



LITTLE BLUE VALLEY SEWER DISTRICT

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LITTLE BLUE VALLEY SEWER DISTRICT

Continuing Disclosure Statement of Financial and Operating Data Information

March 28, 2016

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, 2015 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 PROJECTS

The District and Subdistrict Projects

District:

The District has constructed approximately \$80 million of capital improvements to its system during Fiscal Years 2011-15, such work being identified as the Phase II Improvements as identified in the District's Master Plan for its 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 have been paid from the proceeds of the \$118.3 million Taxable Sewer System Revenue Bonds (Build America Bonds – Direct Pay) Series 2010. The proceeds of this bond issue are also being used to fund the debt service reserve; to pay capitalized interest through March 2015; and for other legitimate Phase II purposes. The Federal Government's sequestration activity has reduced the interest subsidy on the Build America Bonds, such shortfall made up through the use of available capitalized interest funds or customer user fees.

The following table shows the contracts and project elements financed with the proceeds of the District's Series 2010 Bonds:

Atherton Wastewater Treatment Plant Phase II Improvements

<u>Project Activity</u>	<u>Budgeted/Actual Costs</u>	<u>Extended Totals</u>
Atherton Plant		
Disinfection and Biosolids	\$55,192,694	
Temporary Sludge Hauling	864,000	
Laboratory Improvements	654,663	
Advanced Air Emissions	185,000	
Electric Upgrade (KCP&L)	<u>155,099</u>	
Sub-Total		<u>\$57,051,456</u>
Excess Flow Holding Basin		
Basin, Piping and Site work	\$ 8,625,976	
Environmental & Permits	<u>193,264</u>	
Sub-Total		<u>\$8,819,240</u>
Engineering and General		
Engineering Services	\$15,483,238	
Optimization Study	6,500	
General Contingency	<u>4,539,566</u>	
Sub-Total		<u>\$20,029,304</u>
Total Project Costs		<u>\$85,900,000</u>

Subdistrict:

In March, 2011 Little Blue Valley Sewer District’s Board of Trustees issued \$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. The Subdistrict is a separate cost center that is 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. The Phase I work Bond proceeds are being used to upgrade/expand the Pleasant Hill Wastewater Treatment Plant, upgrade wastewater pumping stations 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 \$35 million improvements.

<u>Subdistrict Project Activity</u>	<u>Budget/Actual Costs</u>
Closing Costs, Capitalized Interest	\$ 1,338,955
Engineering Services	5,232,986
Pleasant Hill Treatment Plant Expansion	14,097,276
Interceptor & Pump Station Improvements	13,812,072
Greenwood Force Main Improvements	1,221,367
General Contingency	<u>2,147,344</u>
Total Project Costs	<u>\$37,850,000</u>

The Subdistrict Phase I work involved the upgrading/expansion of the Pleasant Hill Wastewater Treatment Plant (completed 2013), Greenwood Force Main Improvements (completed 2015), Pump Station upgrades, and 7.5 miles of new interceptor sewer main (scheduled for completion fall 2016). 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.

FINANCIAL OPERATIONS OF THE DISTRICT

Accounting, Budgeting and Auditing Procedures

Little Blue Valley Sewer District (LBVSD) is composed of the District and the Subdistrict, with financial reports reflecting the combined data and appendices reflecting the individual cost centers' financial data. LBVSD 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 LBVSD's bond covenants, it 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 LBVSD'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. LBVSD operates in an open meeting and open records environment in which the public has access to information, data and activities.

General

LBVSD is a wholesale service provider, predominantly serving municipalities in the Northern Kansas City Metropolitan area. LBVSD'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. LBVSD 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. LBVSD 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 and Subdistrict 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 LBVSD are audited annually by independent certified public accountants. The annual audit for fiscal year 2015 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 2015 audit was submitted with an unqualified opinion. A copy of the Comprehensive Annual Financial Report for the fiscal year ended September 30, 2015, 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 LBVSD. The data for the two fiscal years ending September 30, 2015 and September 30, 2014, are derived from the audited financial statements. The summary financial data should be read in conjunction with the audited financial statements, including the notes thereto.

	September 30	
	<u>2015</u>	<u>2014</u>
Operating Revenue:		
Wastewater treatment user fees	\$25,060,556	\$23,832,264
Other	<u>50,854</u>	<u>73,270</u>
	<u>25,111,410</u>	<u>23,905,534</u>
Operating Expense:		
Operation and maintenance	9,386,787	10,098,895
Administrative and general	1,792,173	1,784,843
Depreciation and amortization	11,413,490	8,875,073
Unbilled charges	<u>486,778</u>	<u>763,320</u>
	<u>23,079,228</u>	<u>21,522,131</u>
Operating Income	<u>2,032,182</u>	<u>2,383,403</u>
Nonoperating Revenue (expense):		
Interest expense	(6,387,840)	(7,781,186)
Interest subsidy on revenue bonds	2,524,930	2,526,733
Interest income	2,416,579	2,600,490
Loss on disposal of capital assets	<u>(480,357)</u>	<u>(22,269)</u>
	<u>(1,926,688)</u>	<u>(2,676,232)</u>
Change in net assets	105,494	(292,829)
Net Assets – beginning of year (as restated)	<u>70,044,450</u>	<u>72,354,467</u>
Net Assets – end of year	<u>\$70,149,944</u>	<u>\$72,061,638</u>

Debt Service Coverage

	September 30,	
	<u>2015</u>	<u>2014</u>
Net Revenue Available for Debt Service	18,387,181	16,385,699
Parity Bond Debt Service		
Principal and Interest Requirements	<u>13,676,831</u>	<u>11,902,233</u>
Coverage		
Series 1995 and 2004 Bonds	1.10x	1.33x
Series 2003A Bonds	1.42x	1.43x
Series 2010 Bonds	1.34x	1.33x
Series 2011A Bonds	1.10x	1.34x

Plans To Issue New Bonds

No new bonds were issued in Fiscal Year 2015. However, there are plans to issue new bonds of approximately \$20 million in the upcoming fiscal year. Bond proceeds will pay for Phase III work at the Atherton Treatment Plant to include Advanced Air Emissions Controls for the new incinerator installed under Phase II work to meet new, more strict Federal regulations and improvements to the Wastewater Conveyance System. 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, 2015. 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, 2015.

2015 Financial Highlights:

- Total assets on the Statement of Net Position decreased \$6.9 million, which was primarily due to the depreciation of capital assets. The decrease in restricted investments was driven by the spending down of proceeds from the 2010 bonds which were used to finance additions to construction in progress involving the Phase II construction at LBVSD and Phase I improvements being undertaken at MBC. The majority of Phase II construction at LBVSD is at completion. This is reflected in the shift of assets from construction in progress to other capital assets.
- Total liabilities on the same statement decreased \$4 million due to pay down of long term debt and due to other governments, plus the decline in construction payables. In 2015 the District implemented GASB Statement 68, *Accounting and Financial Reporting for Pensions*, which required the recording of a \$3.3 million liability for the District's proportionate share of the net position liability due to its participation in the Jackson County, Missouri Revised Pension Plan, as well as pension related deferred outflows and inflows of resources. The implementation of this statement also resulted in a restatement of beginning net position of \$2.02 million.
- An additional \$4.1 million was drawn on the 2011 Direct Loan for continuing construction in the Subdistrict.
- Total expenses increased slightly in 2015 compared to the prior year. This was due to an increase in the amount of interest capitalized on bond financed capital improvements and a reduction in operating expenses for grit hauling, which offset an increase depreciation expense due to placing approximately \$93 million of assets in service which were part of the Phase II improvements at the Atherton Wastewater Treatment Plant.
- Total revenues increased overall based on programmed user fee increases; while revenue growth offset the decline in investment income.

2015 District Highlights:

- The majority of the Phase II improvements at the Atherton Wastewater Treatment Plant were completed and closed out. These included the effluent UV disinfection process, new ash holding basin, centrifuge system, new incinerator, the excess flow holding basin and laboratory improvements.
- The District retained a utility rate consultant (Raftelis Financial Consultants) that led evaluation and review of the current rate structure with the customers' Technical Advisory Committee and adjustments were made to reallocate some line item expenses from fixed costs to volume related costs.
- Development of a new Administration and Employee Facility was begun at the Atherton Plant location using remaining 2010 bond proceeds.
- Continued televising interceptor sewer mains to determine pipeline conditions.
- Rehabilitation of influent and solids biofilter and two draft tube mixers at the Atherton Plant location.
- Construction continued on the addition of approximately 7.5 miles of interceptor lines and modifications to the pump and lift stations in the Subdistrict.
- Subdistrict construction relating to rehabilitation of the Greenwood Forcemain.
- Planning for advanced air emissions controls for the new sewage sludge incinerator to comply with changed permit requirements.

2015 Special Issues and Disclosures

- Phase II Improvements Sewage Sludge Incinerator: During implementation of the Phase II Project the Environmental Protection Agency enacted new and much more stringent air emission limits for sewage sludge incinerators. Performance testing of the District's new incinerator has found 2 parameters to be above limits that will require additional control equipment. The District has negotiated a compliance schedule with Missouri Department of Natural Resources regulators for compliance within four years. This work will require issuing new debt of approximately \$20 million.
- Phase I Improvements Lawsuit: The Contractor for the Subdistrict's Phase I Interceptor Project has filed a lawsuit relating to differing site conditions requesting additional payment/contract time. The Contractor's claim has been evaluated by independent professional experts and deemed unfounded. The Contractor is behind schedule but continues to construct the Project while this dispute is being resolved. Uncommitted bond proceeds are being earmarked to cover what is deemed a worst-case financial exposure.

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 2015-2016, the District has budgeted \$22,816,184 in user charges. This is an increase of \$1,235,865 or 5.73% over Fiscal Year ended September 30, 2015. Budget 2016 also includes appropriation of \$2,350,000 from reserves previously paid by customers for use in the next four fiscal years that is 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 aging equipment replaced with the Phase II Improvements.

The Subdistrict's wholesale wastewater rates are designed to equitably and proportionally recover costs-of-service from its customers. Due to the similarity of each wholesale customer (predominantly residential), the relatively small size of the customers and the desire to avoid the high construction and operating costs of individual metering stations, the Subdistrict customers each pay a flat rate per connection. Customers self-report their connection counts to LBVSD on a monthly basis, which data is used for monthly billing.

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

Year ended <u>September 30,</u>	Charges for <u>District Services</u>
2011	17,172,293
2012	18,191,105
2013	19,265,940
2014	20,367,905
2015	21,580,319
2016	22,816,184 (budget)

*Source: District.

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

Year ended <u>September 30,</u>	Charges for <u>Subdistrict Services</u>
2011	3,205,016
2012	3,963,068
2013	4,422,632
2014	4,608,240
2015	4,658,387
2016	4,711,200 (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 a consistent growth rate of 1 percent per year, which rate is 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 annual wastewater flows upon which each user has been billed for the Fiscal Year ended September 30, 2015:

<u>User</u>	<u>Normalized Flow (MG)</u>	<u>Annual Percent of Total</u>
Independence	2,583.300	19.7806%
Lee's Summit	3,460.910	26.5005
Raytown	1,454.170	11.1347
Kansas City	1,497.660	11.4677
Grandview	791.180	6.0581
Blue Springs	985.750	7.5480
Middle Big Creek*	710.600	5.4412
Raymore	555.640	4.2546
Belton	371.510	2.8447
Lake City Ammunition Plant	626.500	4.7972
Jackson County	.000	0.0000
Lake Tapawingo	12.260	0.0939
Sugar Creek	3.880	0.0297
Fort Osage School District	<u>6.410</u>	<u>0.0491</u>
Total	<u>13,059.770</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, 2015.

<u>User</u>	<u>Number of Connections Billed FY 2015</u>	<u>Annual Percent of Total</u>
City of Lee's Summit	55,593	38.78%
City of Pleasant Hill	36,182	25.24%
City of Greenwood	22,376	15.61%
City of Raymore	19,560	13.65%
City of Lake Winnebago	6,017	4.20%
Mullendike Sewer District	2,275	1.59%
Dikeland Sewer District	1,284	.90%
Cass County	<u>48</u>	<u>.03%</u>
Total	<u>143,335</u>	<u>100.00%</u>

Source: District records.