Total</b>	<b>68,455,465</b>	<b>19,279,734</b>	<b>24,573,196</b>	<b>26,191,729</b>	<b>31,083,466</b>

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Electric</b>	39,015,220	71,753,084	39,124,794	17,096,800	20,274,310
<b>Water</b>	20,732,148	19,017,017	24,702,299	14,597,383	8,119,818
<b>Total</b>	<b>59,747,368</b>	<b>90,770,101</b>	<b>63,827,093</b>	<b>31,694,183</b>	<b>28,394,128</b>

\* Utility Plant Additions totals taken from Statement of Cash Flows