



LITTLE BLUE VALLEY SEWER DISTRICT

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LITTLE BLUE VALLEY SEWER DISTRICT

Continuing Disclosure Statement of Financial and Operating Data Information

March 1, 2014

Prepared by the Finance Department
Karen Wardle, Director of Finance

This document is presented solely to comply with the District's commitment to provide updated annual financial and operating data information and is not made in connection with a purchase or sale of obligations, and accordingly is not intended to contain information to purchase or sell obligations. It is to be used as a supplement to the District's Comprehensive Annual Financial Report (CAFR) for the fiscal period ending September 30, 2013 and is not to be distributed or used separately from the CAFR. The information contained in this document has been submitted by the District to UMB Bank, N.A. as Dissemination Agent pursuant to the Continuing Disclosure Agreement in connection with the issuance by the District of \$118,350,000 Taxable Sewer System bonds (Build America Bonds – Direct Pay) Series 2010, Bond Resolution 3181 dated as of November 10, 2010. The District has prepared this continuing disclosure statement for the benefit of the Owners of the bonds and to assist the Participating Underwriter in complying with the requirements of Rule 15c2-12 of the Securities and Exchange Commission.

THE PROJECT

The District Projects

The District is constructing approximately \$86 million of capital improvements to its system during Fiscal Years 2011-14, such work being identified as the Phase II Improvement Project of the District's Master Plan at the Atherton Wastewater Treatment Plant. Phase II scope includes a new sewage sludge incinerator, addition of ultraviolet disinfection facilities at the Atherton wastewater treatment plant site, and an 84 million gallon excess flow holding facility in the conveyance system. The Phase II improvements are being paid from the proceeds of the \$118.3 million Taxable Sewer System Revenue Bonds (Build America Bonds – Direct Pay) Series 2010. There have been \$77 million in construction contracts awarded with substantial cash reserves also being available should any supplemental funds or additional improvements be needed. The remaining proceeds of this bond issue are being used as a debt service reserve and to pay capitalized interest. The Federal Government's sequestration activity has reduced the interest subsidy on the Build America Bonds, such shortfall being currently covered by the capitalized interest funds.

The following table shows the contracts and project elements financed with the proceeds of the Bonds:

<u>Atherton Wastewater Treatment Plant Phase II Improvements</u>		
<u>Project Activity</u>	<u>Budgeted/Actual Costs</u>	<u>Extended Totals</u>
Atherton Plant		
Disinfection and Biosolids	\$55,620,264*	
Temporary Sludge Hauling	250,000	
Laboratory Improvements	557,295*	
Electric Upgrade (KCP&L)	<u>155,099*</u>	
Sub-Total		<u>\$56,582,658</u>
Excess Flow Holding Basin		
Basin, Piping and Site work	\$ 8,747,291**	
Environmental & Permits	<u>145,024*</u>	
Sub-Total		<u>\$ 8,892,315</u>
Engineering and General		
Engineering Services	\$14,992,858	
Optimization Study	6,500	
General Contingency	<u>5,425,669</u>	
Sub-Total		<u>\$20,425,027</u>
Total Project Costs		<u>\$85,900,000</u>

*Contact Value as of March 2014 which includes a provisional contingency of approximately \$700,000

** Contract Value as of March 2014 which includes a provisional contingency of approximately \$200,000

In March, 2011 the Little Blue Valley Sewer District's Board of Trustees, authorized Not-to-Exceed \$37,850,000 Sewerage System Revenue Bonds (State of Missouri - Direct Loan Program - Middle Big Creek Sewer Subdistrict Project) Series 2011A at an effective borrowing cost of 2.66% for the purpose of extending and improving the Subdistrict's sewerage system owned and operated by the District. The Bonds are special, limited obligations of the District payable solely from, and secured by a pledge of the Net Revenues of the Subdistrict. The revenues of the District system are not pledged to the payment of the bonds. The Bonds do not constitute a general obligation of the District or an indebtedness of the District within the meaning of any constitutional, statutory or charter provision, limitation or restriction. The Subdistrict, predominately situated in Cass County, Missouri serves eight wholesale customers, each of which has entered a service agreement pledging use of services until outstanding debt is retired. This financing is being used to upgrade/expand the Pleasant Hill Wastewater Treatment Plant, upgrade a wastewater pumping station and to construct approximately 7.5 miles of new gravity interceptor sewer line.

The following table reflects the projects financed by the bond proceeds consisting of approximately \$27 million improvements.

<u>Subdistrict Project Activity</u>	<u>Projected Costs</u>
Closing Costs, Capitalized Interest	\$ 1,338,955
Facility Plan Engineering Services	180,196*
Design Engineering Services	2,496,294*
Bid & Construction Engineering Services	2,490,586*
Pleasant Hill Treatment Plant Expansion	14,097,276*
Interceptor & Lake Winnebago Pump Station Improvements	13,574,629*
Greenwood Force Main Improvements	1,054,700
General Contingency	<u>2,617,364</u>
Total Project Costs	<u>\$37,850,000</u>

*actual contract costs

The Subdistrict Phase I work involved the upgrading/expansion of the Pleasant Hill Wastewater Treatment Plant (completed in 2013) and 7.5 miles of new interceptor sewer main (under construction). Completion of the treatment plant upgrade and expansion now provides increased treatment capacity of 2.25 million gallons per day with advanced treatment and ultraviolet disinfection. Pump station upgrades, interceptor sewer lines, and Greenwood Force Main Improvements have a predicted completion in January 2016.

FINANCIAL OPERATIONS OF THE DISTRICT

Accounting, Budgeting and Auditing Procedures

The District is a public entity (common sewer district as per State of Missouri) and operates as a governmental enterprise fund using an accrual basis for accounting. Under an accrual method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred to better reflect actual operating results.

According to the District's bond covenants, the District must operate under an annual budget for reasonable and necessary operating expenses. The Board of Trustees (Board), with recommendations from statutory advisory boards, approves each annual budget. The budget process requires: (1) development of a preliminary budget not less than sixty days before the beginning of the fiscal year; and (2) holding a public hearing on the preliminary budget to allow any authorized representative of the District's customers to appear and present objections. Board approval of the budget established the financial management plan for each fiscal year. The approved budget can only be amended by formal Board action. The only financial constraint for the Budget or its amendment is that the source for and use of funds be appropriate, reasonable and necessary. The District operates in an open meeting and open records environment in which the public has access to information, data and activities.

General

The District is a wholesale service provider, predominantly serving municipalities in the North Kansas City Metropolitan area. The District's objectives include strict compliance with state/federal regulations, provision of cost-effective wastewater services for its customers, providing adequate reserve capacity to meet future needs, maintaining asset condition, and effective management of day-to-day operations. The District maintains appropriate long-range planning to address future capital needs, system rehabilitation projects, implementation of best management practices in the industry and to provide for necessary system repairs,

replacements, and upgrades. The District updates its Financial Master Plan annually which contains income and expenditure forecasts for the next 10-years. Each forecast identifies known capital improvement needs and predicts the expenditures for each fiscal year.

Financing Plans

There are three primary funding sources for financing capital improvements: (1) debt, including the bonds issued under the bond resolution, (2) accumulated cash reserves in unrestricted accounts, and (3) positive cash flows from annual operations which can provide “pay-as-you-go” funds. The District will typically use Bond proceeds to fund larger capital improvement projects and will use recurring revenues to cover operating expenditures, rehabilitation projects and replacement activities.

The financial statements of the District are audited annually by independent certified public accountants. The annual audit for fiscal year 2013 was performed by Cudney, Ecord, McEnroe & Mullane, L.L.C., Kansas City, Missouri. Copies of the audited financial statements for the past five years are on file in the Executive Director’s office and are available for review. The 2013 audit was submitted with an unqualified opinion. A copy of the Comprehensive Annual Financial Report for the fiscal year ended September 30, 2013, has been submitted to www.emma.msrb.org by UMB Bank, N.A., Dissemination Agent.

Revenue Fund Statement of Revenues, Expenses and Changes in Net Assets

The following table sets forth selected financial data of the District. The data for the two fiscal years ending September 30, 2012 and September 30, 2011, are derived from the audited financial statements of the District. The summary financial data should be read in conjunction with the audited financial statements, including the notes thereto.

	<u>September 30</u>	
	<u>2013</u>	<u>2012</u>
Operating Revenue:		
Wastewater treatment user fees	\$22,595,948	\$21,120,552
Other	64,020	51,814
	<u>22,659,968</u>	<u>21,172,366</u>
Operating Expense:		
Operation and maintenance	9,408,525	8,488,212
Administrative and general	1,719,076	1,943,257
Depreciation and amortization	9,101,931	9,044,005
Unbilled charges	666,639	545,239
	<u>20,896,171</u>	<u>20,020,713</u>
Operating Loss	<u>(1,763,797)</u>	<u>1,151,653</u>
Nonoperating Revenue (expense):		
Interest expense	(10,410,850)	(11,569,552)
Interest subsidy on revenue bonds	2,587,995	2,722,773
Interest income	2,798,492	3,215,069
	<u>(5,024,363)</u>	<u>(5,631,710)</u>
Change in net assets	(3,260,566)	(4,480,057)
Net Assets – beginning of year	<u>77,777,271</u>	<u>82,257,328</u>
Net Assets – end of year	<u>\$74,516,705</u>	<u>\$77,777,271</u>

Debt Service Coverage

		September 30,	
		<u>2013</u>	<u>2012</u>
Net Revenue Available for Debt Service		16,252,215	16,133,500
Parity Bond Debt Service			
Principal and Interest Requirements		<u>11,146,708</u>	<u>10,545,824</u>
Coverage	Series 1995 and 2004 Bonds	1.40x	1.43x
	Series 2003A Bonds	1.52x	1.57x
	Series 2010 Bonds	1.40x	1.43x
	Series 2011A Bonds	1.16x	2.07x

No New Bonds Issued

No new bonds were issued in Fiscal Year 2013 nor are any planned in the upcoming fiscal year. Moody's Investors Service reviewed the District's rating of the 2010 Build America Bonds in March 2013 and maintained their rating of Aa3, the same as that given at the time of issuance. Standard and Poor's Ratings Services affirmed its rating of AA- for these same bonds in December 2013.

Management's Discussion and Analysis

The following Management's Discussion and Analysis is excerpted from the financial statements of the District for the Fiscal Years ended September 30, 2013 and 2012. For the full discussion (which discussion is unaudited as noted therein), see the financial statements of the District for the Fiscal Years ended September 30, 2013 and 2012.

2013 Financial Highlights:

- Total assets on the Statement of Net Position increased \$5.9 million overall, primarily due to the result of the continued capital asset activity funded by restricted investments from 2010 bond proceeds and 2011 loan draws.
- Total liabilities increased \$9.1 million due to additional loan draws from the State of Missouri 2011 bonds, (Missouri Direct Loan Program) and increased construction contracts and retainage payables.
- Total net position decreased \$3.3 million over the prior fiscal year.
- Total expenses decreased slightly by \$283,244. An increase in operating and maintenance costs were offset by a reduction in interest expense on scheduled long term debt and an increase in the amount capitalized on constructed assets.
- Total revenues increased overall \$936,247 based on programmed user fee increases of \$1,475,396; said revenue growth offsetting the decline in investment income of 416,577.
- Subdistrict's favorable financial position enabled early retirement (1-year) of the purchase note held by the City of Pleasant Hill for the acquisition of land and the Pleasant Hill Treatment Works.

2013 District Highlights:

- Construction continued on the Phase II improvements of the Atherton Wastewater Treatment Plant which includes installation of an incinerator, addition of effluent disinfection process, and new ash holding basins with \$37 million paid to date on construction and engineering contracts totaling \$70 million.
- Award of \$8.7 million contract for an 84 million gallon excess flow holding basin as final element of Phase II Improvements Program.
- Continual repairs and maintenance of equipment.
- Completion of Phase I improvements at the Pleasant Hill wastewater treatment plant for the Subdistrict at a cost of \$14 million to expand and upgrade its operational capacity to 2.25 million gallons per day, including ultraviolet disinfection.
- Subdistrict Award of \$13 million contract for the addition of approximately 7.5 miles of interceptor lines and modifications to pump and lift stations.

Sewer Rates and Revenues

The District's wholesale wastewater rates are designed to equitably and proportionally recover costs-of-service (current approved Budget) from its customers. The total of each fiscal year's customer charges is equal to the current fiscal year's approved Budget, with no volatility due to a customer's current year flows. The rate methodology incorporates a 5-year rolling average for flow rates which moderates volatility in each customer's annual charges and similarly fixes the District's rate revenue as an exact match to the approved budget. The only variability in total income stems from interest income and miscellaneous sources, which revenues are a very minor component of total revenue. Each year, these user charges are set to cover the budgeted cost of operation and maintenance of the District's sewer system as well as budgeted payments of principal and interest on all revenue bonds of the District (plus meet required coverage ratios). Each wholesale customer has executed a service contract with the District which requires continuing full use of District services during the term of indebtedness of the District.

The rate structure is cost-of-service based including cost components for volume related costs, administrative costs, meter costs, and pretreatment costs. Each user's annual flow is normalized by a projection based on linear regression from the preceding twenty quarters of the actual measured flow. These user charges are billed and collected on a quarterly basis. For 2013-2014, the District has budgeted \$20,367,905 in user charges. This is an increase of \$1,101,965 or 5.72% over Fiscal Year ended September 30, 2013, said increase being consistent with the 10-year financial forecast. Despite minor growth rate in the service area, the District's overall financial health is sound and its financial results remain aligned with the Financial Forecast. The District has a very stable and diverse customer base and has utilized conservative growth forecasts for its financial planning. While there are increases in operational and debt service expenditures, the operational costs are expected to stabilize with the decommissioning of the aging equipment in mid-2014 when the Phase II Improvements are operational.

The following table shows revenues received for District user charges for the last six fiscal years:

Year ended <u>September 30,</u>	<u>Charges for District Services</u>
2009	16,490,900
2010	16,828,697
2011	17,172,293
2012	18,191,105
2013	19,265,940
2014	20,367,905 (budget)

*Source: District.

The following table shows user charges received for the Subdistrict for the last six fiscal years:

Year ended <u>September 30,</u>	<u>Charges for Subdistrict Services</u>
2009	2,494,002
2010	2,548,570
2011	3,205,016
2012	3,963,068
2013	4,422,632
2014	4,600,830 (projected)

*Source: District.

SYSTEM USERS AND SERVICE CONTRACTS

Certain of the District’s users are designated by the Constitution and statutes of the State of Missouri, including particularly Sections 204.250 to 204.470 inclusive, RSMo., as amended (the “Act”) as “customers” for the purpose of approving the issuance of revenue bonds by the District. The 12 current District “customers” are the Cities of Belton, Blue Springs, Grandview, Independence, Kansas City, Lake Tapawingo, Lee’s Summit, Raymore, Raytown, and Sugar Creek, Missouri, Jackson County, Missouri, and the Middle Big Creek Sewer Subdistrict (a subdistrict of the District that serves additional users of the system). The District also provides sewer collection and treatment services for the Lake City Army Ammunition Plant (a federal facility operated by an independent, private contractor for the United States Army) and Fort Osage School District.

With the exception of the Middle Big Creek Sewer Subdistrict, the District has entered into a service contract (each a “**Service Contract**” and collectively, the “**Service Contracts**”) with each of its users. Middle Big Creek Sewer Subdistrict is actually a separate cost center of the District, being wholly owned and controlled by the Board. The District does have a Service Contract with each of the six governmental entities and two private sewer districts that compose the wholesale customers of the subdistrict. Each Middle Big Creek (District) Service Contract contains provisions for determining the amount each user must pay to the District for collecting and treating the user’s wastewater (each a “**Contract Sum**” and collectively, the “**Contract Sums**”). Missouri statutes authorize the District to issue revenue bonds, payable from the Contract Sums and other System revenues, upon approval of the District’s Board of Trustees and at least 75% of its “customers”. The Subdistrict’s income is also stable with low volatility as the revenues are based upon connection counts and not flow rates. The service area of the Middle Big Creek customers has shown consistent growth rates of 1-2 percent per year, which rates are factored into the Subdistrict’s 10-year Financial Forecast.

Users

The following are brief descriptions of each of the District's customers:

Belton. A suburb of Kansas City, Missouri, Belton is approximately 14 square miles with a population of approximately 22,000. The estimated 2010 population of Belton within the District boundaries is 14,000.

Blue Springs. A suburb of Kansas City, Missouri, Blue Springs is approximately 18 square miles with a population of approximately 54,000. The estimated 2010 population of Blue Springs within the District boundaries is 27,000.

Grandview. A suburb of Kansas City, Missouri, Grandview is approximately 15 square miles with a population of approximately 25,000. The estimated 2010 population of Grandview within the District boundaries is 23,500.

Independence. The fourth largest city in Missouri, Independence is approximately 79 square miles with a population of approximately 120,000. The estimated 2010 population of Independence within the District boundaries is 79,000.

Kansas City. The largest city in Missouri, Kansas City is approximately 318 square miles with a population of approximately 480,000. The estimated 2010 population of Kansas City within the District boundaries is 34,500.

Lake Tapawingo. A suburb of Kansas City, Missouri, Lake Tapawingo is approximately 5 square miles with a population of approximately 1,000. The estimated 2010 population of Lake Tapawingo within the District boundaries is 845.

Lee's Summit. The sixth largest city in Missouri, Lee's Summit is approximately 62 square miles with a population of approximately 93,000. The estimated 2010 population of Lee's Summit within the District boundaries is 93,000.

Raymore. A suburb of Kansas City, Missouri, and one of the fastest growing cities in Missouri, Raymore is approximately 17 square miles with a population of approximately 20,000. The estimated 2010 population of Raymore within the District boundaries is 20,000.

Raytown. A suburb of Kansas City, Missouri, Raytown is approximately 10 square miles with a population of approximately 30,000. The estimated 2010 population of Raytown within the District boundaries is 29,000.

Sugar Creek. A suburb of Kansas City, Missouri, Sugar Creek is approximately 9 square miles with a population of approximately 4,000. The estimated 2010 population of Sugar Creek within the District boundaries is 3,500.

Jackson County. Jackson County, Missouri is located on the western edge of the State and contains portions of Kansas City. Jackson County is approximately 616 square miles with a population of approximately 670,000. The estimated 2010 population of Jackson County within the District boundaries is 5,600.

Middle Big Creek Sewer Subdistrict. Middle Big Creek Sewer Subdistrict provides wastewater treatment service to the following eight users in Jackson and Cass Counties, Missouri, some of which also contribute directly to the District outside the Subdistrict drainage area:

- Cass County. Cass County, Missouri is located just south of Jackson County and is approximately 703 square miles with a population of approximately 100,000. The estimated 2010 population of Cass County within the District boundaries is 1,000.
- Lee's Summit. See description above.
- Greenwood. Greenwood is located in Southeast Jackson County and is approximately four square miles with a population of approximately 5,500. The estimated 2010 population of Greenwood within the District boundaries is 5,500.
- Lake Winnebago. Lake Winnebago is located in Northern Cass County and is approximately 2.3 square miles with a population of approximately 1,100. The estimated 2010 population of Lake Winnebago within the District boundaries is 1,100.
- Dikeland Sewer District. A Subdivision in Cass County, MO, bounded on the North by 58 Highway, South by 178th Street, West by Fredrick Street, and East by Lyne Street, consisting of 128 lots, currently billing 107 connections.
- Mullendike Sewer District. A Subdivision in Cass County, MO, bounded on the North by 159th Street, South by 167th Street, West by Lyne Street, and East by Ward Road, consisting of 312 lots, currently billing 208 connections.
- Raymore. See description above.
- Jackson County. See description above.
- Pleasant Hill. Located in Cass County, Pleasant Hill is approximately 8 square miles with a population of approximately 8,100. The estimated 2010 population of Pleasant Hill within the Subdistrict boundaries is 8,100.

Lake City Army Ammunition Plant. Lake City Army Ammunition Plant has an estimated 2010 population equivalent of 18,400, consisting of both domestic and pretreated industrial waste.

Fort Osage School District. Fort Osage School District has an estimated 2010 population within the District boundaries of 210.

System Flow

The following table sets forth the users of the District's System and the normalized flow upon which each user has been billed for the Fiscal Year ended September 30, 2013:

<u>User</u>	<u>Normalized Flow (MG)</u>	<u>Annual Percent of Total</u>
Independence	3,009.360	21.9236%
Lee's Summit	3,073.960	22.3942
Raytown	1,384.400	10.0855
Kansas City	1,541.040	11.2267
Grandview	1,170.760	8.5291
Blue Springs	1,058.610	7.7121
Middle Big Creek*	777.710	5.6659
Raymore	544.810	3.9690
Belton	523.770	3.8157
Lake City Ammunition Plant	599.910	4.3704

<u>User (Continued)</u>	<u>Normalized Flow (MG)</u>	<u>Annual Percent of Total</u>
Jackson County	.000	0.0000
Lake Tapawingo	16.310	0.1188
Sugar Creek	16.310	0.1188
Fort Osage School District	<u>9.630</u>	<u>0.0702</u>
Total	<u>13,726.580</u>	<u>100.0000%</u>

* Consists of eight users that are not separately metered.

Source: District records.

The following table sets forth the users of the Subdistrict's System and the percent of total connections that were billed for each customer as of September 30, 2013.

<u>User</u>	<u>Number of Connections Billed FY 2013</u>	<u>Annual Percent of Total</u>
City of Lee's Summit	53,589	38.17%
City of Pleasant Hill	36,153	25.75%
City of Greenwood	21,512	15.32%
City of Raymore	19,560	13.93%
City of Lake Winnebago	5,933	4.23%
Mullendike Sewer District	2,322	1.65%
Dikeland Sewer District	1,284	.91%
Cass County	<u>48</u>	<u>.04%</u>
Total	<u>140,401</u>	<u>100.00%</u>

Source: District records.