



**Comprehensive Annual Financial Report
For Year Ended December 31, 2007**

Water Processing



Water Distribution



Electric Operations



Electric Production



**An Enterprise Fund of the
Unified Government of Wyandotte County/
Kansas City, Kansas**

Prepared by: Office of Accounting and Office of Public Affairs

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

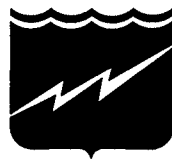
**2007 Comprehensive Annual
Financial Report**

2007 Board of Directors

**President Robert L. Milan, Sr.
Vice President Loretta M. Colombel
Secretary Mark P. Jones**

**Terry Eidson
Mary L. Gonzales
John M. Pettey**

**General Manager
Don L. Gray**



Board of Public Utilities of Kansas City, Kansas

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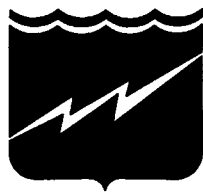
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Introductory Section



June 3, 2008

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

The Kansas City Board of Public Utilities' 2007 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, 2007.

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

Our entire community has benefited from growth and development in recent years, from the tourism, retail, and residential growth in western Wyandotte County to the renaissance currently underway in the downtown corridor. Throughout, the Kansas City Board of Public Utilities has played an important role in these growth efforts while providing reliable and affordable electric and water service to our community.

Working with area leaders, the Unified Government, businesses, and not-for-profit organizations, BPU has helped energize growth in every corner of Wyandotte County. By partnering with these organizations, we have attracted new retail and commercial businesses, an expanded manufacturing and industrial base, new-home growth, and destination-based tourism attractions.

In 2007, BPU's primary objectives were to reduce costs, evaluate energy alternatives, meet customer growth, and improve customer service. BPU achieved these goals while maintaining the same quality service and reliability our customers have come to expect for nearly 100 years.

In fact, BPU received numerous awards and recognitions in 2007, including the prestigious Gold Award for Competitive Achievement for our state-of-the-art water system. BPU was one of only seven large water utilities nationwide to receive this honor from the Association of Metropolitan Water Agencies. Other achievements included a Bronze Award for BPU's Web site (www.bpu.com), and a "Lead Star Award" for our efforts to educate customers about the hazards of childhood lead poisoning. BPU also received A+ bond rating from Standard and Poor's and Fitch, Inc., and an A1 rating from Moody's Investors Service, based on the utility's financial performance and management.

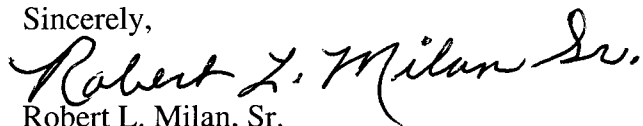
BPU continued to invest in the community, expand its customer base, and investigate options for new power generation. We also worked to improve the electric transmission and distribution systems, continue on-going energy efficiency and conservation programs, complete customer service projects, and build needed improvements to the water system.

Notably, BPU negotiated the purchase of 25 percent of the energy produced by Phase 1 of the Smoky Hills Wind Farm, located west of Salina, Kansas. After 10 years, BPU estimates it will save approximately \$3 million by purchasing wind power, when available. This energy will replace higher-cost peaking power and spot-market purchase power produced by gas-fired generators.

BPU is preparing today to be able to meet the electric and water utility needs of our community tomorrow. We remain committed to continuing the economic growth and success our community has experienced in the last decade, while providing the same reliable and affordable service we always have.

The best is yet to come, and BPU and its employees will be there, helping lead the way.

Sincerely,



Robert L. Milan, Sr.

President, Board of Directors

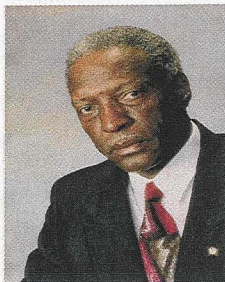
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Board of Directors - 2007

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.



Robert L. Milan, Sr.
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 and in 2002 to 2003. He 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 also 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 received the Annual Community Leadership Award from Saint Peter 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.



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

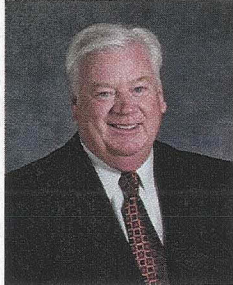
Ms. Colombel previously owned a small business in downtown Kansas City, Kansas, and also worked for the Liveable Neighborhoods Task Force as a neighborhood organizer. In 2002 she was appointed to the American Public Power Association's Policy Makers' Council, where she serves as chair-elect. In 2001 Ms. Colombel graduated from the FBI's Citizens' Academy. She is past President and co-founder of Wyandotte Countians Against Crime, a former neighborhood organizer for the Regional Prevention Center, and was a member of the Kansas City Kansas Chamber of Commerce Board of Directors. She attended Bishop Ward High School before moving to New Orleans, where she graduated from East Jefferson High School and attended Tulane University.



Mark P. Jones
Secretary
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. Schlagle 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 – 2007 – (continued)



Terry Eidson
Member, at Large
Appointed 2007-2011

Mr. Eidson is a life-long resident of Wyandotte County and a local business leader. He and his wife Aileen have owned and operated Eidson's Florist and Travel for 38 years.

Mr. Eidson 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 32 years he has served on the board of directors of two local banks, Wyandotte County Bank and First Community Bank.

Mr. Eidson attended Washington High Scholl, Kansas City Kansas Community College and the University of Kansas.



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

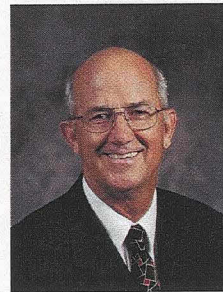
Ms. Gonzales also served previously as President, Vice President and Secretary of the Board.

Ms. Gonzales retired from teaching school in 2006 after a 33-year career. For many of those years she was an eight-grade language arts teacher at Piper Middle School. Besides her BPU Board and other community activities, she serves on 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.



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. 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 arks 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 provided safe, dependable and quality electric and water utility services in this community for nearly 100 years. As a not-for-profit public utility, BPU's primary focus has always been, and will remain, its customers and the community. In 2007, BPU continued its on-going mission of providing low-cost electric and water service to the community in a safe, reliable manner.

Today BPU provides electric service to nearly 65,000 customers and water service to approximately 54,000 customers in an area of 127 square miles. The utility's emphasis on 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 2007, BPU continued to implement facets of its electric and water master plans and overall strategic plan, working to manage existing growth and prepare for future needs in our community. We continued to replace our aging utility infrastructure in older areas and facilities, and invested in new infrastructure to support the entire community.

As a result, BPU operations and functions performed exceptionally well in 2007. Highlights include the following:

- Productivity in the BPU's Water Division continued to increase. The new Robert L. Milan Sr. Pump Station and transmission main were put into full service. The pump station can pump 30 million gallons of water per day; the adjacent storage reservoir holds six million gallons; and the new 48" transmission main is approximately 6.5 miles long. Preliminary work started on the two-million gallon elevated water tank that will be built in the Argentine area.
- While severe winter weather caused a five-year high in main breaks, BPU crews responded quickly and returned service to normal in a timely manner. We also replaced and inspected a number of fire hydrants in 2007, ensuring water suppression capabilities remained high. The goal we set a few years ago was to have less than one percent of the fire hydrants out of service at any one time. In 2007 we made repairs on 44 fire hydrants and replaced 89 of the 6,224 hydrants in our system. We were able to meet and surpass our goal by having only 35 fire hydrants out of service, representing approximately one-half percent of the total.
- At the Nearman Water Treatment Plant, construction and testing of the new Actiflo® Basin Train was completed. The basin improves the reliability of our water processing system while also serving as a back-up for the existing two basin trains. Having a third train allows us to take one of the other trains out of service for maintenance. Previously we were not able to take a basin train out of service without putting the older Quindaro Water Treatment Plant back on line.
- Several initiatives were also implemented to reduce water consumption at the Quindaro Power Plant and the Quindaro Water Treatment Plant, part of a larger

utility-wide effort to reduce water usage, reducing costs and preserving a critical natural resource. This reduction of water demand helps postpone the need for additional filter capacity at the Nearman Water Treatment Plant.

- BPU was one of only seven large public drinking water systems that earned a Gold Award for Competitiveness Achievement from the Association of Metropolitan Water Agencies (AMWA). The AMWA Gold Awards for Exceptional Utility Performance recognize the large public drinking water systems that exhibit high levels in the areas of product quality, customer satisfaction, employee and leadership development, operational optimization, financial viability, community sustainability, operational resiliency, infrastructure stability, stakeholder understanding and support, and water resource adequacy. These are the ten Attributes of Effectively Managed Utilities identified in 2007 by a blue ribbon panel of water and wastewater utility executives commissioned by EPA, AMWA and other water sector associations. Gold and Platinum Award winners also show achievement in the areas of leadership, strategic business planning, organizational approaches, measurement, and a continual improvement management framework.
- The Electric Production/Supply Division achieved an outstanding level of performance in 2007. The Nearman Creek Power Station was available 92% of the time with only a 2.1% forced outage rate. Quindaro Unit 2 ran at 94% availability with a 1.5% forced outage rate; and Q-1, the oldest unit, had 95% availability with only a 1% forced outage rate. The collective performance of these units was remarkable, and is the result of the hard work and dedication of those BPU employees who manage, maintain and run the utility's power generation units. This allowed BPU to provide more of the communities growing energy needs from these generators and with the new Energy Imbalance Market, BPU was able to sell 719 million kilowatt hours (kWh) on the wholesale market in 2007, compared to only 357 million kWh in 2006.
- BPU announced in early 2007 that the utility will purchase 25 megawatts of the energy generated by wind turbines from Trade Wind Energy's Smoky Hills Wind Farm near Salina, Kansas. The wind-generated energy will supplement BPU's base-load generation produced by the utility's two power plants and will replace higher-cost peaking power and spot-market purchase power produced by gas-fired generators. Transmission of the wind power began in January 2008.
- The Electric Operations Division put in place a number of new systems to improve quality of service. A new vegetation management procedure was reintroduced to comply with federal guidelines to ensure adequate transmission line clearance. We also installed Autodesk GIS to improve mapping data and customer electric service connectivity.
- As growth continues in western Wyandotte County, a number of electrical distribution and transmission improvements were completed to support this expansion. A new feeder and underground distribution interrupters were installed at the Piper Substation for service to the Village West retail area, and another feeder was installed to serve power to the community. We also rebuilt two other substation transformers and

continued with plans to build the new Wolcott Substation. Looking forward to improving our outage restoration process, BPU received bids on a new outage management system and interactive voice response system. The entire system was tested when a major ice storm hit in December, causing thousands of customers to lose power. BPU responded quickly, working around the clock to restore power without any significant accidents or safety issues.

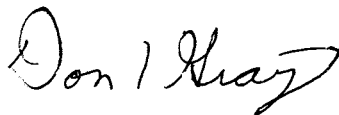
- A key element to effective operations is having a well-trained work force, and 2007 saw many efforts to formalize and improve employee training. A new employee orientation program was implemented that includes facility tours and an overview of business processes. Efforts continued to improve safety awareness through a strong emphasis on OSHA programs. CPR and first aid classes are offered for all employees and required for field personnel. In addition, a new monthly training program for Customer Service employees began in 2007. Fifty-four employees participated in BPU's educational assistance plan for improving job skills or completing their formal education.
- A downward trend in BPU's debt obligations began in 2007. Our maximum principal and interest payments peaked and our future debt obligations began to decrease. In early 2008, Moody's Investors Service affirmed BPU's bond rating of A1, and confirmed that the utility's rating outlook is stable. Moody's listed BPU's strengths:
 - Independent rate-setting authority and demonstrated willingness to adjust rates as needed
 - Bi-annual rate rider allows for recovery of all fuel and purchased power costs
 - BPU's power resource mix is diverse, and is comprised of coal, natural gas, wind, hydro and purchased power

BPU management and staff recognize our responsibilities and obligations as stewards of this utility. We remain committed to ensuring that any planning or policy initiatives or any costs or expenses lead either to improved efficiencies, improved reliability, or improved customer service. As one of the top-ranked public utilities in the country, we owe this to our customers and to the community.

BPU will continue to meet the electric and water needs of our area as it grows, without losing sight that as a public utility, our primary mission is to ensure reliable and affordable utility services to our customers, while improving the quality of life in the communities we serve.

For more information about BPU, please go to our Web site at www.bpu.com.

Sincerely,



Don L. Gray
General Manager
June 3, 2008



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Senior Management – 2007

Don L. Gray General Manager

Don L. Gray has worked at BPU for more than 37 Years. Before being appointed General Manager of the utility in 2006, he was Manager of Water Operations.

In the late 1990's 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 also 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.

Eighteen 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 nearly \$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, where he is currently on the faculty, and teaching graduate courses in Operations Management.

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

**Marc D. Conklin, Manager
Human Resources, General Counsel /
Staff Attorney**

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

**James A. Epp, Manager
Water Operations**

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

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

**Stephen F. Rehm, Manager
Electric Operations**

**Carl A. Wolfe, Chief
Administrative Officer**

**Executive Staff and Department Heads
2007**

Robert D. Adam, Director
Electric System Control

Susan J. Allen
Public Affairs Officer

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. Fuentes, Director
Electric Production Operations

Stephen E. Green, Director
Water Distribution

Durward M. Johnson, Director
Water Processing

William A. Johnson, Director
Electric Transmission & Distribution

William F. Kamm, Director
Production Supply Services

Forrest A. Martinek, Director
Customer Services

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

Nanette M. Wolf, Director
Purchasing



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, 2007 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, 2007, 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, that there was reasonable basis for rendering an unqualified opinion that the BPU's financial statements for the fiscal year ended December 31, 2007 are fairly presented in conformity with 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 2007 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, 2007, the Rate Stabilization Fund had a balance of \$11.9 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 address 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 2008 include:

- Continue to evaluate the feasibility of additional power generation resources
- Begin 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
- Begin 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
- Continue to evaluate and begin implementation of an outage management system and in addition evaluate operational and financial requirements to implement an automated meter reading 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

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, 2006. This was the twenty-sixth 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 2007 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-seventh 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 Susan Allen, Public Affairs Officer, in coordinating the comments for the President's and General Manager's messages.

Respectfully submitted,



Lori C. Austin

Manager of Accounting & Finance/
Chief Financial Officer

June 3, 2008

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, 2006

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.



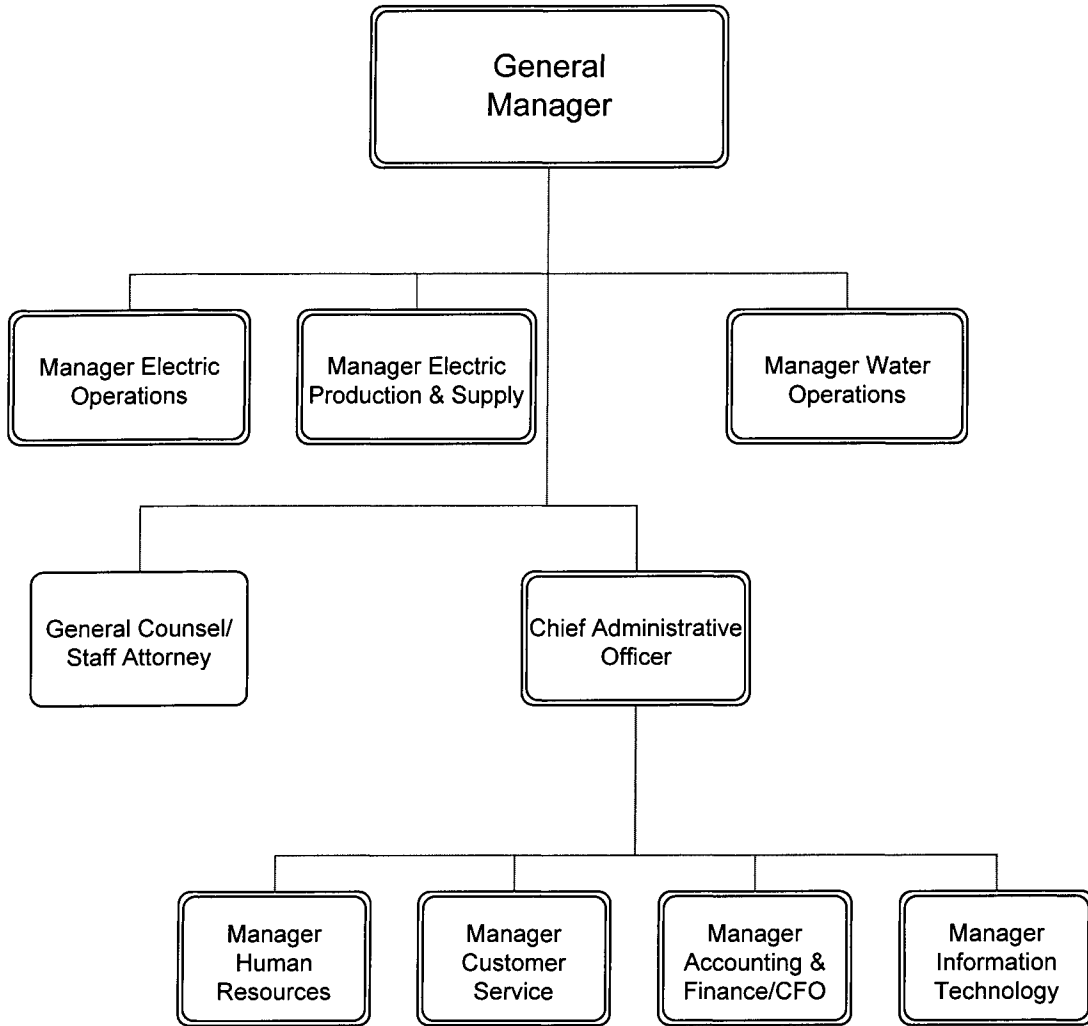
Oliver S. Cox

President

Jeffrey R. Emer

Executive Director

**Kansas City Board of Public Utilities
2007 Organizational Chart**



- Civil Engineering
- Construction / O & M
- 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
- Radio / Telecom & Cable

- Stores
- Street Lights
- Substations
- Traffic Signal
- Transportation
- Water Distribution
- Water Processing
- Water System Support

Financial Section



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, 2007 and 2006, 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 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, 2007 and 2006, 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, 2007 and 2006, 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 the recognition and disclosure provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2008 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 20 through 26 and schedules of funding progress on pages 58 and 59 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 them.

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 61 to 63 and statistical section on pages 69 to 88 are presented for the purpose of additional analysis and are not a required part of the financial statements. The additional combining information is the responsibility of the BPU's management. Such additional combining 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. The statistical section has not been subjected to the auditing procedures applied by us in the audits of the financial statements, and accordingly, we express no opinion on it.

KPMG LLP

Kansas City, Missouri
June 3, 2008

BOARD OF PUBLIC UTILITIES

Management's Discussion and Analysis

December 31, 2007 and 2006

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction into the 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 themselves.

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 statement of net assets 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 activities 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 government-wide and fund 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 budgetary compliance and progress in funding its obligation to provide pension benefits to its employees.

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

The Board of Public Utilities of Kansas City, Kansas (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, 2007, 2006 and 2005. This analysis should be read in conjunction with the financial statements and notes thereto.

BOARD OF PUBLIC UTILITIES
Management's Discussion and Analysis
December 31, 2007 and 2006

The following tables summarize the financial condition and operations of the BPU as of and for the three years ended December 31, 2007:

Balance Sheet Summary			
Assets	2007	2006	2005
Capital assets, net	\$ 693,985,594	691,579,477	662,002,748
Current assets	92,425,076	87,952,907	97,444,310
Noncurrent assets	32,025,122	60,189,860	98,236,391
	\$ 818,435,792	839,722,244	857,683,449
Liabilities and Net Assets			
Long-term liabilities outstanding	\$ 349,882,793	358,869,089	370,571,229
Other liabilities	58,006,820	97,121,103	117,484,034
Net assets:			
Invested in capital assets, net of related debt	347,533,133	353,530,446	352,458,111
Restricted	4,546,604	4,118,024	2,732,634
Unrestricted	58,466,442	26,083,582	14,437,441
	\$ 818,435,792	839,722,244	857,683,449

BOARD OF PUBLIC UTILITIES
Management's Discussion and Analysis
December 31, 2007 and 2006

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues:			
Residential	\$ 69,103,742	71,900,832	61,506,345
Commercial	75,088,103	79,590,974	63,594,092
Industrial	44,340,186	55,822,224	44,366,530
Other	40,250,336	33,221,762	36,153,183
Payment-in-lieu of taxes	17,230,192	18,374,439	16,325,334
Total operating revenues	<u>246,012,559</u>	<u>258,910,231</u>	<u>221,945,484</u>
Operating expenses:			
Fuel	48,162,578	46,224,344	29,830,298
Purchased power	23,002,868	39,269,167	33,914,274
Production	36,856,747	33,505,494	28,631,121
Transmission and distribution	36,188,822	31,680,256	29,926,086
General and administrative	36,197,159	31,056,425	40,942,490
Depreciation and amortization	31,703,397	30,550,474	28,545,254
Total operating expenses	<u>212,111,571</u>	<u>212,286,160</u>	<u>191,789,523</u>
Operating income	<u>33,900,988</u>	<u>46,624,071</u>	<u>30,155,961</u>
Nonoperating income (expense):			
Interest income	2,615,833	3,895,121	4,192,374
Interest expense	(18,809,126)	(19,597,976)	(19,916,733)
Loss on disposal of assets	—	—	(4,528,153)
Payment-in-lieu of taxes	(17,230,192)	(18,374,439)	(16,325,334)
Other	530,266	153,093	287,060
Total nonoperating expense, net	<u>(32,893,219)</u>	<u>(33,924,201)</u>	<u>(36,290,786)</u>
Contributions and transfers:			
Contributions from developers and others	880,873	1,403,996	1,281,668
Total contributions and transfers	<u>880,873</u>	<u>1,403,996</u>	<u>1,281,668</u>
Change in net assets	<u>\$ 1,888,642</u>	<u>14,103,866</u>	<u>(4,853,157)</u>
Total revenue	\$ 249,158,658	262,958,445	226,424,918
Total expense	\$ 248,150,889	250,258,575	232,559,743

Financial Highlights

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.

BOARD OF PUBLIC UTILITIES

Management's Discussion and Analysis

December 31, 2007 and 2006

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.

2006 Compared to 2005

- Net capital assets increased \$29.6 million in 2006, an increase of 4.4% over 2005.
- Debt service coverage ratio for 2006 increased to 2.33 times in comparison with 1.93 for the year ended 2005.
- Net assets increased by \$14.1 million during 2006.

In 2006, the BPU's operations performed above budget in overall revenues. The BPU's revenues from operations were approximately \$258.9 million, with the electric department recognizing revenues of \$222.0 million and the water department recognizing revenues of \$36.9 million. The average number of customer accounts did not change significantly from the prior year.

The BPU's total operating revenue increased over 2005 by approximately \$37.0 million. The increase in the electric department of \$35.3 million is attributable to increased volumes and an increase in the Energy Rate Component for fuel and purchased power of approximately one cent per kWh. Electric volumes increased 1.2%

BOARD OF PUBLIC UTILITIES
Management's Discussion and Analysis
December 31, 2007 and 2006

over 2005 due to the continued expansion of commercial growth within the Village West area. The water department's increase in operating revenue of \$1.7 million was due to the approved rate increase of 1.86% while usage was comparable to 2005. In comparison to the 2006 budgeted revenue, the BPU collected approximately 105% of the budgeted revenue.

Operating expenses for 2006 and 2005 were approximately \$212.3 million and \$191.8 million, respectively. The electric department represents \$186.5 million and \$164.7 million, respectively, while the water department has \$25.8 million and \$27.1 million, respectively, in operating expenses. The largest component of operating expenses is production, fuel, and purchased power expense. Overall, in 2006, production, fuel, and purchased power costs were higher than in the previous year by \$26.6 million, and also over the 2006 budget by \$564,000. In 2006, the additional costs were represented by the scheduled two-month outage of the Nearman Power Station (Nearman). The outage was extended an additional month due to damage found within the turbine. The purchased power expense associated with the outage was \$14.2 million. Fuel costs increased over 2005 due to increased production at the Quindaro Power Plant (Quindaro) and the use of combustion turbines during the outage and throughout the summer period. Production costs increased as a result of the maintenance performed during the Nearman outage. The BPU's power supply mix for fiscal years 2006 and 2005 was 41% and 47% coal, 50% and 48% net power purchases, 4% and 3% gas, and 5% and 2% oil, respectively.

For 2006, net assets increased by \$14.1 million over 2005 in comparison with a budgeted net increase of \$10.7 million.

Capital Assets and Debt Administration

Capital Assets

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.

2006 Compared to 2005

Net capital assets increased \$29.6 million in 2006, an increase of 4.4% for the BPU. The significant components of the increase include work at both the Nearman and Quindaro power plants of approximately \$15.1 million in which \$10.1 million was for the Nearman overhaul, which included work on the turbine, boiler, and the replacement of the controls and \$1.6 million was for the completion of the combustion turbine at the Nearman power plant. Work at Quindaro includes the installation of a water pump system and stator replacement and inlet duct at CT 2 for \$3.4 million. Additional work included the construction of the transmission line from the Piper to Maywood substation totaling \$4.0 million as well as the development of subdivisions throughout the county in the amount of \$1.5 million. With the abandonment of Brushy Creek Coal Company (BCCC) and Liberty Coal Company (Liberty), a reduction of \$6.4 million in net capital assets was recorded. Work continued on the

BOARD OF PUBLIC UTILITIES

Management's Discussion and Analysis

December 31, 2007 and 2006

construction of the Milan Pump station and ground storage as well as the construction of the transmission main to connect the pump station in the amount of \$8.8 million. Capital asset additions were offset by approximately \$29.0 million of depreciation expense.

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

Debt Administration

2007 Compared to 2006

Long-term debt and capital lease obligations as of December 31, 2007 and 2006 were \$351.6 million and \$363.1 million, respectively. A portion of the overall decrease of \$11.5 million is due to a reduction in debt service payment and capital lease obligations.

The BPU uses the Kansas Department of Health and Environment (KDHE) 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.

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.

2006 Compared to 2005

Long-term debt and capital lease obligations as of December 31, 2006 and 2005 were \$363.1 million and \$376 million, respectively. A portion of the overall decrease of \$12.9 million is due to the abandonment of BCCC and Liberty in the amount of \$3.3 million.

The BPU uses the Kansas Department of Health and Environment (KDHE) state loan, which is to be used 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 2006, the reimbursements have totaled \$5.2 million.

BOARD OF PUBLIC UTILITIES

Management's Discussion and Analysis

December 31, 2007 and 2006

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, 2006 and 2005, the BPU had debt coverage of 2.33 times and 1.93 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 2006 and 2005 was \$19.6 million and \$19.9 million, respectively.

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

BOARD OF PUBLIC UTILITIES

Balance Sheets

December 31, 2007 and 2006

Assets	<u>2007</u>	<u>2006</u>
Noncurrent assets:		
Capital assets:		
Property, plant, and equipment	\$ 1,177,964,041	1,140,209,858
Less accumulated depreciation	<u>(548,704,848)</u>	<u>(519,886,777)</u>
Plant in service, net	629,259,193	620,323,081
Construction work in progress	<u>64,726,401</u>	<u>71,256,396</u>
Capital assets, net	<u>693,985,594</u>	<u>691,579,477</u>
Restricted assets:		
Cash and cash equivalents	13,510,909	33,243,763
Investments	<u>6,963,786</u>	<u>7,165,837</u>
Total restricted assets	20,474,695	40,409,600
Prepaid pension	54,114	6,477,747
Debt issue costs	5,166,730	5,417,623
System development costs	2,140,173	2,483,764
Regulatory assets	<u>4,189,410</u>	<u>5,401,126</u>
Total noncurrent assets	<u>726,010,716</u>	<u>751,769,337</u>
Current assets:		
Cash and cash equivalents	7,022,454	5,998,695
Investments	17,606,501	17,667,399
Accounts receivable – customers and other	22,108,188	22,722,296
Accounts receivable – unbilled	9,141,140	9,318,059
Allowance for doubtful accounts	(1,463,760)	(1,324,151)
Inventories	34,931,555	31,645,590
Regulatory assets	1,165,997	—
Prepayments and other current assets	<u>1,913,001</u>	<u>1,925,019</u>
Total current assets	<u>92,425,076</u>	<u>87,952,907</u>
Total assets	<u>\$ 818,435,792</u>	<u>839,722,244</u>

BOARD OF PUBLIC UTILITIES

Balance Sheets

December 31, 2007 and 2006

Liabilities and Net Assets	2007	2006
Net assets:		
Invested in capital assets, net of related debt	\$ 347,533,133	353,530,446
Restricted – debt service	4,546,604	4,118,024
Unrestricted	<u>58,466,442</u>	<u>26,083,582</u>
Total net assets	<u>410,546,179</u>	<u>383,732,052</u>
Liabilities:		
Noncurrent liabilities:		
Long-term debt – revenue bonds:		
Principal	314,495,795	324,102,885
Accreted interest	14,222,440	17,669,714
Government loans	22,713,285	19,666,793
Capital lease obligations	<u>187,671</u>	<u>1,637,046</u>
Total long-term debt and capital lease obligations	351,619,191	363,076,438
Regulatory liabilities	—	1,245,170
Postretirement benefit obligation	<u>1,351,461</u>	<u>24,925,485</u>
Total noncurrent liabilities	<u>352,970,652</u>	<u>389,247,093</u>
Current liabilities:		
Current maturities of revenue bonds	9,958,765	10,952,986
Current maturities of government loans	976,882	804,415
Current maturities of capital lease obligations	1,550,395	1,704,964
Accrued interest	5,363,862	5,488,108
Customer deposits	3,442,049	3,219,427
Accounts payable	14,822,852	25,833,948
Payroll and payroll taxes	8,614,427	8,249,649
Accrued claims payable	5,454,869	6,090,733
Other accrued liabilities	2,147,928	3,255,186
Regulatory liabilities	1,401,005	—
Payment-in-lieu of taxes	<u>1,185,927</u>	<u>1,143,683</u>
Total current liabilities	<u>54,918,961</u>	<u>66,743,099</u>
Total liabilities	<u>407,889,613</u>	<u>455,990,192</u>
Total liabilities and net assets	<u>\$ 818,435,792</u>	<u>839,722,244</u>

See accompanying notes to financial statements.

BOARD OF PUBLIC UTILITIES

Statements of Revenues, Expenses,
and Changes in Net Assets

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Residential	\$ 69,103,742	71,900,832
Commercial	75,088,103	79,590,974
Industrial	44,340,186	55,822,224
Other	40,250,336	33,221,762
Payment-in-lieu of taxes	17,230,192	18,374,439
	<u>246,012,559</u>	<u>258,910,231</u>
Total operating revenues		
Operating expenses:		
Fuel	48,162,578	46,224,344
Purchased power	23,002,868	39,269,167
Production	36,856,747	33,505,494
Transmission and distribution	36,188,822	31,680,256
General and administrative	36,197,159	31,056,425
Depreciation and amortization	31,703,397	30,550,474
	<u>212,111,571</u>	<u>212,286,160</u>
Total operating expenses		
Operating income	<u>33,900,988</u>	<u>46,624,071</u>
Nonoperating income (expense):		
Interest income	2,615,833	3,895,121
Interest expense	(18,809,126)	(19,597,976)
Payment-in-lieu of taxes	(17,230,192)	(18,374,439)
Other	530,266	153,093
	<u>(32,893,219)</u>	<u>(33,924,201)</u>
Total nonoperating expense, net		
Income before contributions and transfers	1,007,769	12,699,870
Contributions and transfers:		
Contributions from developers and others	880,873	1,403,996
	<u>1,888,642</u>	<u>14,103,866</u>
Change in net assets		
Net assets, beginning of year	383,732,052	369,628,186
Effect of adoption of new accounting standard	24,925,485	—
	<u>408,657,537</u>	<u>369,628,186</u>
Net assets, beginning of year – restated		
Net assets, end of year	\$ <u>410,546,179</u>	<u>383,732,052</u>

See accompanying notes to financial statements.

BOARD OF PUBLIC UTILITIES

Statements of Cash Flows

Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Receipts from customers	\$ 289,799,231	304,945,681
Payments to suppliers	(169,951,770)	(173,974,410)
Payments to employees	(53,170,897)	(51,652,341)
Net cash provided by operating activities	<u>66,676,564</u>	<u>79,318,930</u>
Cash flows used in noncapital financing activities – payment-in-lieu of taxes	(17,230,192)	(18,374,439)
Cash flows from capital and related financing activities:		
Purchases of property, plant, and equipment	(31,624,837)	(63,827,093)
Abandonment of BCCC and LCC	—	(465,877)
Payments on capital leases	(1,673,290)	(2,448,521)
System development costs	(1,013,385)	(1,934,155)
Accounts payable related to capital activities	(6,959,738)	(11,631,667)
Payments on revenue bonds	(10,591,873)	(10,958,631)
Proceeds from government loans	4,106,075	5,215,865
Payments on government loans	(887,116)	(695,706)
Interest paid on utility system debt	(22,380,646)	(22,541,063)
Net cash used in capital and related financing activities	<u>(71,024,810)</u>	<u>(109,286,848)</u>
Cash flows from investing activities:		
Purchases of investments	(216,385,137)	(349,041,578)
Proceeds from sales and maturities of investments	216,648,086	404,755,349
Interest received	2,606,394	4,379,835
Net cash provided by investing activities	<u>2,869,343</u>	<u>60,093,606</u>
Net increase (decrease) in cash and cash equivalents	(18,709,095)	11,751,249
Cash and cash equivalents, beginning of year	39,242,458	27,491,209
Cash and cash equivalents, end of year	\$ <u>20,533,363</u>	<u>39,242,458</u>
Components of cash and cash equivalents at end of fiscal year:		
Restricted	\$ 13,510,909	33,243,763
Unrestricted	7,022,454	5,998,695
	\$ <u>20,533,363</u>	<u>39,242,458</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 33,900,988	46,624,071
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	31,703,397	30,550,474
Adjustment to prepaid pension asset	6,864,247	—
Changes in noncash assets and noncash liabilities:		
Accounts receivable – customers and other	944,112	1,452,335
Inventories	(3,285,965)	(6,056,056)
Prepayments and other current assets	(1,455)	662,131
Customer deposits	222,622	324,598
Accounts payable	(4,051,360)	676,347
Payroll and payroll taxes payable	364,778	84,182
Accrued claims payable	(635,864)	5,096,970
Other accrued liabilities	(1,107,257)	1,137,941
Payment-in-lieu of taxes	42,243	(82,415)
Other, net	1,716,078	(1,151,648)
Net cash provided by operating activities	\$ <u>66,676,564</u>	<u>79,318,930</u>
Supplemental noncash disclosures:		
Contributions of capital assets from developers	\$ 880,873	1,403,996

See accompanying notes to financial statements.

BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

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(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 65,000 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 generally 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. 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.

(c) *Estimates and Assumptions*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Revisions for these estimates are reflected in future period financial statements.

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(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 our 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, *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 a maturity of three months or less as of December 31, 2007.

(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. The capitalization threshold for capital assets is \$5,000.

(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 2007 and 2006:

	<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 are capitalized.

(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

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based upon management's evaluation of customer credit risks. Allowances totaled \$1,463,760 and \$1,324,151 in fiscal years 2007 and 2006, respectively.

(j) Inventories

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

	<u>2007</u>	<u>2006</u>
Fuel	\$ 12,889,833	10,347,169
Material and supplies	22,041,722	21,298,421
Total	<u>\$ 34,931,555</u>	<u>31,645,590</u>

(k) 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. Maturities of securities less than one year are classified as current, while maturities greater than one year are classified as noncurrent.

(l) 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 post-retirement benefits to mine workers. At December 31, 2007 and 2006, the BPU has recorded an estimated liability of \$4.3 million and \$4.6 million, respectively, for its estimated remaining share of these obligations. Both the regulatory asset and accrued liability were reduced by approximately \$0.4 million and \$0.3 million, respectively, in 2007 based upon revisions to estimates for the BPU's remaining obligations. Funding provided in 2007 for these obligations was \$0.3 million. The BPU expects to fund an additional \$1.8 million in 2008.

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, 2007 and 2006.

Liberty, a Colorado limited liability company, was formed in 2002 for the purpose of opening a new mine. Western Fuels Illinois (WFI), 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

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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. The BPU is not aware of any Liberty creditors asserting the BPU should be liable for any of Liberty's unsatisfied obligations. 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. The BPU will vigorously oppose any such 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.

As of December 31, 2007, 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*, and FASB Statement No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*, BPU has written off its interests in BCCC and Liberty and recorded a liability for its portion of BCCC obligations that are expected to require funding by the BPU. Total costs based upon an engineering study are approximately \$4.23 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 post retirement liability is approximately \$3.7 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 (ERISA) 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. An unfavorable outcome to the appeal could result in an additional liability estimated to approximate \$24.4 million, of which the BPU would be obligated to provide funding for its proportionate share of 50%. The BPU has not recorded a liability related to this contingency.

(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 on a straight-line basis over the lives of the related bonds.

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As discussed in note 1(b), the BPU follows SFAS Statement 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.

(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 \$1,143,000 and \$1,175,000 includes current vacation of \$256,000 and \$272,000 at December 31, 2007 and 2006, respectively, which is included in 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 \$5,807,000 and \$5,950,000 includes current sick leave of \$1,344,000 and \$1,428,000 at December 31, 2007 and 2006, respectively, which is included in payroll and payroll taxes in the accompanying balance sheets.

(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."

(p) *Reclassifications*

Certain prior year amounts in the financial statements have been reclassified where necessary to conform to the 2007 presentation.

(2) *New Accounting Pronouncements*

In July 2004, the GASB issued its GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 establishes

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standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information in the financial reports of state and local governmental employers. The approach followed in this statement generally is consistent with the approach adopted in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, with modifications to reflect differences between pension benefits and OPEB. This statement is effective for financial statements of the BPU for periods beginning after December 15, 2006. The BPU adopted GASB Statement No. 45 on January 1, 2007 and the impact of adoption resulted in an adjustment to beginning net assets of approximately \$24.9 million.

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 is evaluating this new standard and has not yet determined its impact.

In May 2007, the GASB issued 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 OPEB and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The BPU will implement GASB Statement No. 50 beginning with the year ending December 31, 2008.

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and

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financial reporting for capital assets should be applied to these intangible assets, as applicable. This statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The BPU will implement GASB Statement No. 51 beginning with 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, and U.S. Treasury 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, 2007 and 2006:

	2007	2006
Cash and CDs	\$ 470,753	431,201
U.S. Treasury	19,106,501	19,167,339
Repurchase agreements	11,423,855	10,217,085
U.S. Agency	14,096,791	34,071,641
Mutual funds	5,750	188,428
Total cash and investments	\$ 45,103,650	64,075,694

Cash and investments are included in the following balance sheet accounts at December 31, 2007 and 2006:

	2007	2006
Current assets:		
Cash and cash equivalents	\$ 7,022,454	5,998,695
Investments	17,606,501	17,667,399
Noncurrent assets:		
Cash and cash equivalents	13,510,909	33,243,763
Investments	6,963,786	7,165,837
	\$ 45,103,650	64,075,694

(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, 2007 and 2006, the bank balance and certificates of deposit were \$470,753 and \$431,201, respectively, which were covered by federal depository insurance or collateral held in safekeeping in the BPU's name.

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The fair values, as determined by market prices, of the BPU's 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	<u>\$ 45,103,650</u>	<u>40,344,325</u>	<u>3,329,221</u>	<u>1,430,104</u>

The fair values, as determined by market prices, of the BPU's investments at December 31, 2006 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	\$ 431,201	431,201	—	—
U.S. Treasury	19,167,339	19,167,339	—	—
Repurchase agreements	10,217,085	8,786,981	—	1,430,104
U.S. Agency	34,071,641	29,095,427	4,976,214	—
Mutual funds	188,428	188,428	—	—
Total	<u>\$ 64,075,694</u>	<u>57,669,376</u>	<u>4,976,214</u>	<u>1,430,104</u>

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.

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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

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, 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

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, 2006:

<u>Issuer</u>	<u>Rating</u>	<u>Amount</u>	<u>Percentage of total portfolio</u>
Federal Home Loan Bank	AAA	\$ 21,431,573	33.20%
Federal National Mortgage Association	AAA	9,874,806	15.30

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.

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

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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>2007</u>	<u>2006</u>
Economic development fund	\$ 33,700	252,200
Capital debt reduction	5,040,000	3,540,000
Reserve for liability insurance	2,100,000	2,100,000
Rate stabilization fund	11,906,273	11,906,273
System development reserve	5,250,216	4,279,876
Total	<u>\$ 24,330,189</u>	<u>22,078,349</u>

(4) Restricted Assets

Restricted assets were held in the following funds at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Debt service fund	\$ 15,532,646	16,080,390
Construction fund	—	19,609,783
Customer deposits	3,442,049	3,219,427
Improvement and emergency fund	1,500,000	1,500,000
Total restricted assets	<u>\$ 20,474,695</u>	<u>40,409,600</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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(5) Capital Assets

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>
Electric:					
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>
Water:					
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	71,256,397	24,894,799	—	(31,424,795)	64,726,401
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>
Less accumulated depreciation:					
Electric:					
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>
Water:					
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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December 31, 2007 and 2006

Capital asset activity for the year ended December 31, 2006 is as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers/ adjustments</u>	<u>Ending balance</u>
Electric:					
Production plant	\$ 455,751,738	81,813,621	(15,965,083)	(8,639,116)	512,961,160
Transmission and distribution	242,969,751	11,473,607	(559,125)	143,445	254,027,678
General plant	111,817,373	6,253,314	(210,913)	(8,653,503)	109,206,271
Total electric	<u>810,538,862</u>	<u>99,540,542</u>	<u>(16,735,121)</u>	<u>(17,149,174)</u>	<u>876,195,109</u>
Water:					
Production plant	94,950,390	32,941,783	—	(14,493,035)	113,399,138
Transmission and distribution	104,932,331	6,554,449	(1,568,900)	(6,523)	109,911,357
General plant	39,729,074	1,802,782	(20,830)	(806,773)	40,704,253
Total water	<u>239,611,795</u>	<u>41,299,014</u>	<u>(1,589,730)</u>	<u>(15,306,331)</u>	<u>264,014,748</u>
Property, plant, and equipment	1,050,150,657	140,839,556	(18,324,851)	(32,455,505)	1,140,209,857
Construction work in progress – not depreciable	<u>117,137,572</u>	<u>65,082,720</u>	<u>—</u>	<u>(110,963,895)</u>	<u>71,256,397</u>
Total capital assets	<u>1,167,288,229</u>	<u>205,922,276</u>	<u>(18,324,851)</u>	<u>(143,419,400)</u>	<u>1,211,466,254</u>
Less accumulated depreciation:					
Electric:					
Production plant	252,473,310	11,987,787	(1,649,184)	(2,825,465)	259,986,448
Transmission and distribution	136,348,059	8,077,341	(417,316)	—	144,008,084
General plant	44,672,313	4,056,295	(7,968,495)	(1,326,159)	39,433,954
Total electric	<u>433,493,682</u>	<u>24,121,423</u>	<u>(10,034,995)</u>	<u>(4,151,624)</u>	<u>443,428,486</u>
Water:					
Production plant	26,125,340	2,086,222	—	—	28,211,562
Transmission and distribution	26,125,635	1,826,609	(1,568,900)	—	26,383,344
General plant	19,540,824	940,210	(20,830)	1,403,181	21,863,385
Total water	<u>71,791,799</u>	<u>4,853,041</u>	<u>(1,589,730)</u>	<u>1,403,181</u>	<u>76,458,291</u>
Combined total	<u>505,285,481</u>	<u>28,974,464</u>	<u>(11,624,725)</u>	<u>(2,748,443)</u>	<u>519,886,777</u>
Capital assets, net	<u>\$ 662,002,748</u>	<u>176,947,812</u>	<u>(6,700,126)</u>	<u>(140,670,957)</u>	<u>691,579,477</u>

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(6) Long-Term Debt

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	335,055,871	—	(10,601,311)	324,454,560	
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>

The BPU's indebtedness as of December 31, 2006 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	\$ 15,360,565	—	(3,460,590)	11,899,975	2,952,986
1998	55,645,000	—	(4,760,000)	50,885,000	5,310,000
1999	18,225,000	—	(400,000)	17,825,000	425,000
2001	15,425,000	—	(635,000)	14,790,000	670,000
2004 refunding	125,705,000	—	(415,000)	125,290,000	435,000
2004B	114,420,000	—	(1,155,000)	113,265,000	1,160,000
	<u>344,780,565</u>	<u>—</u>	<u>(10,825,590)</u>	<u>333,954,975</u>	<u>10,952,986</u>
Less unamortized loss on refunding	(2,526,168)	—	476,422	(2,049,746)	
Unamortized premium	3,710,666	—	(147,807)	3,562,859	
Unamortized discount	(435,274)	—	23,057	(412,217)	
Total revenue bonds	345,529,789	—	(10,473,918)	335,055,871	
Capital leases	7,965,358	—	(4,623,348)	3,342,010	1,673,290
Government loans	17,076,082	5,215,865	(1,820,739)	20,471,208	804,415
	\$ <u>370,571,229</u>	<u>5,215,865</u>	<u>(16,918,005)</u>	<u>358,869,089</u>	<u>13,430,691</u>

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Notes to Financial Statements

December 31, 2007 and 2006

Details of utility system revenue bonds outstanding at December 31, 2007 and 2006 are as follows:

<u>Revenue bonds</u>	<u>Interest rate</u>	<u>Original amount</u>	<u>Maturity</u>	<u>2007</u>	<u>2006</u>
1992 Series	4.70% – 6.90%	\$ 80,445,000	9-01-16	\$ 8,946,990	11,899,975
1998 Series	4.00% – 5.25%	81,375,000	9-01-28	45,575,000	50,885,000
1999 Series	5.00% – 5.95%	25,325,000	9-01-28	17,400,000	17,825,000
2001 Series	4.00% – 5.95%	17,170,000	5-01-21	14,120,000	14,790,000
2004 Refunding	5.60% – 5.65%	126,005,000	9-01-23	124,855,000	125,290,000
2004B	3.00% – 5.00%	115,535,000	9-01-32	112,105,000	113,265,000
Subtotal				323,001,990	333,954,975
Unamortized loss on refunding				(1,573,322)	(2,049,746)
Current maturities				(9,958,765)	(10,952,986)
Unamortized premium				3,415,052	3,562,859
Unamortized discount				(389,160)	(412,217)
Total utility system revenue bonds				<u>\$ 314,495,795</u>	<u>324,102,885</u>

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, 2007 and 2006, 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, 2007 is as follows:

<u>Bond years ending December 31:</u>	<u>Principal</u>	<u>Interest (including accreted)</u>
2008	\$ 9,958,765	21,708,074
2009	6,736,710	21,518,011
2010	6,721,515	21,490,498
2011	12,575,000	15,680,620
2012	13,235,000	15,019,624
2013 – 2017	71,060,000	63,968,369
2018 – 2022	84,430,000	43,564,547
2023 – 2027	62,550,000	22,929,223
2028 – 2032	55,735,000	8,293,260
	<u>\$ 323,001,990</u>	<u>234,172,226</u>

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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.

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, 2007, outstanding utility system revenue bonds in the amount of \$ 9,860,352 are considered substantively defeased.

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

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Notes to Financial Statements

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The debt service to maturity on the outstanding BPU government loans as of December 31, 2007 is as follows:

	Principal	Interest (including accreted)
Years ending December 31:		
2008	\$ 976,882	829,852
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 – 2017	6,368,205	2,801,950
2018 – 2022	7,689,369	1,602,275
2023 – 2027	4,358,296	325,058
	\$ 23,690,167	8,524,524

(7) Capital Lease Obligations

The BPU is obligated under capital leases covering a coal dozer and software that expire at various dates during the next two years. At December 31, 2007 and 2006, the gross amount of plant and equipment and related accumulated amortization recorded under capital leases were as follows:

	2007	2006
Office furniture and equipment	\$ 1,366,661	2,846,147
Transportation equipment	419,133	647,750
	1,785,794	3,493,897
Less accumulated amortization	47,728	151,887
	\$ 1,738,066	3,342,010

At December 31, 2007, the net present value of minimum lease payments on capital lease obligations was \$1,738,066; \$1,331,871 of which relates to capital software leases. Future lease payments under these capital leases are as follows:

Year ending December 31:		
2008		\$ 1,595,278
2009		190,516
	Total minimum lease payments	1,785,794
	Amounts representing interest at 4.42% – 7.70%	47,728
	Present value of net minimum lease payments	\$ 1,738,066

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Notes to Financial Statements

December 31, 2007 and 2006

(8) Regulatory Assets and Liabilities

The BPU is subject to the provisions of SFAS Statement No. 71 and has recorded assets and liabilities on its balance sheet resulting from the effects of the ratemaking process, which would not be recorded under GAAP 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 BPU 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 operations. The BPU's continued ability to meet the criteria for application of SFAS Statement No. 71 may be affected in the future by deregulation in the electric industry or by state legislative initiatives. In the event that SFAS Statement 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, 2007 and 2006 are as follows:

	<u>Amortization ending period</u>	<u>2007</u>	<u>2006</u>
Regulatory assets:			
Miner benefits and mine reclamation costs	2016	\$ 4,189,410	4,654,900
Fuel purchased power costs	2008	<u>1,165,997</u>	<u>746,226</u>
Total regulatory assets		<u>\$ 5,355,407</u>	<u>5,401,126</u>
Regulatory liabilities:			
Fuel purchased power costs	2008	<u>\$ 1,401,005</u>	<u>1,245,170</u>
Total regulatory liabilities		<u>\$ 1,401,005</u>	<u>1,245,170</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 off invested costs when included in rate base. The BPU does not earn a return on its regulatory assets. Certain regulatory assets do not result from cash expenditures and, therefore, do not represent investments included in rate base or have offsetting liabilities that reduce rate base.

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(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% to 15.0%. Currently, the payment-in-lieu of tax is established at 7.9%, which amounted to \$17,230,192 and \$18,374,439 during 2007 and 2006, respectively, as payment-in-lieu of taxes (PILOT). The PILOT is collected by the BPU through incorporation in the rates as a supplemental rate rider.

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 \$11,382,100 and \$12,583,845, or 4.6% and 4.9% of total operating revenue, for 2007 and 2006, respectively.

(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, 2007 and 2006 were approximately \$16,676,547 and \$11,674,562, respectively, and are included in other revenues in the statements of revenues, expenses, and changes in net assets.

On March 1, 2000, BPU entered into an agreement with The Energy Authority (TEA) to both purchase and market excess wholesale energy for BPU. This contract expired October 31, 2006. 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 TEA and Tenaska for 2007 and 2006 are summarized as follows:

	<u>2007</u>	<u>2006</u>
Purchased power	\$ 15,114,952	35,577,006
Wholesale sales	2,555,430	889,504

(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.

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The BPU has an agreement with WFA for the purchase of coal for the BPU's Nearman Creek 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 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.

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 1.81 million tons of coal during 2007. Quindaro burned approximately 744,000 tons and Nearman burned approximately 1,104,000 tons.

(c) *Employees' Retirement Pension Plan*

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, 2007 and 2006 was approximately \$48,138,000 and \$46,424,000, respectively, of which approximately \$47,048,000 and \$45,081,000, 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 salary multiplied by the years of credited service through December 31, 2003 and 1.8% of their average salary multiplied by the years of credited service after December 31, 2003. 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

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also provides death benefits. The benefit provisions and all other requirements are established by State Statutes.

Funding is provided by contributions from Plan members and the BPU based on rates negotiated between the BPU and its employees.

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 January 1, 1970.

Total contributions were \$5,397,515 for the year ended December 31, 2007. Of the total contributions in 2007, the BPU contributed \$2,809,819 (6.0% of current covered payroll in 2007) and the Plan participants contributed \$2,587,696 (5.5% of current covered payroll for 2007).

Fiscal year ending	Three-year trend information		
	Annual pension cost	Percentage of annual pension cost contributed	Net pension obligation (asset)
December 31, 2005	\$ 5,241,593	54.01%	\$ (4,077,350)
December 31, 2006	5,241,593	655.08	(6,477,747)
December 31, 2007	2,420,273	116.10	(54,114)

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, 2007
Actuarial cost method	Entry age
Amortization method	Level percent closed
Remaining amortization period	Forty years beginning January 1, 1970
Asset valuation method	Average adjusted asset method
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increase based on age as follows:	

Age	Salary scale
25	6.5%
70	4.5

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Notes to Financial Statements

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The annual pension cost and net pension asset as of January 1, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Annual required contribution	\$ 2,412,486	373,972
Interest on net pension asset	26,835	(326,188)
Adjustment to annual required contribution	(19,047)	384,656
Annual pension cost	<u>2,420,274</u>	<u>432,439</u>
Contributions made	<u>2,809,819</u>	<u>2,832,836</u>
Increase in net pension asset	389,545	2,400,397
Adjustment to net pension asset	(6,813,178)	—
Net pension asset, beginning of year, as adjusted	<u>6,477,747</u>	<u>4,077,350</u>
Net pension asset, end of year	<u>\$ 54,114</u>	<u>6,477,747</u>

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

(d) Postretirement Healthcare Benefits

Effective January 1, 2007, the BPU adopted GASB Statement No. 45. 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 prospectively (zero net obligation at transition).

Plan Description

The BPU provides certain postemployment healthcare and life insurance benefits to eligible retirees and their spouses in accordance with provisions established by the BPU's board of directors. 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 10 years of service. The retiree plan is a comprehensive major medical plan with a \$100 deductible per individual or \$200 per family. The plan pays 80% of the next \$12,500 of allowable charges and 100% thereafter. The plan has a lifetime maximum of \$250,000. Benefits cease at the earlier of the date the retired employee attains age 65 or death. Spouse benefits end at the earlier of the date the spouse attains age 65, the date the employee attains age 65, or the spouse's death. Retirees are not required to contribute toward the cost of the postretirement benefits. There were 363 participants eligible to receive benefits under this plan as of January 1, 2007.

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Funding Policy

The contribution requirements of plan members and the BPU are established and can be amended by the BPU's board of directors. Contributions are made to the plan based on a pay-as-you-go basis. For the years ended December 31, 2007 and 2006, the BPU paid \$2,081,539 and \$2,125,810, respectively, for retirees.

Annual OPEB Cost and Net OPEB Obligation – GASB Statement No. 45 presentation.

As noted above, effective January 1, 2007, the BPU adopted GASB Statement No. 45. The following information is in accordance with this statement.

The BPU annual OPEB cost (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 2007 are as follows:

	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB contributed</u>	<u>Net OPEB</u>
Fiscal year ended:			
December 31, 2007	\$ 3,433,000	61%	\$ 1,351,461

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

Annual required contribution	\$ 3,433,000
Contributions made	<u>2,081,539</u>
Increase in OPEB obligation	1,351,461
Net OPEB obligation – beginning of year	<u>—</u>
Net OPEB obligation – end of year	<u>\$ 1,351,461</u>

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Funded Status and Funding Progress

The funded status of the plan as of January 1, 2007 is as follows:

Actuarial accrued liability (AAL)	\$	41,851,842
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)		41,851,842
Funded ratio		0%
Covered payroll	\$	N/A*
UAAL as a percentage of covered payroll		N/A

*Benefits are not pay related and so covered payroll was not collected by the actuary.

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 assets, consistent with the long-term perspective of the calculations. In the January 1, 2007, 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 8.0% initially, reduced by decrements to an ultimate rate of 4.5% 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.

Financial Accounting Standards Board Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* – OPEB presentation

During the year ended December 31, 2006, the BPU recorded its postretirement healthcare benefits in accordance with FASB Statement No. 106. The disclosures required by this statement are as follows:

The BPU, under its own authority, provides postretirement medical benefits to retired employees and their dependents. These benefits are funded as claims are incurred.

BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2007 and 2006

Employees are given a 90-day window to retire with medical coverage at ages 55 and above with 10 years of service. The retiree plan is a comprehensive major medical plan with a \$100 deductible per individual or \$200 per family. The plan pays 80% of the next \$12,500 of allowable charges and 100% thereafter. The plan has a lifetime maximum of \$250,000.

Benefits cease at the earlier of the date the retired employee attains age 65 or death. Spouse benefits end at the earlier of the date the spouse attains age 65, the date the employee attains age 65, or the spouse's death.

Retirees are not required to contribute toward the cost of the postretirement benefits. There were 363 participants eligible to receive benefits under this plan as of January 1, 2006.

	<u>2006</u>
Change in benefit obligation:	
Postretirement benefit obligation at January 1	\$ 35,807,791
Service cost	1,385,159
Interest cost	1,902,061
Benefits paid	(2,125,810)
Actuarial loss	(513,267)
	<u>36,455,934</u>
Postretirement benefit obligation at December 31	\$ <u>36,455,934</u>
Change in plan assets:	
Fair value of plan assets at December 31	\$ —
Unfunded status	36,455,934
Unrecognized net transition obligation	(7,619,236)
Unrecognized prior service cost	(668,635)
Unrecognized net gain	(3,242,578)
	<u>24,925,485</u>
Postretirement benefit liability at December 31	\$ <u>24,925,485</u>

The discount rate was 5.5% in 2006.

	<u>2006</u>
Components of net periodic postretirement benefit cost:	
Service cost	\$ 1,385,159
Interest cost	1,902,061
Amortization of transition obligation	846,582
Amortization of prior service cost	246,808
Loss	15,631
	<u>4,396,241</u>
Net periodic postretirement benefit cost	\$ <u>4,396,241</u>

BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2007 and 2006

		1% point increase
Effect on total of service and interest cost component	\$	350,624
Effect on postretirement benefit obligation		2,715,499

(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 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, 2007 and 2006, the BPU has established a liability of \$972,492 and \$1,112,813, 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 2007 and 2006 are as follows:

		2007	2006
Beginning balance	\$	1,112,813	443,574
Additions		9,553,900	8,650,675
Payments		(9,694,221)	(7,981,436)
Ending balance	\$	972,492	1,112,813

(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 inventoried potential violations and identified modifications to the BPU's coal-fired units that may not meet regulation requirements. Subsequently, the BPU received inquiries from the EPA about its compliance with new source review permitting. In addition, the BPU has received from the

BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2007 and 2006

EPA a Clean Air Act Section 114 information request relating to projects that have been the subject of new source review permit investigations. Management does not know the impact that this will have on the BPU; however, the resolution of any inquiries by regulators or other government agencies about the BPU's ability to comply with environmental laws and regulations could result in fines and/or penalties and the amounts of any such assessments could be material. The BPU will fully cooperate with any government inquiry. In addition, any future changes in environmental regulations may require the BPU to make material capital expenditures. The impact of any such future changes cannot be estimated.

(g) *Other Legal Matters*

In the normal course of business, we are subject to various lawsuits, actions, proceedings, claims, and other matters asserted under laws and regulations. We believe the amounts provided in our consolidated financial statements, as prescribed by 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 our consolidated financial statements. As such, costs, if any, that may be incurred in excess of those amounts provided as of December 31, 2007, 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 BPU and certain of its managers have misspent public funds among other matters. Management does not believe the ultimate outcome of this matter will materially impact the BPU's financial condition or results of operations. Management and the Board will continue to cooperate with this proceeding.

BOARD OF PUBLIC UTILITIES

Notes to Financial Statements

December 31, 2007 and 2006

(11) 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, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Principal retail customers:		
General Motors Corporation	3.3%	3.6%
Certain Teed Corporation	2.7	3.6
Owens Corning	2.5	3.7
Johnson County Water One	1.9	2.8
University of Kansas Medical Center	1.8	N/A
Griffin Wheel	N/A	2.1
Total principal retail customers	<u>12.2</u>	<u>15.8</u>
Principal wholesale customers:		
Kansas Municipal Energy Authority	3.9	2.8
City of Columbia, Missouri	2.5	2.0
Tenaska	1.0	N/A
Total principal wholesale customers	<u>7.4</u>	<u>4.8</u>
Principal customers	<u>19.6%</u>	<u>20.6%</u>

BOARD OF PUBLIC UTILITIES
 Required Supplementary Information
 Schedule of Funding Progress – Pension
 December 31, 2007
 (Dollars in millions)
 (Unaudited)

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
2005	\$ 343.0	167.6	204.7	(175.4)	\$ 43.6	(4.0)%
2006	347.6	173.4	200.4	(174.2)	45.1	(3.9)
2007 – Pension	433.4	381.4	113.6	(52.0)	47.0	(1.1)

See accompanying independent auditors' report.

BOARD OF PUBLIC UTILITIES
 Required Supplementary Information
 Schedule of Funding Progress – Postretirement
 December 31, 2007
 (Dollars in millions)
 (Unaudited)

<u>Actuarial valuation date, January 1</u>	<u>Actuarial value of assets</u>	<u>Actuarial accrued liability (AAL)</u>	<u>Funded ratio</u>	<u>Unfunded (overfunded) AAL (UAAL)</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
2007	\$ —	41.9	—	41.9	*N/A	N/A

* Benefits are not pay related and so covered payroll was not collected by the actuary.

See accompanying independent auditors' report.



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BOARD OF PUBLIC UTILITIES

Combining Balance Sheets

December 31, 2007 and 2006

	Electric		Water		Total Utility	
	2007	2006	2007	2006	2007	2006
Noncurrent assets:						
Capital assets:						
Property, plant, and equipment	\$ 909,503,545	876,195,110	268,460,496	264,014,748	1,177,964,041	1,140,209,858
Less accumulated depreciation	(467,184,516)	(443,428,486)	(81,520,332)	(76,458,291)	(548,704,848)	(519,886,777)
Plant in service, net	442,319,029	432,766,624	186,940,164	187,556,457	629,259,193	620,323,081
Construction work in progress	30,069,878	47,362,206	34,656,523	23,894,190	64,726,401	71,256,396
Capital assets, net	472,388,907	480,128,830	221,596,687	211,450,647	693,985,594	691,579,477
Restricted assets:						
Cash and cash equivalents	10,959,948	23,667,192	2,550,961	9,576,571	13,510,909	33,243,763
Investments	5,378,877	5,587,680	1,584,909	1,578,157	6,963,786	7,165,837
Total restricted assets	16,338,825	29,254,872	4,135,870	11,154,728	20,474,695	40,409,600
Prepaid pension	43,291	4,577,187	10,823	1,900,560	54,114	6,477,747
Debt issue costs	3,883,690	4,073,218	1,283,040	1,344,405	5,166,730	5,417,623
System development costs	1,376,475	1,618,086	763,698	865,678	2,140,173	2,483,764
Regulatory assets	4,189,410	5,401,126	—	—	4,189,410	5,401,126
Total noncurrent assets	498,220,598	525,053,319	227,790,118	226,716,018	726,010,716	751,769,337
Current assets:						
Cash and cash equivalents	1,673,163	1,354,406	5,349,291	4,644,289	7,022,454	5,998,695
Investments	10,288,272	10,319,494	7,318,229	7,347,905	17,606,501	17,667,399
Accounts receivable – customers and other	18,663,383	19,081,331	3,444,805	3,640,965	22,108,188	22,722,296
Accounts receivable – unbilled	7,635,048	7,810,682	1,506,092	1,507,377	9,141,140	9,318,059
Allowance for doubtful accounts	(1,257,612)	(1,169,014)	(206,148)	(155,137)	(1,463,760)	(1,324,151)
Inventories	32,912,802	29,680,069	2,018,753	1,965,521	34,931,555	31,645,590
Regulatory assets	1,165,997	—	—	—	1,165,997	—
Prepayments and other current assets	1,731,355	1,747,258	181,646	177,761	1,913,001	1,925,019
Total current assets	72,812,408	68,824,226	19,612,668	19,128,681	92,425,076	87,952,907
Total assets	\$ 571,033,006	593,877,545	247,402,786	245,844,699	818,435,792	839,722,244

BOARD OF PUBLIC UTILITIES

Combining Balance Sheets

December 31, 2007 and 2006

	Electric		Water		Total Utility	
	2007	2006	2007	2006	2007	2006
Net assets:						
Invested in capital assets, net of related debt	\$ 242,480,316	251,347,083	105,052,817	102,183,363	347,533,133	353,530,446
Restricted	4,314,788	3,777,686	231,816	340,338	4,546,604	4,118,024
Unrestricted	57,560,327	27,932,552	906,115	(1,848,970)	58,466,442	26,083,582
Total net assets	304,355,431	283,057,321	106,190,748	100,674,731	410,546,179	383,732,052
Liabilities:						
Long-term debt – revenue bonds:						
Principal	221,802,828	229,597,760	92,692,967	94,505,125	314,495,795	324,102,885
Accreted interest	11,801,781	14,662,329	2,420,659	3,007,385	14,222,440	17,669,714
Government loans	—	—	22,713,285	19,666,793	22,713,285	19,666,793
Capital lease obligations	187,671	1,237,682	—	399,364	187,671	1,637,046
Total long-term debt and capital lease obligations	233,792,280	245,497,771	117,826,911	117,578,667	351,619,191	363,076,438
Regulatory liabilities	—	1,245,170	—	—	—	1,245,170
Postretirement benefit obligation	1,081,169	19,673,198	270,292	5,252,287	1,351,461	24,925,485
Noncurrent liabilities	234,873,449	266,416,139	118,097,203	122,830,954	352,970,652	389,247,093
Current liabilities:						
Current maturities of revenue bonds	7,927,429	8,791,909	2,031,336	2,161,077	9,958,765	10,952,986
Current maturities of government loans	—	—	976,882	804,415	976,882	804,415
Current maturities of capital lease obligations	1,103,401	1,237,747	446,994	467,217	1,550,395	1,704,964
Accrued interest	3,800,475	3,897,726	1,563,387	1,590,382	5,363,862	5,488,108
Customer deposits	2,993,207	2,804,725	448,842	414,702	3,442,049	3,219,427
Accounts payable	11,575,606	19,499,813	3,247,246	6,334,135	14,822,852	25,833,948
Payroll and payroll taxes	7,874,256	7,033,439	740,171	1,216,210	8,614,427	8,249,649
Accrued claims payable	5,322,385	5,822,528	132,484	268,205	5,454,869	6,090,733
Other accrued liabilities	2,044,704	3,185,208	103,224	69,978	2,147,928	3,255,186
Regulatory liabilities	1,401,005	—	—	—	1,401,005	—
Payment-in-lieu of taxes	988,265	958,605	197,662	185,078	1,185,927	1,143,683
Interdepartmental balances	(13,226,607)	(8,827,615)	13,226,607	8,827,615	—	—
Total current liabilities	31,804,126	44,404,085	23,114,835	22,339,014	54,918,961	66,743,099
Total liabilities	266,677,575	310,820,224	141,212,038	145,169,968	407,889,613	455,990,192
Total liabilities and net assets	\$ 571,033,006	593,877,545	247,402,786	245,844,699	818,435,792	839,722,244

See accompanying independent auditors' report.

BOARD OF PUBLIC UTILITIES

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

Years ended December 31, 2007 and 2006

	Electric		Water		Total utility	
	2007	2006	2007	2006	2007	2006
Operating revenues:						
Residential	\$ 50,728,377	54,131,458	18,375,365	17,769,374	69,103,742	71,900,832
Commercial	66,484,533	71,126,503	8,603,570	8,464,471	75,088,103	79,590,974
Industrial	41,001,666	52,357,554	3,338,520	3,464,670	44,340,186	55,822,224
Other	36,122,477	28,649,833	4,127,859	4,571,929	40,250,336	33,221,762
Payment-in-lieu of taxes	14,562,750	15,721,271	2,667,442	2,653,168	17,230,192	18,374,439
Total operating revenues	208,899,803	221,986,619	37,112,756	36,923,612	246,012,559	258,910,231
Operating expenses:						
Fuel	48,162,578	46,224,344	—	—	48,162,578	46,224,344
Purchased power	23,002,868	39,269,167	—	—	23,002,868	39,269,167
Production	32,734,541	30,001,492	4,122,206	3,504,002	36,856,747	33,505,494
Transmission and distribution	24,570,380	20,793,919	11,618,442	10,886,337	36,188,822	31,680,256
General and administrative	28,692,632	25,031,700	7,504,527	6,024,725	36,197,159	31,056,425
Depreciation and amortization	25,236,420	25,155,287	6,466,977	5,395,187	31,703,397	30,550,474
Total operating expenses	182,399,419	186,475,909	29,712,152	25,810,251	212,111,571	212,286,160
Operating income	26,500,384	35,510,710	7,400,604	11,113,361	33,900,988	46,624,071
Nonoperating income (expense):						
Interest income	2,006,714	2,781,679	609,119	1,113,442	2,615,833	3,895,121
Interest expense	(13,497,587)	(14,134,148)	(5,311,539)	(5,463,828)	(18,809,126)	(19,597,976)
Loss on disposal of assets	—	—	—	—	—	—
Payment-in-lieu of taxes	(14,562,750)	(15,721,271)	(2,667,442)	(2,653,168)	(17,230,192)	(18,374,439)
Other	1,178,151	781,497	(647,885)	(628,404)	530,266	153,093
Total nonoperating expense	(24,875,472)	(26,292,243)	(8,017,747)	(7,631,958)	(32,893,219)	(33,924,201)
Income before contributions and transfers	1,624,912	9,218,467	(617,143)	3,481,403	1,007,769	12,699,870
Contributions and transfers:						
Contributions from developers and others	—	—	880,873	1,403,996	880,873	1,403,996
Change in net assets	1,624,912	9,218,467	263,730	4,885,399	1,888,642	14,103,866
Net assets, beginning of year	283,057,321	273,838,854	100,674,731	95,789,332	383,732,052	369,628,186
Effect of adoption of new accounting standard	19,673,198	—	5,252,287	—	24,925,485	—
Net assets, beginning of year – restated	302,730,519	273,838,854	105,927,018	95,789,332	408,657,537	369,628,186
Net assets, end of year	\$ 304,355,431	283,057,321	106,190,748	100,674,731	410,546,179	383,732,052

See accompanying independent auditors' report.

**Independent Auditors' 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, 2007, and have issued our report thereon dated June 3, 2008. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this Section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be

material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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.

/s/ KPMG LLP

Kansas City, Missouri
June 3, 2008

BOARD OF PUBLIC UTILITIES

Schedule of Findings and Responses

December 31, 2007 and 2006

Findings and Responses to Significant Deficiencies in Internal Control over Financial Reporting

Finding 07-01: Financial Reporting

Significant Deficiency:

Throughout the year, the BPU maintains the financial records on the cash 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 the cash basis to the 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 the collectively represent a significant deficiency:

- **Construction Work in Progress (CWIP)** – A comprehensive review was not undertaken at year-end to determine whether any of the CWIP projects had actually been completed and should be reclassified from CWIP into the appropriate fixed asset category and depreciated. We noted that CWIP projects totaling approximately \$6.9 million had been completed as of year-end but had not been reclassified to the appropriate fixed asset category and depreciated. Although the related depreciation expense amount of approximately \$43,000 to these projects was immaterial, the BPU should have internal control procedures in place to ensure completed CWIP projects are appropriately reclassified and depreciated.
- **Accounts payable accrual** – The BPU needs to perform additional review around the accrual of accounts payable at year-end. It was noted that approximately \$309,000 was related to the 2007 fiscal year but was not accrued. In addition, it was noted that the BPU had over-accrued by \$411,000. More attention needs to be given to the details contained on invoices that cover more than one calendar year to ensure that appropriate accruals are recorded.
- **Fixed assets/accounts payable** – The BPU had recorded a fixed asset and corresponding liability in the amount of approximately \$2.7 million pertaining to a transformer that was still being constructed and had not been delivered to the BPU as of year-end. Per discussions with management, the accrual had been made to reflect the budgeting of this item. As noted above, the focus for the financial statements is not budget-basis accounting but full accrual accounting.

BOARD OF PUBLIC UTILITIES

Schedule of Findings and Responses

December 31, 2007 and 2006

Effect: The BPU's policies and procedures are focused on budget-basis information. The policies and procedures to produce accrual information are not as well developed, and are generally only known to the preparer of the information.

As a result, the BPU recorded multiple adjustments during the audit to properly present its financial statements on the full accrual basis.

Management's Response: The BPU management is addressing the deficiency identified by implementing a follow up process with project managers to ensure timely closure of projects. In order to meet our requirement for full accrual basis, management will require documentation that supports the liability prior to making the appropriate entry into the financials.

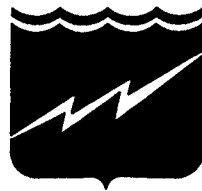


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**Statistical Section
(Unaudited)**

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

**Statistical
Section**





**Statistical Section
(Unaudited)
December 31, 2007**

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>
<u>Financial Trends</u>	71
These schedules contain trend information to help the reader understand how the utility's financial performance and well-being have changed over time.	
<u>Revenue Capacity</u>	75
These schedules contain information to help the reader assess the utility's most significant local revenue source.	
<u>Debt Capacity</u>	79
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.	
<u>Demographic and Economic Information</u>	81
These schedules offer demographic and economic indicators to help the reader understand how the information in the utility's financial activities takes place.	
<u>Operating Information</u>	87
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.	



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Financial Trends

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

	2002	2003	2004	2005	2006	2007
Net Assets invested in Capital Assets, net of related Debt:						
Capital assets, net of depreciation	\$ 553,615,779	\$ 563,037,948	\$ 601,673,285	\$ 662,002,748	\$ 691,579,477	\$ 693,985,594
Bonds and notes payable:						
Principal, long term	(239,529,922)	(229,953,073)	(355,025,906)	(334,704,196)	(324,102,885)	(314,495,795)
Government Loans	-	-	-	(15,930,490)	(19,666,793)	(22,713,285)
Bond issue costs	-	-	6,022,087	5,719,855	5,417,623	5,166,730
Accreted Interest Current & LT	(25,768,041)	(24,274,484)	(22,638,649)	(20,492,934)	(17,669,713)	(14,222,440)
Capital Leases	(2,642,765)	(3,682,429)	(7,057,539)	(4,869,869)	(1,637,046)	(187,671)
Bond proceeds for construction (unspent) (B)	9,375,000	9,375,000	99,503,451	60,732,997	19,609,783	-
Net Assets invested in Capital Assets, net of Debt:	\$ 295,050,051	\$ 314,502,962	\$ 322,476,729	\$ 352,458,111	\$ 353,530,446	\$ 347,533,133
Restricted Net Assets (A)						
Bond covenant requirements	\$ 20,701,568	\$ 17,426,577	\$ 115,468,360	\$ 78,532,304	\$ 37,190,172	\$ 17,032,646
Bond proceeds designated for project construction (B)	-	-	(99,503,451)	(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
Liability for customer deposits	(2,415,954)	(2,348,361)	(2,396,176)	(2,894,830)	(3,219,427)	(3,442,049)
Principal, current	(9,917,086)	(10,049,266)	(12,955,205)	(10,825,592)	(10,952,986)	(9,958,765)
Government Loans, current	-	-	-	(1,145,592)	(804,415)	(976,882)
Capital Leases, current	(1,526,420)	(1,534,509)	(3,169,641)	(3,095,489)	(1,704,964)	(1,550,395)
Total Restricted Net Assets	\$ 9,258,062	\$ 5,842,802	\$ (159,937)	\$ 2,732,634	\$ 4,118,024	\$ 4,546,604
Unrestricted net assets						
Other designated funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserve funds	-	-	-	-	-	-
Funds held for future improvements	-	-	-	-	-	-
Project construction accounts	-	-	-	-	-	-
Unrestricted - Other	66,997,624	54,541,697	52,164,551	14,437,441	26,083,582	58,466,443
Unrestricted - Balancing entry	-	-	-	-	-	-
Total Unrestricted Net Assets	\$ 66,997,624	\$ 54,541,697	\$ 52,164,551	\$ 14,437,441	\$ 26,083,582	\$ 58,466,443
Total Net Assets	\$ 371,305,737	\$ 374,887,461	\$ 374,481,343	\$ 369,628,186	\$ 383,732,052	\$ 410,546,180

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:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments.
- 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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Operating Revenues	\$ 157,589,819	\$ 171,636,967	\$ 172,162,933	\$ 172,707,167	\$ 191,351,509	\$ 201,535,316	\$ 207,407,693	\$ 221,945,484	\$ 258,910,231	\$ 246,012,559
Operating Expenses	(65,502,745)	(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)
Production	15,716,379	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
Transmission & Distribution	3,975,202	6,331,772	-	-	-	-	-	-	-	-
Customer Service	20,881,929	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
General and Administrative	8,715,470	10,494,909	9,567,512	8,914,184	-	-	-	-	-	-
Payment-in-lieu of taxes	22,048,354	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
Depreciation & Amortization	2,507,119	-	-	-	-	-	-	-	-	-
Payroll Taxes	-	-	-	-	-	-	-	-	-	-
Purchased Power Amortization	-	-	-	-	8,254,930	8,676,326	6,275,808	-	-	-
Other Operating Expenses	139,347,198	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
Operating Income	18,242,621	18,243,466	14,618,854	11,982,161	33,998,393	31,637,034	29,804,187	30,155,961	46,624,071	33,900,988
Interest Income/Expense	12,840,087	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
Payment-in-lieu of taxes	-	-	-	-	13,279,641	13,916,680	14,673,298	16,325,334	18,374,439	17,230,192
Operating Income/Expense	5,402,534	5,475,793	14,565,071	13,784,463	27,071,371	29,221,633	30,485,619	36,290,786	33,924,201	32,893,219
Other Income/Expense	3,643,778	-	-	(1,802,302)	6,927,022	2,415,401	(681,432)	(6,134,825)	12,699,870	1,007,769
Income Before Income Tax	9,046,312	5,475,793	53,783	(1,802,302)	379,843	1,166,323	275,314	1,281,668	1,403,996	880,873
Income Tax Expense	-	-	-	-	7,306,865	3,581,724	(406,118)	(4,853,157)	14,103,866	1,888,642
Net Operating Income	\$ 9,046,312	\$ 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

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.



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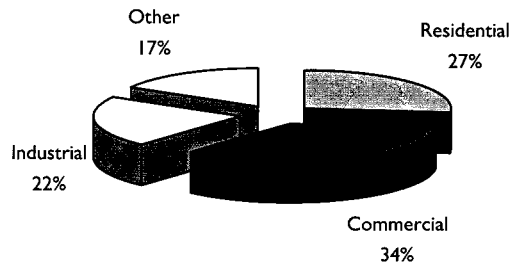
Revenue Capacity

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
1998	\$ 34,171,258	543,913,298	57,856	9,401	\$ 590.63	\$ 44,291,825	820,089,166	6,786	120,850	\$ 6,526.94
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

	Industrial					Other				
	Dollars/\$'s	(Kwh)	Customers	Average kWh	Average Sales /\$'s	Dollars/\$'s	(Kwh)	Customers	Average kWh	Average Sales /\$'s
1998	\$ 28,826,377	803,311,850	115	6,985,320	\$ 250,664.15	\$ 15,510,134	570,028,372	289	1,972,417	\$ 53,668.28
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	502,448,886	225	2,233,106	\$ 139,860.63

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
1998	9,341,580,000	6,806,521,744	\$ 22,918,120	51,879	\$441.76
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

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



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Debt Capacity

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)	Coverage
1998	\$ 161,070,333	\$ 108,583,374	\$ 52,486,959	\$ 23,762,894	2.21
1999	\$ 174,920,936	\$ 119,736,307	\$ 55,184,629	\$ 26,142,132	2.11
2000	\$ 177,972,709	\$ 123,631,092	\$ 54,341,617	\$ 26,142,132	2.08
2001	\$ 175,399,140	\$ 127,369,706	\$ 48,029,434	\$ 26,142,132	2.11
2002	\$ 194,836,463	\$ 133,764,651	\$ 61,071,812	\$ 27,512,785	2.21
2003	\$ 202,691,757	\$ 145,425,897	\$ 57,265,860	\$ 27,127,411	2.11
2004	\$ 212,478,539	\$ 154,234,239	\$ 58,244,300	\$ 32,509,058	1.79
2005	\$ 229,794,624	\$ 163,244,271	\$ 66,550,353	\$ 34,463,496	1.93
2006	\$ 262,047,645	\$ 181,735,688	\$ 80,311,957	\$ 34,463,496	2.33
2007	\$ 249,572,589	\$ 180,408,175	\$ 69,164,414	\$ 33,557,926	2.06

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 and Payment In Lieu of Taxes payments.
- (3) In 2004 the maximum outstanding annual debt service includes the payments required for the government loans.



Demographic and Economic Information

Electric Load Statistics in Kilowatts

Last Ten Fiscal Years

<u>Fiscal</u> <u>Year</u>	<u>Generated</u>	<u>Purchased</u>	<u>Interchanged</u>	<u>Total</u> <u>Kilowatts</u> <u>Available</u>	<u>Maximum</u> <u>System</u> <u>Gross</u> <u>Demand</u> <u>kW</u>	<u>Maximum</u> <u>Net</u> <u>Capability</u>
1998	2,520,730,000	371,641,600	-449,881,000	2,442,490,600	493,000	635,000
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

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)

1998	1999	2000	2001	2002
<p>Armour Swift-Eckrich Inc. (Food Manufacturer) CertainTeed Corp. (Insulation) Americold (Cold Storage) General Motor's Corp. (Auto Production) Griffin Wheel (Railroad Wheels) Constar Plastics (Plastic Containers) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>	<p>Armour Swift-Eckrich Inc. (Food Manufacturer) CertainTeed Corp. (Insulation) Constar Plastics (Plastic Containers) General Motor's Corp. (Auto Production) Griffin Wheel (Railroad Wheels) Americold (Cold Storage) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>	<p>Armour Swift-Eckrich Inc. (Food Manufacturer) CertainTeed Corp. (Insulation) BNSF (Railroad) General Motor's Corp. (Auto Production) Griffin Wheel (Railroad Wheels) Colgate Palmolive Co. (Soap Manufacturer) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>	<p>Armour Swift-Eckrich Inc. (Food Manufacturer) CertainTeed Corp. (Insulation) Colgate Palmolive Co. (Soap Manufacturer) General Motor's Corp. (Auto Production) Griffin Wheel (Railroad Wheels) BNSF (Railroad) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>	<p>Armour Swift-Eckrich Inc. (Food Manufacturer) CertainTeed Corp. (Insulation) Constar Plastics (Plastic Containers) General Motor's Corp. (Auto Production) Griffin Wheel (Railroad Wheels) USD#500 KCK (Public School Dist.) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>
2003	2004	2005	2006	2007
<p>ConAgra (Food Manufacturer) CertainTeed Corp. (Insulation) Colgate Palmolive Co. (Soap Manufacturer) General Motor's Corp. (Auto Production) Griffin Wheel (Railroad Wheels) USD#500 KCK (Public School Dist.) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>	<p>ConAgra (Food Manufacturer) CertainTeed Corp. (Insulation) Colgate Palmolive Co. (Soap Manufacturer) General Motor's Corp. (Auto Production) Griffin Wheel (Railroad Wheels) USD#500 KCK (Public School Dist.) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>	<p>ConAgra (Food Manufacturer) CertainTeed Corp. (Insulation) Colgate Palmolive Co. (Soap Manufacturer) General Motor's Corp. (Auto Production) Griffin Wheel (Railroad Wheels) USD#500 KCK (Public School Dist.) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>	<p>Constar Plastics (Plastic Containers) CertainTeed Corp. (Insulation) GNB Battery (Battery Manufacturer) General Motor's Corp. (Auto Production) Griffin Wheel (Railroad Wheels) USD#500 KCK (Public School Dist.) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>	<p>CertainTeed Corp. (Insulation) Constar Plastics (Plastic Containers) General Motor's (Auto Production) GNB Battery (Battery Manufacturer) Griffin Wheel (Railroad Wheels) USD#500 KCK (Public School Dist.) Owens Corning Fiberglass (Insulation) Procter & Gamble Co. (Cleaning Products) Univ. of Kansas Medical Ctr. (Hospital) WaterOne of Johnson County (Water Utility)</p>

Wholesale Contracts (Ten year history)

1998	1999	2000	2001	2002
<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1]</p>	<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1] LandDel Water District [2] Leavenworth County Rural Water Dist. [2]</p>	<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1] LandDel Water District [2] Leavenworth County Rural Water Dist. [2]</p>	<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1] LandDel Water District [2] Leavenworth County Rural Water Dist. [2] Suburban Water Inc. [2]</p>	<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1] LandDel Water District [2] Leavenworth County Rural Water Dist. [2] Suburban Water Inc. [2]</p>
2003	2004	2005	2006	2007
<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1] The Energy Authority [1] City of Bonner Springs, KS [2] LandDel Water District [2] Suburban Water Inc. [2]</p>	<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1] The Energy Authority [1] City of Bonner Springs, KS [2] LandDel Water District [2] Leavenworth County Rural Water Dist. [2] Suburban Water Inc. [2]</p>	<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1] The Energy Authority [1] City of Bonner Springs, KS [2] LandDel Water District [2] Leavenworth County Rural Water Dist. [2] Suburban Water Inc. [2]</p>	<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1] The Energy Authority [1] Tenaska Power Services Co. [1] City of Bonner Springs, KS [2] LandDel Water District [2] Leavenworth County Rural Water Dist. [2] Suburban Water [2]</p>	<p>KMEA - Kansas Municipal Energy Agency [1] City of Columbia, Mo [1] Tenaska Power Services Co. [1] City of Bonner Springs, KS [2] LandDel Water District [2] Leavenworth County Rural Water Dist. [2] Suburban Water [2]</p>

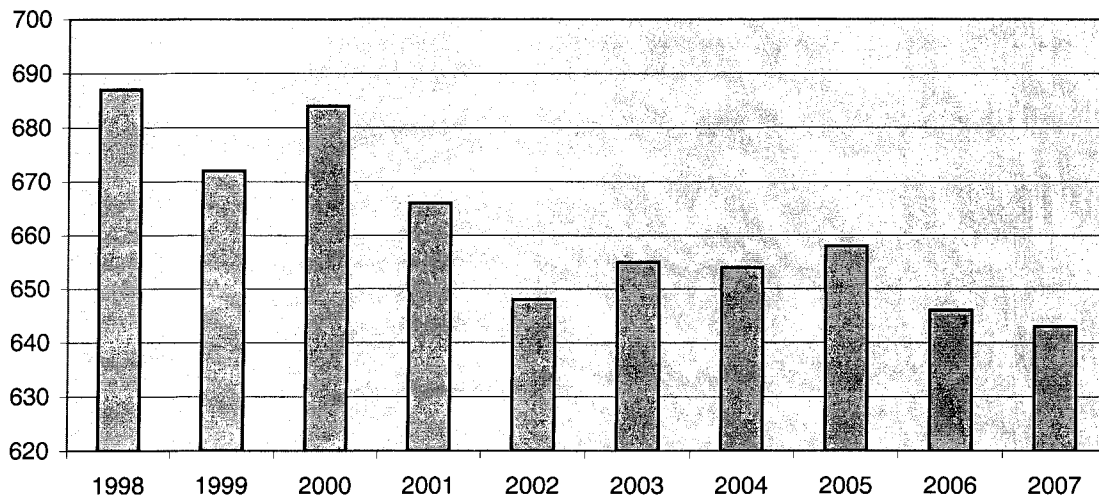
[1] = Electric Contract
[2] = Water Contract

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)
1998	\$ 34,143,728	\$ 18,373,497	\$ 46,790,548	687
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

- (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 (4)	Unemployment Rate (5)
1998	158,728 (2)	\$ 2,970,118 (3)	\$ 18,712 (3)	30,154	
1999	157,980 (2)	\$ 3,008,381 (3)	\$ 19,043 (3)	29,733	
2000	157,882 (1)	\$ 3,121,250 (3)	\$ 19,770 (3)	29,694	6.3%
2001	158,365 (2)	\$ 3,259,239 (3)	\$ 20,581 (3)	29,161	7.5%
2002	157,519 (2)	\$ 3,389,465 (3)	\$ 21,518 (3)	29,057	9.5%
2003	156,230 (2)	\$ 3,456,810 (3)	\$ 22,126 (3)	28,823	11.0%
2004	154,890 (2)	\$ 3,551,459 (3)	\$ 22,929 (3)	28,547	9.4%
2005	154,381 (2)	\$ 3,680,893 (3)	\$ 23,843 (3)	28,024	8.8%
2006	153,629 (2)	\$ 3,791,320 (4)	\$ 24,678 (4)	27,933	7.5%
2007	153,956 (2)	\$ 3,905,060 (4)	\$ 25,365 (4)	27,876	7.4%

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

Notes:

¹ 2000 U.S. Census Counts

² U.S. Dept of Commerce, Bureau of Census, Local Population Estimates, March 2005

³ Bureau of Economic Analysis

⁴ Estimates based on trends

⁵ 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.



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Operating Information

Utility System Plant Additions
Last Ten Fiscal Years

	1998	1999	2000	2001	2002
Electric	17,798,552	34,217,766	16,590,921	19,481,720	20,953,383
Water	17,315,640	34,237,699	2,688,813	5,091,476	5,238,346
Total	35,114,192	68,455,465	19,279,734	24,573,196	26,191,729

	2003	2004	2005	2006	2007
Electric	24,866,773	39,015,220	71,753,084	39,124,794	17,041,324
Water	6,216,693	20,732,148	19,017,017	24,702,299	14,583,513
Total	31,083,466	59,747,368	90,770,101	63,827,093	31,624,837

* Utility Plant Additions totals taken from Statement of Cash Flows