

**BOARD OF PUBLIC UTILITIES  
CITY OF McPHERSON**

**FINANCIAL REPORT**

**For the Years Ended December 31, 2020 & 2019**

## Board of Public Utilities - McPherson, Kansas

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## INDEPENDENT AUDITOR'S REPORT

Board of Public Utilities  
of McPherson, Kansas

We have audited the accompanying combining financial statements of the Board of Public Utilities of McPherson, Kansas (BPU) a part of the primary government of the City of McPherson, Kansas as of and for the years ended December 31, 2020 and 2019, and the related notes to the combining financial statements which collectively comprise the BPU's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

As discussed in Note 1, the combining financial statements present only the operations of the electric and water departments and do not purport to, and do not, present fairly the financial position of the City of McPherson, Kansas as of December 31, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits, the combining financial statements referred to above present fairly, in all material respects, the financial position of the Board of Public Utilities of McPherson, Kansas as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended

in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Report on Supplementary Information*

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

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net OPEB Liability – Healthcare, Schedule of the Total OPEB Liability as a Percentage of Covered Employee Payroll - Healthcare, Schedule of Changes in the Net OPEB Liability – KPERS Death and Disability, Schedule of the Total OPEB Liability as a Percentage of Covered Employee Payroll - KPERS Death and Disability, Schedule of the BPU's Proportionate Share of the Net Pension Liability, Schedule of Contributions, and Notes to Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We were unable to apply certain limited procedures to this required supplementary information in accordance with auditing standards generally accepted in the United States of America because of underlying actuarial calculations performed by a third party. We do not express an opinion or provide any assurance on the information.

### *Other Information*

Our audit was conducted for the purpose of forming opinion on the combining financial statements that collectively comprise the BPU's basic financial statements. The Additional Information, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a part of the basic financial statements.

This Additional Information on pages 39-42 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Additional Information (unaudited) on pages 43-56 in the accompanying table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Swindoll, Janzen, Hawk & Loyd, LLC  
Swindoll, Janzen, Hawk and Loyd, LLC  
McPherson, Kansas  
May 26, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The McPherson Board of Public Utilities (the BPU) is a quasi-municipality of the City of McPherson, Kansas. The electric and water funds are reflected as enterprise funds on the City of McPherson, Kansas' financial statement consisting of the Summary Statement of Receipts, Expenditures and Unencumbered Cash – regulatory basis, and regulatory-required supplementary information: Summary of Expenditures – Actual and Budget – regulatory basis, and Schedule of Receipts and Expenditures – Actual - regulatory basis. This Management Discussion and Analysis of the BPU's financial report presents our discussion and analysis of the BPU's financial performance for the year that ended December 31, 2020. This analysis should be read in conjunction with the financial statements and notes thereto.

The following table summarizes the financial condition and operations of the BPU as of and for the years ended December 31, 2020, 2019, and 2018.

### **Condensed Statements of Net Position**

	2020 ELECTRIC	2020 WATER	2020 TOTALS	2019 TOTALS	2018 TOTALS
<b>ASSETS</b>					
Capital assets	\$ 47,542,956	\$ 23,832,677	\$ 71,375,633	\$ 62,002,230	\$ 61,320,218
Other assets	54,113,622	10,127,435	64,241,057	68,656,614	65,994,700
Deferred assets	1,589,347	295,924	1,885,271	786,767	816,354
<b>TOTAL ASSETS</b>	<b><u>\$ 103,245,925</u></b>	<b><u>\$ 34,256,036</u></b>	<b><u>\$ 137,501,961</u></b>	<b><u>\$ 131,445,611</u></b>	<b><u>\$ 128,131,272</u></b>
<b>LIABILITIES</b>					
Long-term debt outstanding	\$ 5,549,245	\$ 7,092,471	\$ 12,641,716	\$ 11,962,951	\$ 12,644,020
Other liabilities	5,866,346	1,471,849	7,338,195	7,253,943	7,869,509
Deferred liabilities	80,807	14,260	95,067	150,663	187,502
<b>Total Liabilities</b>	<b><u>11,496,398</u></b>	<b><u>8,578,580</u></b>	<b><u>20,074,978</u></b>	<b><u>19,367,557</u></b>	<b><u>20,701,031</u></b>
<b>NET POSITION</b>					
Invested in capital assets, net of related debt	47,542,956	17,893,606	65,436,562	55,270,590	53,840,899
Restricted	1,483,644	233,464	1,717,108	1,994,004	1,960,572
Unrestricted	42,722,927	7,550,386	50,273,313	54,813,460	51,628,770
<b>Total Net Position</b>	<b><u>91,749,527</u></b>	<b><u>25,677,456</u></b>	<b><u>117,426,983</u></b>	<b><u>112,078,054</u></b>	<b><u>107,430,241</u></b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b><u>\$ 103,245,925</u></b>	<b><u>\$ 34,256,036</u></b>	<b><u>\$ 137,501,961</u></b>	<b><u>\$ 131,445,611</u></b>	<b><u>\$ 128,131,272</u></b>

## Condensed Statements of Revenues, Expenses and Changes in Net Position

	2020 ELECTRIC	2020 WATER	2020 TOTALS	2019 TOTALS	2018 TOTALS
Operating revenues:					
Residential	\$ 6,703,888	\$ 2,438,728	\$ 9,142,616	\$ 8,865,483	\$ 9,394,305
Commercial and industrial	53,770,320	2,116,548	55,886,868	57,070,245	59,499,610
Other	320,196	187,962	508,158	647,635	622,428
Total operating revenue	<u>60,794,404</u>	<u>4,743,238</u>	<u>65,537,642</u>	<u>66,583,363</u>	<u>69,516,343</u>
Operating expenses:					
Fuel	1,759,357	-	1,759,357	2,438,382	2,416,132
Purchased power	42,587,516	-	42,587,516	43,343,403	45,264,278
Production	2,698,025	588,017	3,286,042	4,405,131	2,679,626
Distribution and transmission	4,345,638	1,213,210	5,558,848	5,554,745	4,786,012
Administrative and general	2,742,447	494,076	3,236,523	3,054,051	2,563,431
Payment to City of McPherson	1,828,568	53,801	1,882,369	1,734,962	1,852,943
Depreciation and amortization	2,525,079	664,782	3,189,861	3,138,605	2,778,307
Total operating expenses	<u>58,486,630</u>	<u>3,013,886</u>	<u>61,500,516</u>	<u>63,669,279</u>	<u>62,340,729</u>
Operating income	2,307,774	1,729,352	4,037,126	2,914,084	7,175,614
Nonoperating income (expenses)	<u>1,024,850</u>	<u>286,953</u>	<u>1,311,803</u>	<u>1,733,729</u>	<u>1,054,539</u>
Increase in net position	3,332,624	2,016,305	5,348,929	4,647,813	8,230,153
Net position, beginning	<u>88,416,903</u>	<u>23,661,151</u>	<u>112,078,054</u>	<u>107,430,241</u>	<u>99,200,088</u>
Net position, ending	<u>\$ 91,749,527</u>	<u>\$ 25,677,456</u>	<u>\$ 117,426,983</u>	<u>\$ 112,078,054</u>	<u>\$ 107,430,241</u>

## Financial Highlights

### 2020 Compared to 2019

- Gross electric revenue for 2020 decreased 2.75% from 2019. Gross water revenue for 2020 increased 16.59% from 2019.
- Total outstanding bond indebtedness for the water department is \$5,900,000 at December 31, 2020.
- The 2020 debt service coverage ratio of the water department is 3.01. 1.25 is required by the bond covenant agreement. For the year 2019 the ratio for the water department was 1.99.
- Debt to Equity ratio for the water department decreased in 2020 to 0.33:1 compared with 0.38:1 in 2019. The Debt to Equity ratio for the electric department decreased in 2020 to 0.12:1 compared with 0.11:1 in 2019.
- Available cash and investments for 2020 decreased 10.16% for the electric department and increased 20.94% in the water department compared to 2019.
- Interest income decreased by 27.29% for the electric department and decreased by 33.35% for the water department in 2020 compared to 2019.
- Capital Assets increased 23.75% in 2020, for the electric department, due to the initial construction phase of the Mohawk Substation. This new substation will be placed in service in 2022. The water department increased 1.05% in 2020.
- The water department will issue new debt and refinance 2012 debt in January of 2021. New debt in the amount of \$27,620,000 will be issued for the construction of the South Well Field (SWF) at a *Ture Interest Cost* (TIC) of 2.11%. \$4,675,000 of 2012 debt will be refinanced at a TIC of .53%, resulting in a savings of \$602,777.08

### ***2019 Compared to 2018***

- Gross electric revenue for 2019 decreased 4.68% from 2018. Gross water revenue for 2019 increased 3.51% from 2018.
- Total outstanding bond indebtedness for the water department is \$6,635,000 at December 31, 2019.
- The 2019 debt service coverage ratio of the water department is 1.99. 1.25 is required by the bond covenant agreement. For the year 2018 the ratio for the water department was 2.02.
- Debt to Equity ratio for the water department decreased in 2019 to 0.38:1 compared with 0.44:1 in 2018. The Debt to Equity ratio for the electric department decreased in 2019 to 0.116:1 compared with 0.126:1 in 2018.
- Available cash and investments for 2019 increased 5.48% for the electric department and 4.60% in the water department compared to 2018.
- Interest income increased by 71.01% for the electric department and increased by 50.74% for the water department in 2019 compared to 2018.

### ***Contacting McPherson BPU Management***

This financial report is designed to provide our citizens, customers, taxpayers, bondholders, and creditors with a general overview of the BPU's finances and to show accountability for the money it receives. Financial information for the BPU is also presented in the financial statements of the primary government, the City of McPherson, Kansas. If you have questions about this report or need additional financial information, contact the City of McPherson BPU, 401 West Kansas, McPherson, Kansas 67460.

## **FINANCIAL STATEMENTS**



**Board of Public Utilities - McPherson, Kansas**

**COMBINING STATEMENTS OF NET POSITION**

**December 31, 2020**

**ASSETS**

	<u>Electric</u>		<u>Water</u>		<u>Totals</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
ASSETS						
Current assets						
Cash and cash equivalents	\$ 20,072,929	\$ 11,099,052	\$ 3,817,182	\$ 2,039,502	\$ 23,890,111	\$ 13,138,554
Certificates of deposit	24,350,000	38,350,000	4,140,787	4,540,787	28,490,787	42,890,787
Accounts receivable, customer and other	5,439,290	5,731,254	720,791	634,331	6,160,081	6,365,585
Inventories	2,277,264	2,410,318	246,475	241,716	2,523,739	2,652,034
Prepaid insurance	74,390	-	7,184	-	81,574	-
Accrued interest	<u>34,283</u>	<u>176,547</u>	<u>2,339</u>	<u>26,736</u>	<u>36,622</u>	<u>203,283</u>
Total current assets	<u>52,248,156</u>	<u>57,767,171</u>	<u>8,934,758</u>	<u>7,483,072</u>	<u>61,182,914</u>	<u>65,250,243</u>
Noncurrent assets						
Restricted cash and cash equivalents	1,033,644	976,889	133,464	138,447	1,167,108	1,115,336
Restricted certificates of deposit	450,000	500,000	1,059,213	1,409,213	1,509,213	1,909,213
Capital assets						
Land	769,786	769,786	5,703,610	5,703,610	6,473,396	6,473,396
Buildings and equipment	105,167,612	103,951,981	29,244,354	28,426,300	134,411,966	132,378,281
Construction in process	11,690,818	2,090,388	175,662	28,782	11,866,480	2,119,170
Less accumulated depreciation	(70,085,260)	(68,394,598)	(11,290,949)	(10,574,019)	(81,376,209)	(78,968,617)
Industrial development property, at cost	369,322	369,322	-	-	369,322	369,322
Other assets	<u>12,500</u>	<u>12,500</u>	<u>-</u>	<u>-</u>	<u>12,500</u>	<u>12,500</u>
Total noncurrent assets	<u>49,408,422</u>	<u>40,276,268</u>	<u>25,025,354</u>	<u>25,132,333</u>	<u>74,433,776</u>	<u>65,408,601</u>
DEFERRED OUTFLOWS OF RESOURCES						
Deferred charge on refunding	-	-	15,450	17,739	15,450	17,739
Deferred outflows related to OPEB healthcare	22,923	25,007	4,045	4,413	26,968	29,420
Deferred outflows related to OPEB KPERS	75,147	9,079	13,261	1,602	88,408	10,681
Deferred outflows related to pensions	1,220,319	351,020	215,352	61,945	1,435,671	412,965
Pension contributions subsequent to the measurement date	<u>270,958</u>	<u>268,568</u>	<u>47,816</u>	<u>47,394</u>	<u>318,774</u>	<u>315,962</u>
Total deferred outflows of resources	<u>1,589,347</u>	<u>653,674</u>	<u>295,924</u>	<u>133,093</u>	<u>1,885,271</u>	<u>786,767</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 103,245,925</u>	<u>\$ 98,697,113</u>	<u>\$ 34,256,036</u>	<u>\$ 32,748,498</u>	<u>\$ 137,501,961</u>	<u>\$ 131,445,611</u>

**Board of Public Utilities - McPherson, Kansas**

**COMBINING STATEMENTS OF NET POSITION (CONTINUED)**

**December 31, 2020**

**LIABILITIES AND NET POSITION**

	<u>Electric</u>		<u>Water</u>		<u>Totals</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable	\$ 4,449,284	\$ 4,631,849	\$ 45,704	\$ 15,285	\$ 4,494,988	\$ 4,647,134
Current maturities of revenue bonds	-	-	755,000	735,000	755,000	735,000
Accrued interest on revenue bonds	-	-	50,458	54,374	50,458	54,374
Current maturities of notes payable	-	-	30,092	28,923	30,092	28,923
Accrued interest on notes payable	-	-	16,391	16,958	16,391	16,958
Customer meter and other deposits	805,616	748,287	-	-	805,616	748,287
Self-insurance claims payable	38,250	38,250	6,750	6,750	45,000	45,000
Accrued payroll	566,939	442,814	97,611	77,162	664,550	519,976
Accrued interest on customer meter deposits	6,257	10,325	-	-	6,257	10,325
Due to City of McPherson	-	-	373,980	347,565	373,980	347,565
<b>Total current liabilities</b>	<u>5,866,346</u>	<u>5,871,525</u>	<u>1,375,986</u>	<u>1,282,017</u>	<u>7,242,332</u>	<u>7,153,542</u>
Long-term liabilities						
Long-term debt - revenue bonds	-	-	5,338,340	6,121,983	5,338,340	6,121,983
Long-term debt - notes payable	-	-	774,852	804,944	774,852	804,944
Postemployment benefit liability OPEB healthcare	250,565	246,055	44,217	43,421	294,782	289,476
Postemployment benefit liability OPEB KPERS	286,465	207,315	50,553	36,585	337,018	243,900
Net pension liability	<u>5,012,215</u>	<u>3,827,251</u>	<u>884,509</u>	<u>675,397</u>	<u>5,896,724</u>	<u>4,502,648</u>
<b>Total long-term liabilities</b>	<u>5,549,245</u>	<u>4,280,621</u>	<u>7,092,471</u>	<u>7,682,330</u>	<u>12,641,716</u>	<u>11,962,951</u>
Other liabilities						
Water meter advances	-	-	95,863	100,401	95,863	100,401
<b>TOTAL LIABILITIES</b>	<u>11,415,591</u>	<u>10,152,146</u>	<u>8,564,320</u>	<u>9,064,748</u>	<u>19,979,911</u>	<u>19,216,894</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows related to OPEB KPERS	7,301	8,467	1,289	1,494	8,590	9,961
Deferred inflows related to pensions	<u>73,506</u>	<u>119,597</u>	<u>12,971</u>	<u>21,105</u>	<u>86,477</u>	<u>140,702</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>80,807</u>	<u>128,064</u>	<u>14,260</u>	<u>22,599</u>	<u>95,067</u>	<u>150,663</u>
<b>NET POSITION</b>						
Invested in capital assets, net of related debt	47,542,956	38,417,556	17,893,606	16,853,034	65,436,562	55,270,590
Restricted for debt service	-	-	100,000	378,668	100,000	378,668
Restricted for health insurance	678,028	728,602	119,652	128,577	797,680	857,179
Restricted for customer deposits	805,616	748,287	-	-	805,616	748,287
Restricted for city collections for sewer, refuse, & storm	-	-	13,812	9,870	13,812	9,870
Unrestricted	<u>42,722,927</u>	<u>48,522,458</u>	<u>7,550,386</u>	<u>6,291,002</u>	<u>50,273,313</u>	<u>54,813,460</u>
<b>TOTAL NET POSITION</b>	<u>91,749,527</u>	<u>88,416,903</u>	<u>25,677,456</u>	<u>23,661,151</u>	<u>117,426,983</u>	<u>112,078,054</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 103,245,925</u>	<u>\$ 98,697,113</u>	<u>\$ 34,256,036</u>	<u>\$ 32,748,498</u>	<u>\$ 137,501,961</u>	<u>\$ 131,445,611</u>

**Board of Public Utilities - McPherson, Kansas**

**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**For the Year Ended December 31, 2020**

**(With comparative totals for the year ended December 31, 2019)**

	<u>Electric</u>		<u>Water</u>		<u>Totals</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
OPERATING REVENUE						
Electric						
Metered sales	\$ 55,737,772	\$ 56,417,616	\$ -	\$ -	\$ 55,737,772	\$ 56,417,616
Street lighting	315,574	475,589	-	-	315,574	475,589
Sales to interconnection	4,741,058	5,621,874	-	-	4,741,058	5,621,874
Water						
Sale of water	-	-	4,743,238	4,068,284	4,743,238	4,068,284
Total operating revenue	<u>60,794,404</u>	<u>62,515,079</u>	<u>4,743,238</u>	<u>4,068,284</u>	<u>65,537,642</u>	<u>66,583,363</u>
OPERATING EXPENSE						
Fuel	1,759,357	2,438,382	-	-	1,759,357	2,438,382
Purchased power	42,587,516	43,343,403	-	-	42,587,516	43,343,403
Production	2,698,025	3,837,927	588,017	567,204	3,286,042	4,405,131
Distribution and transmission	4,345,638	3,998,941	1,213,210	1,555,804	5,558,848	5,554,745
Administrative and general	2,742,447	2,615,601	494,076	438,450	3,236,523	3,054,051
Payment to City of McPherson	1,828,568	1,682,523	53,801	52,439	1,882,369	1,734,962
Depreciation and amortization	<u>2,525,079</u>	<u>2,496,102</u>	<u>664,782</u>	<u>642,503</u>	<u>3,189,861</u>	<u>3,138,605</u>
Total operating expense	<u>58,486,630</u>	<u>60,412,879</u>	<u>3,013,886</u>	<u>3,256,400</u>	<u>61,500,516</u>	<u>63,669,279</u>
OPERATING INCOME	<u>2,307,774</u>	<u>2,102,200</u>	<u>1,729,352</u>	<u>811,884</u>	<u>4,037,126</u>	<u>2,914,084</u>
NONOPERATING INCOME (EXPENSE)						
Interest income	731,512	1,006,128	116,155	174,209	847,667	1,180,337
Revenues from merchandising, jobbing and contract work and miscellaneous income	274,565	481,436	245,308	180,784	519,873	662,220
Less cost of merchandising	(113,179)	(136,335)	(11,740)	(5,466)	(124,919)	(141,801)
Refuse collection and sewer service fees	86,059	85,620	15,199	15,114	101,258	100,734
Penalties, earned discounts and other	46,386	64,272	-	-	46,386	64,272
Farm rents, net of expense	(22,368)	3,309	141,351	110,825	118,983	114,134
Gain (loss) on disposal of capital assets	21,875	(40)	1,530	923	23,405	883
Interest on debt	-	-	(220,850)	(247,050)	(220,850)	(247,050)
Total nonoperating income (expense)	<u>1,024,850</u>	<u>1,504,390</u>	<u>286,953</u>	<u>229,339</u>	<u>1,311,803</u>	<u>1,733,729</u>
CHANGE IN NET POSITION	3,332,624	3,606,590	2,016,305	1,041,223	5,348,929	4,647,813
TOTAL NET POSITION, BEGINNING OF YEAR	<u>88,416,903</u>	<u>84,810,313</u>	<u>23,661,151</u>	<u>22,619,928</u>	<u>112,078,054</u>	<u>107,430,241</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 91,749,527</u>	<u>\$ 88,416,903</u>	<u>\$ 25,677,456</u>	<u>\$ 23,661,151</u>	<u>\$ 117,426,983</u>	<u>\$ 112,078,054</u>

**Board of Public Utilities - McPherson, Kansas**

**COMBINING STATEMENTS OF CASH FLOWS**

**For the Year Ended December 31, 2020**

**(With comparative totals for the year ended December 31, 2019)**

	<u>Electric</u>		<u>Water</u>		<u>Totals</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 61,528,339	\$ 63,662,054	\$ 5,058,636	\$ 4,316,723	\$ 66,586,975	\$ 67,978,777
Payments to suppliers	(46,148,451)	(49,071,926)	(825,426)	(1,177,201)	(46,973,877)	(50,249,127)
Payments to employees	(7,525,670)	(7,710,470)	(1,318,250)	(1,408,896)	(8,843,920)	(9,119,366)
Other receipts (payments)	(1,828,568)	(1,682,523)	(53,801)	(52,439)	(1,882,369)	(1,734,962)
Net cash flows from operating activities	<u>6,025,650</u>	<u>5,197,135</u>	<u>2,861,159</u>	<u>1,678,187</u>	<u>8,886,809</u>	<u>6,875,322</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Purchase of capital assets	(12,138,983)	(3,611,154)	(1,891,444)	(1,141,287)	(14,030,427)	(4,752,441)
Proceeds from sale of capital assets	220,189	34,228	928,040	563,267	1,148,229	597,495
Principal payments on bonds	-	-	(735,000)	(705,000)	(735,000)	(705,000)
Principal payments on notes payable	-	-	(28,923)	(14,038)	(28,923)	(14,038)
Interest paid on debt	-	-	(251,687)	(263,777)	(251,687)	(263,777)
Net cash flows from capital and related financing activities	<u>(11,918,794)</u>	<u>(3,576,926)</u>	<u>(1,979,014)</u>	<u>(1,560,835)</u>	<u>(13,897,808)</u>	<u>(5,137,761)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Purchase of certificates of deposit	(25,200,000)	(29,850,000)	(6,450,000)	(3,900,000)	(31,650,000)	(33,750,000)
Proceeds from sale or maturity of certificates of deposit	39,250,000	29,850,000	7,200,000	3,900,000	46,450,000	33,750,000
Interest received	873,776	992,137	140,552	172,897	1,014,328	1,165,034
Net cash flows from investing activities	<u>14,923,776</u>	<u>992,137</u>	<u>890,552</u>	<u>172,897</u>	<u>15,814,328</u>	<u>1,165,034</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>9,030,632</u>	<u>2,612,346</u>	<u>1,772,697</u>	<u>290,249</u>	<u>10,803,329</u>	<u>2,902,595</u>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>12,075,941</u>	<u>9,463,595</u>	<u>2,177,949</u>	<u>1,887,700</u>	<u>14,253,890</u>	<u>11,351,295</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 21,106,573</u>	<u>\$ 12,075,941</u>	<u>\$ 3,950,646</u>	<u>\$ 2,177,949</u>	<u>\$ 25,057,219</u>	<u>\$ 14,253,890</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
Operating income	\$ 2,307,774	\$ 2,102,200	\$ 1,729,352	\$ 811,884	\$ 4,037,126	\$ 2,914,084
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	2,815,273	2,764,367	716,930	709,453	3,532,203	3,473,820
Other nonoperating income	293,338	498,262	391,648	302,180	684,986	800,442
(Gain) loss on disposal of capital assets	(21,875)	40	(1,530)	(923)	(23,405)	(883)
Changes in:						
Accounts and notes receivable	291,964	513,032	(86,460)	(58,284)	205,504	454,748
Inventories	133,054	(225,946)	(4,759)	27,182	128,295	(198,764)
Accounts payable	(182,565)	(303,192)	30,419	(70,016)	(152,146)	(373,208)
Accrued expenses	120,057	(237,592)	46,864	(16,454)	166,921	(254,046)
Postemployment benefit asset	4,507	56,774	14,764	10,020	19,271	66,794
KPERS liability net of deferred inflows/outflows	281,184	29,884	35,653	5,275	316,837	35,159
Water meter advances	-	-	(4,538)	(42,130)	(4,538)	(42,130)
Customer meter deposits	57,329	(694)	-	-	57,329	(694)
Net cash provided from operating activities	<u>\$ 6,025,650</u>	<u>\$ 5,197,135</u>	<u>\$ 2,861,159</u>	<u>\$ 1,678,187</u>	<u>\$ 8,886,809</u>	<u>\$ 6,875,322</u>

**Board of Public Utilities - McPherson, Kansas**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**December 31, 2020 and 2019**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Board of Public Utilities of McPherson, Kansas (the BPU) consists of the municipal electric and water departments that provide services to approximately 8,700 electric and 5,900 water customers. The BPU's operational control and administration is under a three-member appointed Board of Directors (the Board). However, the BPU is owned by and is a part of the primary government of the City of McPherson, Kansas (the City) because the City holds the corporate powers of the BPU. The accompanying financial statements include only those operations related to the electric and water utilities.

The following is a summary of the more significant accounting policies applicable to the BPU.

**(a) Basis of Accounting and Budgeting**

The Board of Public Utilities maintains its accounts in accordance with accounting principles generally accepted in the United States of America for utility accounting and follows the uniform system of accounts as prescribed by the Federal Energy Regulatory Commission. The Board operates separate electric and water utility departments. General management, administrative offices and personnel are common to both the electric and water departments. Administrative overhead expenses are allocated between the two departments on a percentage approximating their respective gross receipts. Interfund transactions which are material have been eliminated. The BPU accounts for its transactions on the flow of economic resources measurement focus and uses the accrual basis of accounting under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. In reporting its financial activity, the BPU applies all applicable Governmental Accounting Standards Board (GASB) pronouncements. In accordance with accounting principles generally accepted in the United States of America for rate-regulated enterprises, certain costs or credits may be recorded as deferred charges or credits when it is probable, based on historical precedents and Board resolutions, that future rates established by the Board will recover or return such costs or credits. The BPU follows the uniform system of accounts as prescribed by the Federal Energy Regulatory Commission and the Financial Accounting Standards Board (FASB) Codification, Section 980 Regulated Operations.

Although the BPU is required to adopt an annual budget, there is no reporting requirement. Therefore, budgetary information has not been included in this report.

**(b) Cash and Cash Equivalents**

Cash and cash equivalents in the accompanying statements of cash flows include all highly liquid investments (including restricted assets) with an original maturity of three months or less.

**(c) Revenue Recognition**

Operating revenues include revenues from the provision and delivery of electricity and water to customers. Operating expenses consist of costs incurred through the provision and delivery of electricity and water to customers. Meters are read and bills rendered on a cycle basis. Nonoperating revenues are those related to capital and related financing, noncapital financing and investing activities, as well as those that do not meet the definition of operating revenues. Revenues earned after meters are read are estimated and accrued as unbilled revenues at the end of each accounting period.

**(d) Accounts Receivable and Revenue**

Accounts receivable include open trade receivables representing claims for utility services sold or other special services sold in the ordinary course of business. Utility accounts receivable are considered delinquent after 28 days and a one-time 2% late fee on the current month's charges is assessed. Other accounts receivable become delinquent after 30 days and interest accrues at an annual rate of 24% until payment is received in full. After three months, interest ceases to accrue on other receivables and the account is turned over for collection.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (d) *Accounts Receivable and Revenue (continued)*

The BPU utilizes cycle billing and accrues the amount of revenues for sales unbilled at the end of each reporting period. Fuel and purchased power costs in excess of or less than those reflected in base rates are adjusted subsequent to the period in which such excess costs were incurred through cost adjustment clauses.

### (e) *Allowance for Doubtful Accounts*

The BPU considers accounts receivable to be fully collectible. Accordingly, no provision has been established for doubtful accounts. If amounts become uncollectible they will be charged to operations when that determination is made.

### (f) *Inventories*

Inventories are carried at cost substantially valued on an average cost method, except for fuel oil which is carried at last-in first-out. Materials and supplies are essentially repair and replacement items for the maintenance of the two systems. Inventories at December 31 consist of the following:

	Water	Electric	Totals	
			2020	2019
Fuel	\$ -	\$ 1,086,409	\$ 1,086,409	\$ 1,287,446
Materials and supplies	246,475	1,190,855	1,437,330	1,364,588
Total	<u>\$ 246,475</u>	<u>\$ 2,277,264</u>	<u>\$ 2,523,739</u>	<u>\$ 2,652,034</u>

### (g) *Capital Assets and Depreciation*

Capital assets are stated at actual purchased cost or cost of construction, including payroll-related costs. All completed and purchased utility property is depreciated on the straight-line method over lives recommended for the different classes of assets by the Federal Energy Regulatory Commission (FERC) and independent engineers. The BPU has a policy to capitalize all purchases over \$5,000. Repairs and maintenance costs are expensed as incurred. Transformers are capitalized and depreciated immediately upon purchase. Vehicle depreciation is charged to various expense lines based on FERC guidelines.

### (h) *Estimates and Assumptions*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of capital assets, allowances for doubtful accounts, inventories, investments, and reserves for employee benefit obligations, environmental liabilities, and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

### (i) *Deferred Charges*

Costs incurred in the development of computer software are deferred and amortized over the useful lives of the systems, which is estimated to be five years.

### (j) *Vacation and Sick Leave*

Vacation - Vacation leave shall be accrued from the employee's date of employment as stipulated hereinafter. Vacation leave, if not taken, shall accrue from year to year up to maximum provided, depending upon the employee's years of service. No vacation leave shall be taken until a new employee has completed the probationary period.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

### (j) *Vacation and Sick Leave (continued)*

Each permanent full-time employee will accrue vacation leave as follows:

<u>Maximum Years of Service</u>	<u>Hours Accrued Per Year</u>	<u>Maximum Accumulation</u>
0 to 5 years	80 working hours	120 working hours
5 to 10 years	120 working hours	180 working hours
10 to 15 years	144 working hours	216 working hours
15 to 25 years	160 working hours	240 working hours
After 25 years	200 working hours	300 working hours

An employee shall be paid for all accumulated unused vacation leave upon termination. The liability for accumulated vacation at December 31, 2020, for the electric department and the water department of \$388,254 and \$64,401, respectively, and at December 31, 2019, for the electric department and the water department of \$325,156 and \$54,525, respectively, has been accrued in the accompanying financial statements as accrued payroll.

Sick leave - All employees who work not less than one-half time shall be entitled to sick leave with pay for absences resulting from personal illness, injuries, accidents or other physical incapacities, occurring either on or off the job. Full-time employees shall earn one working day of sick leave for each full month of service. Part-time employees shall receive the equivalent of a regularly scheduled day for each full month of service. Other employees shall not have paid sick leave. An employee beginning work on or before the 15th of the month shall get credit for a full month. On termination of employment an employee shall not be paid for accumulated sick leave. Accordingly, no provision for accumulated sick leave has been made in the accompanying financial statements.

### (k) *Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Kansas Public Employees Retirement System (KPERs) and additions to/deductions from KPERs's fiduciary net position have been determined on the same basis as they are reported by KPERs. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### (l) *Interest Capitalization*

It is BPU's policy to capitalize net interest costs on funds borrowed to finance construction of major capital additions. For the year ended December 31, 2020, the BPU's total interest expense was \$220,850. Net interest cost of \$0 was capitalized in connection with construction in progress during 2020. For the year ended December 31, 2019, the BPU's total interest expense was \$247,050. Net interest cost of \$0 was capitalized in connection with construction in progress during 2019.

### (m) *Net Position*

In the financial statements, net position 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".

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

### ***(n) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of***

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets* establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service to the utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. The BPU has not recorded any impairment of long-lived assets in 2020 or 2019.

### ***(o) Deferred Outflows and Inflows of Resources***

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets in one period that are applicable to future periods. The BPU has recorded a deferred outflow of resources as a result of unamortized balances of the differences in the carrying value of the refunded debt and the reacquisition prices that were a result of the refund of the water bonds in 2012. These deferred outflows of resources are being amortized as a component of interest expense over the life of the old bonds or the new bonds, whichever is shorter. The BPU has also recorded a deferred outflow for the deferred pension contributions subsequent to the measurement date of the net pension liability. This amount will be recognized as a reduction of the net pension liability in the following year. Finally, there is a deferred outflow related to pensions as actuarially determined and explained in Note 17 and other post-employment benefits as actuarially determined and explained in Notes 15 and 16.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The BPU has recorded the deferred inflows related to pensions as actuarially determined and explained in Note 17 and other post-employment benefits as actuarially determined and explained in Notes 15 and 16.

## **2. COMMITMENTS**

At December 31, 2020, there were contract commitments totalling \$9,915,625. At December 31, 2019, there were contract commitments totalling \$813,500.

## **3. 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 self-insures for health care claims. Under the self-insured plan, the BPU, along with the City of McPherson, is responsible for a potential liability up to \$100,000 per individual per year for health care claims. At December 31, 2020, the BPU has established a liability of \$45,000 that is recorded on the statement of net position for claims arising out of the self-insurance program. At December 31, 2019, this liability was \$45,000. Management believes claims incurred, but not reported, are insignificant at December 31, 2020.

The BPU implemented a new Health Care Plan Reserve Policy during 2016. This was established to provide for claims in excess of expected cost and for incurred but unreported liability. The Plan must maintain a minimum Health Care Plan Reserve equal to at least four months of expected Plan claim liability and will seek to maintain a range between seven months and ten months.

## **4. INDUSTRIAL DEVELOPMENT PROPERTY**

Industrial development property consists of the accumulated costs in various tracts of land held for system expansion or industrial use.



## 5. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the BPU. The statute requires that banks eligible to hold the BPU's funds have a main or branch bank in the county in which the BPU is located, or in an adjoining county if such institution has been designated an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The BPU has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the BPU's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The BPU has no investment policy that would further limit investment choices. The rating of the BPU's investments is noted below, if applicable.

**Concentration of Credit Risk.** State statutes place no limit on the amount the BPU may invest in any one issue as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

**Custodial Risk – deposits.** Custodial credit risk is the risk that in the event of bank failure, the BPU's deposits may not be returned to it. State statutes require the BPU's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank with the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2020 and 2019.

**Custodial Credit Risk – investments.** For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the BPU will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

### (a) *Deposits*

At December 31, 2020 and 2019, the carrying amount of the BPU's deposits, including certificates of deposit, was \$55,057,219 and \$59,052,890, respectively, and the bank balance was \$56,273,808 and \$59,228,464, respectively. The bank balance was held by three banks resulting in a concentration of credit risk. Of the bank balance, \$750,000 was secured by federal depository insurance and \$55,523,808 was collateralized with securities held by the pledging financial institutions' agents in the BPU's name and deposit surety bonds.

Deposits and investments are shown on the combined balance sheets at December 31, 2020 and 2019, as follows:

	<u>2020</u>	<u>2019</u>
Current assets		
Cash and cash equivalents	\$ 23,890,111	\$ 13,138,554
Certificates of deposit	28,490,787	42,890,787
Noncurrent assets		
Restricted Cash and cash equivalents	1,167,108	1,115,336
Restricted Certificates of deposit	<u>1,509,213</u>	<u>1,909,213</u>
Total	<u>\$ 55,057,219</u>	<u>\$ 59,053,890</u>

A summary of deposits and cash at December 31, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Total deposits	\$ 55,056,219	\$ 59,052,890
Cash on hand	<u>1,000</u>	<u>1,000</u>
Total	<u>\$ 55,057,219</u>	<u>\$ 59,053,890</u>

## 5. DEPOSITS AND INVESTMENTS (CONT.)

### (b) Designated Assets

Certain unrestricted cash and cash equivalents and certificates of deposit have been designated by Board policy for specific purposes are as follows at December 31:

	Electric	Water	Totals	
			2020	2019
Long Range Electric Supply	\$ 19,085,067	\$ -	\$ 19,085,067	\$ 19,085,067
Long Range Water Supply	-	3,117,703	3,117,703	3,117,703
Workers Comp Insurance Fund	262,530	46,329	308,859	255,367
Total	<u>\$ 19,347,597</u>	<u>\$ 3,164,032</u>	<u>\$ 22,511,629</u>	<u>\$ 22,458,137</u>

### (c) Restricted Assets

Restricted assets were held in the following funds at December 31:

	Electric	Water	Totals	
			2020	2019
Bond Reserve Fund (part of invested in capital assets)	\$ -	\$ 959,213	\$ 959,213	\$ 959,213
Bond Emergency Fund	-	100,000	100,000	100,000
Bond and Interest Fund	-	-	-	278,668
Health Insurance Fund	678,028	119,652	797,680	857,179
Customer Deposit Fund	805,616	-	805,616	748,287
Refuse Fund	-	(958)	(958)	34,672
Sewer Fund	-	11,198	11,198	109,024
Storm Fund	-	3,572	3,572	(133,826)
Total	<u>\$ 1,483,644</u>	<u>\$ 1,189,105</u>	<u>\$ 2,676,321</u>	<u>\$ 2,953,217</u>

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

## 6. RESERVE FUNDS

In September 1983, the Board established a reserve fund in the water department for long-range water supplies. The \$3,117,703 balance at December 31, 2020 and 2019, respectively, may be increased or decreased as the Board desires.

In February 1989, the Board established a reserve fund in the electric department for long-range electric requirements. An initial reserve of \$1,500,000 was established with an additional \$1,500,000 to be added annually for ten years. This reserve is also to be increased by the income earned on the respective investments. Thereafter, this fund may be increased or decreased as the Board desires. The fund balance at December 31, 2020 and 2019, was \$19,085,067.

## 7. CAPITAL ASSETS

The following is a summary of capital assets at December 31, 2020:

	Electric Department				Balance December 31, 2020
	Balance December 31, 2019	Additions	Deletions	Transfers	
Land and improvements	\$ 769,786	\$ -	\$ -	\$ -	\$ 769,786
Production plants	51,381,334	63,487	-	-	51,444,821
Transmission and distribution	45,932,449	2,305,487	(1,176,135)	-	47,061,801
General plant	6,638,186	22,804	-	-	6,660,990
Construction in progress	2,090,388	13,558,837	(3,958,407)	-	11,690,818
	106,812,143	15,950,615	(5,134,542)	-	117,628,216
Less accumulated depreciation	(68,394,598)	(2,815,274)	1,124,612	-	(70,085,260)
Total	<u>\$ 38,417,545</u>	<u>\$ 13,135,341</u>	<u>\$ (4,009,930)</u>	<u>\$ -</u>	<u>\$ 47,542,956</u>

  

	Water Department				Balance December 31, 2020
	Balance December 31, 2019	Additions	Deletions	Transfers	
Land and improvements	\$ 5,703,610	\$ -	\$ -	\$ -	\$ 5,703,610
Production plants	10,330,951	-	-	-	10,330,951
Transmission and distribution	16,618,709	814,030	-	-	17,432,739
General plant	1,476,640	4,024	-	-	1,480,664
Construction in progress	28,782	1,073,390	(926,510)	-	175,662
	34,158,692	1,891,444	(926,510)	-	35,123,626
Less accumulated depreciation	(10,574,019)	(716,930)	-	-	(11,290,949)
Total	<u>\$ 23,584,673</u>	<u>\$ 1,174,514</u>	<u>\$ (926,510)</u>	<u>\$ -</u>	<u>\$ 23,832,677</u>

The following is a summary of capital assets at December 31, 2019:

	Electric Department				Balance December 31, 2019
	Balance December 31, 2018	Additions	Deletions	Transfers	
Land and improvements	\$ 769,786	\$ -	\$ -	\$ -	\$ 769,786
Production plants	51,349,539	54,810	(23,015)	-	51,381,334
Transmission and distribution	43,825,356	2,179,823	(72,730)	-	45,932,449
General plant	6,555,658	105,057	(22,529)	-	6,638,186
Construction in progress	818,934	3,831,949	(2,560,495)	-	2,090,388
	103,319,273	6,171,639	(2,678,769)	-	106,812,143
Less accumulated depreciation	(65,714,238)	(2,764,367)	84,007	-	(68,394,598)
Total	<u>\$ 37,605,035</u>	<u>\$ 3,407,272</u>	<u>\$ (2,594,762)</u>	<u>\$ -</u>	<u>\$ 38,417,545</u>

## 7. CAPITAL ASSETS (CONT.)

	Water Department				Balance December 31, 2019
	Balance December 31, 2018	Additions	Deletions	Transfers	
Land and improvements	\$ 5,703,610	\$ -	\$ -	\$ -	\$ 5,703,610
Production plants	1,376,368	3,920	-	8,950,663	10,330,951
Transmission and distribution	24,974,727	594,645	-	(8,950,663)	16,618,709
General plant	1,476,640	-	-	-	1,476,640
Construction in progress	48,404	542,722	(562,344)	-	28,782
	33,579,749	1,141,287	(562,344)	-	34,158,692
Less accumulated depreciation	(9,864,566)	(709,453)	-	-	(10,574,019)
Total	\$ 23,715,183	\$ 431,834	\$ (562,344)	\$ -	\$ 23,584,673

Depreciation expense for the year ended December 31, 2020, for the electric and water departments is \$2,815,274 and \$716,929, respectively, as illustrated in the following table. Depreciation expense on the statement of revenues, expenses and changes in net position does not include vehicle depreciation of \$290,195 and \$52,147 charged to other accounts in the electric department and the water department, respectively, per guidelines of the Federal Regulatory Energy Commission (FERC).

	Electric Department			
	Accumulated Depreciation December 31, 2019	Additions	Transfers/ Deletions	Accumulated Depreciation December 31, 2020
Production plants	\$ 36,195,609	\$ 1,270,378	\$ -	\$ 37,465,987
Transmission and distribution	30,000,137	1,266,369	(1,124,612)	30,141,894
General plant	2,198,852	278,527	-	2,477,379
	<u>\$ 68,394,598</u>	<u>\$ 2,815,274</u>	<u>\$ (1,124,612)</u>	<u>\$ 70,085,260</u>

  

	Water Department			
	Accumulated Depreciation December 31, 2019	Additions	Transfers/ Deletions	Accumulated Depreciation December 31, 2020
Production plants	\$ 1,254,314	\$ 10,631	\$ -	\$ 1,264,945
Transmission and distribution	8,903,664	650,775	-	9,554,439
General plant	416,041	55,524	-	471,565
	<u>\$ 10,574,019</u>	<u>\$ 716,930</u>	<u>\$ -</u>	<u>\$ 11,290,949</u>

Depreciation expense for the year ended December 31, 2019, for the electric and water departments is \$2,764,366 and \$709,453, respectively, as illustrated in the following table. Depreciation expense on the statement of revenues, expenses and changes in net position does not include vehicle depreciation of \$268,265 and \$66,951 charged to other accounts in the electric department and the water department, respectively, per guidelines of the Federal Regulatory Energy Commission (FERC).

## 7. CAPITAL ASSETS (CONT.)

	Electric Department			Accumulated Depreciation December 31, 2019
	Accumulated Depreciation December 31, 2018	Additions	Transfers/ Deletions	
Production plants	\$ 34,949,034	\$ 1,269,590	\$ (23,015)	\$ 36,195,609
Transmission and distribution	28,823,354	1,215,245	(38,462)	30,000,137
General plant	1,941,850	279,531	(22,529)	2,198,852
	<u>\$ 65,714,238</u>	<u>\$ 2,764,366</u>	<u>\$ (84,006)</u>	<u>\$ 68,394,598</u>

  

	Water Department			Accumulated Depreciation December 31, 2019
	Accumulated Depreciation December 31, 2018	Additions	Transfers/ Deletions	
Production plants	\$ 1,243,879	\$ 10,435	\$ -	\$ 1,254,314
Transmission and distribution	8,261,365	642,299	-	8,903,664
General plant	359,322	56,719	-	416,041
	<u>\$ 9,864,566</u>	<u>\$ 709,453</u>	<u>\$ -</u>	<u>\$ 10,574,019</u>

## 8. REVENUE BONDS

The various bond ordinances require that certain restricted funds be established to ensure the payment of bonds and interest and to enable the BPU to meet future needs arising from unusual maintenance requirements or income shortfalls. The ordinances also require the BPU, among other things, to establish rates and collect charges sufficient to pay the operating maintenance and debt service costs of the utilities and to provide net operating income before depreciation and payment in lieu of taxes, of at least 125% for the water department of the maximum annual debt service due on the outstanding bonds. As of December 31, 2020 and 2019, the BPU exceeded this coverage requirement for water debt. All of the BPU's utility plant facilities are pledged under the terms of the ordinances. The BPU was in compliance with all other requirements of the revenue bond ordinances at December 31, 2020 and 2019.

A schedule of the bonded indebtedness of the BPU and a maturity schedule of retirements is as follows:

### SCHEDULE OF INDEBTEDNESS

	Original Amount Issued	Interest Rate	Maturity	Total Outstanding 12/31/20
<b>Water Utility System</b>				
Refunding and Improvement Revenue Bonds, Series 2012	\$ 11,085,000	2.00 to 4.00%	10-01-2027	\$ 5,900,000
Add Unamortized Bond Premium				193,340
				6,093,340
Less Current Maturities				(755,000)
Long-Term Debt - revenue bonds				<u>\$ 5,338,340</u>

## 8. REVENUE BONDS (CONT.)

### SUMMARY OF CHANGES IN LONG-TERM DEBT

	Outstanding 12/31/19	Issued	Retired	Refunding	Outstanding 12/31/20
<b>Water Utility System</b>					
Series 2012	\$ 6,635,000	\$ -	\$ 735,000	\$ -	\$ 5,900,000
Add Unamortized Bond Premium	221,983	-	(28,643)	-	193,340
Total	<u>\$ 6,856,983</u>	<u>\$ -</u>	<u>\$ 706,357</u>	<u>\$ -</u>	<u>\$ 6,093,340</u>
	Outstanding 12/31/18	Issued	Retired	Refunding	Outstanding 12/31/19
<b>Water Utility System</b>					
Series 2012	\$ 7,340,000	\$ -	\$ 705,000	\$ -	\$ 6,635,000
Add Unamortized Bond Premium	250,626	-	(28,643)	-	221,983
Total	<u>\$ 7,590,626</u>	<u>\$ -</u>	<u>\$ 676,357</u>	<u>\$ -</u>	<u>\$ 6,856,983</u>

Revenue bonds are scheduled to mature in the years ending December 31, as follows:

Year Ending	2012 Water Issue		
	Bonds	Interest	Total
2021	\$ 755,000	\$ 203,000	\$ 958,000
2022	780,000	172,800	952,800
2023	815,000	141,600	956,600
2024	845,000	109,000	954,000
2025	875,000	83,650	958,650
2025 - 2027	<u>1,830,000</u>	<u>86,613</u>	<u>1,916,613</u>
Total	<u>\$ 5,900,000</u>	<u>\$ 796,663</u>	<u>\$ 6,696,663</u>

## 9. NOTES PAYABLE

On December 3, 2013, the BPU purchased land for the purpose of securing water rights. Of the purchase price, \$974,000 was financed by the sellers with a note payable for 25 years at 4% APR. The note requires semi-annual payments of principal and interest of \$30,996 through January 1, 2039, with the first payment being due July 1, 2014.

	Outstanding 12/31/19	Issued	Payments	Outstanding 12/31/20
Land Note Payable - Water Rights	<u>\$ 833,867</u>	<u>\$ -</u>	<u>\$ 28,923</u>	<u>\$ 804,944</u>
Total	<u>\$ 833,867</u>	<u>\$ -</u>	<u>\$ 28,923</u>	<u>\$ 804,944</u>
	Outstanding 12/31/18	Issued	Payments	Outstanding 12/31/19
Land Note Payable - Water Rights	<u>\$ 847,905</u>	<u>\$ -</u>	<u>\$ 14,038</u>	<u>\$ 833,867</u>
Total	<u>\$ 847,905</u>	<u>\$ -</u>	<u>\$ 14,038</u>	<u>\$ 833,867</u>

## 9. NOTES PAYABLE (CONT.)

The long-term notes payable are scheduled to mature in the years ending December 31, as follows:

<u>Year Ending</u>	<u>Note Payable - Water Rights</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 30,092	\$ 31,900	\$ 61,992
2022	31,308	30,684	61,992
2023	32,572	29,419	61,991
2024	33,888	28,103	61,991
2025 - 2029	191,118	118,840	309,958
2030 - 2034	232,972	76,987	309,959
2035 - 2039	252,994	25,967	278,961
Total	<u>\$ 804,944</u>	<u>\$ 341,900</u>	<u>\$ 1,146,844</u>

## 10. CLAIMS AND JUDGMENTS

The BPU is subject to various laws and regulations with respect to environmental matters such as air and water quality. The effect of any future changes in environmental laws and/or regulations cannot be estimated. However, compliance with such changes may necessitate substantial expenditures.

During the ordinary course of its operations, the BPU is a party to various claims, legal actions and complaints. It is the opinion of the BPU's management and legal counsel that these matters are not anticipated to have a material impact on the Utility.

The BPU is exposed to various risks of loss related to property loss, torts, errors and omissions. The BPU has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2019 to 2020 and there were no settlements that exceeded insurance coverage in the past three years.

## 11. POWER SALES AGREEMENTS

In 1972, the BPU entered into a power sales agreement with Evergy, formally Westar Energy. The agreement, as amended in October 1977 (addendum 1) and September 1978 (addendum 2), provides that the BPU purchase all of its energy requirements from Evergy for resale to its retail and wholesale customers. In return, the BPU is obligated to sell all of its energy production to Evergy. The contract specifies that all sales between the entities be sold at fuel cost plus twelve percent. In addition, Evergy has agreed to pay the BPU an annual capacity charge that obligates the BPU to have its generation available to Evergy at all times. In February 1992, the contract was amended (addendum 3) to specify facility ownership and responsibilities of ownership of the West McPherson Substation. In February 1997, the contract was amended (addendum 4) for the addition of approximately 80 MW of additional gas turbine generating capacity and to extend the contract to 2027. In April 2010, the contract was amended (addendum 5) to extend the contract 12 years to 2039 and also agreed to begin paying transmission charges based on a Federal Energy Regulatory Commission (FERC) approved formula tariff. In January 2014, the contract was amended (addendum 6) requiring that the BPU pay for its load ratio share of the SPP integrated market charges. In November 2016, the BPU entered into a Renewable Energy Purchase Agreement allowing the BPU to purchase up to 29.04% of the Renewable Energy produced by Kingman Wind Energy I, LLC. In September 2018, the BPU entered into a Renewable Energy Purchase Agreement for purchase of the kWH output and firm capacity from 50 MW of wind generation at the Soldier Creek Wind Farm in Nemaha County, Kansas. In April 2020, the BPU signed an addendum for 25 MW of additional capacity at the Soldier Creek Wind Farm bringing the amount of carbon-free energy to approximately 40%.

## 12. PAYMENT IN LIEU OF TAXES

The payment of funds to the City of McPherson from the electric department is calculated at the rate of 1.75 mills per kilowatt hours sold for the years ended December 31, 2020 and 2019. Payments to the City from the water department are calculated at \$.06 per thousand gallons of water sold for the years ended December 31, 2020 and 2019. The BPU was required to remit \$1,828,568 and \$1,682,523 in 2020 and 2019, respectively, from the electric department. The BPU was required to remit \$53,801 and \$52,439 in 2020 and 2019, respectively, from the water department. Payments are made quarterly.

As a municipal utility, The Board of Public Utilities is exempt from federal and state income taxes.

## 13. DEFERRED COMPENSATION PLAN

The BPU offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees who qualify under the plan terms, and permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

## 14. PRINCIPAL CUSTOMERS

Electric sales to the BPU's five largest customers for the year ended December 31, 2020 were as follows:

	2020			
	Sales	Percent of Total Sales	KWH (000)	Percent of Total KWH
CHS (Refinery)	\$ 21,374,678	38.2%	452,455	44.4%
Johns Manville Corp.	7,122,882	12.7%	149,367	14.6%
Pfizer	2,779,942	5.0%	56,133	5.5%
Moundridge City	1,884,716	3.4%	31,188	3.1%
Viega LLC	1,630,632	2.9%	28,550	2.8%
Total	<u>\$ 34,792,850</u>	<u>62.2%</u>	<u>717,693</u>	<u>70.4%</u>

Electric sales to the BPU's five largest customers for the year ended December 31, 2019 were as follows:

	2019			
	Sales	Percent of Total Sales	KWH (000)	Percent of Total KWH
CHS (Refinery)	\$ 21,007,485	36.8%	407,513	41.6%
Johns Manville Corp.	7,487,284	13.1%	150,210	15.3%
Pfizer	2,881,332	5.0%	56,539	5.8%
Moundridge City	1,978,606	3.5%	31,348	3.2%
North American Specialty	1,537,272	2.7%	25,329	2.6%
Total	<u>\$ 34,891,979</u>	<u>61.0%</u>	<u>670,939</u>	<u>68.6%</u>

## 15. OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS (OPEB)

**Plan Description.** The BPU administers an Other Post-employment Benefits (OPEB) plan providing medical, prescription drug, and dental benefits to retired employees and their dependents under certain conditions. The BPU does not issue a separate report that includes financial statements and required supplementary information for the OPEB plan. Due to the application of GASB 75, comparative information is not available.

Individuals who are employed by the BPU and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement from service with the BPU. Coverage during retirement continues in the group medical, prescription drug, and dental insurance plans. Employees covered by the plan make contributions toward the plan premiums.



## 15. OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS (OPEB) (CONT.)

As of December 31, 2020, plan membership consisted of the following:

Retirees and beneficiaries receiving benefits	5
Active plan members	71
Total	<u>76</u>

**Funding Policy.** The contribution requirement 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 on a pay-as-you-go basis.

**Annual OPEB Cost and Net OPEB Obligation.** The BPU's annual OPEB cost (expense) consists of the service cost plus interest on total OPEB liability and changes in assumptions and inputs. The service cost is the portion of the Actuarial Present Value of OPEB benefits that is allocated to the current year by the Actuarial Cost method. The following table presents the components of the BPU's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the BPU's total OPEB obligation to the Plan.

	December 31, 2020
Net OPEB liability - beginning of year	\$ 289,476
Service cost	15,528
Interest cost	8,106
Changes in benefit terms	-
Differences between actual and expected experience	-
Changes in assumptions and inputs	-
Employer contributions (benefit payments)	<u>(18,328)</u>
Net OPEB liability - end of year	<u>\$ 294,782</u>

The BPU saw no benefit changes to the disability's percentage of replacement income due to the changes from FY 19 to FY 20.

There were no changes in assumptions from FY 19 to FY 20.

**Total OPEB Liability.** The BPU's total OPEB liability of \$294,782 reported as of December 31, 2020 was measured as of December 31, 2020 (the measurement date), and was determined by an actuarial valuation as of December 31, 2020, using the following actuarial assumptions:

### Valuation Procedures and Discount Rate

General inflation	3.00%
Salary increases; including wage increases	3.00%
Discount rate	2.74%

The actuarial value of assets must be determined based on some recognition of the fair market value of assets. The BPU's obligation is unfunded at December 31, 2020. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

As an unfunded plan, the discount rate reflects the index rate for 20 year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date. The index rate used to measure the total pension liability was 2.74% as of December 31, 2020.

The financial information for the year ended December 31, 2020 is based upon a GASB 75 actuarial valuation performed as of December 31, 2019, rolled forward to December 31, 2020, using the participant census as of December 31, 2019.

The measurement date as selected by the BPU under GASB 75 Standards is December 31, 2020. The results of the valuation were projected to the beginning of year and end of year measurement dates using standard actuarial techniques.

## 15. OTHER POST-EMPLOYMENT HEALTHCARE BENEFITS (OPEB) (CONT.)

In the December 31, 2020, actuarial valuation, the Entry Age Normal - Level Percent of Pay Actuarial Cost method was applied. The actuarial assumptions included a 2.74% investment rate of return, which is a blended rate of the expected long-term investment returns on Plan assets and on the BPU's pooled funds and investments. The valuation assumed annual healthcare cost trend rate of 7.00% in the first year and then decreasing by 0.50% until it reaches an ultimate rate of 5.00%. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results.

**Sensitivity of Total OPEB Liability to changes in Healthcare Cost Trend Rate.** The following presents the total OPEB liability of the BPU as of December 31, 2020, calculated using the current healthcare cost trend rates as well as what the BPU's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates. The reader should note that healthcare trend rates do not affect the liabilities related to the long-term disability benefits sponsored by KPERS, but this exhibit is provided as it is a required disclosure under GASB 75.

	1% Decrease 6.00% decreasing 4.00%	Current Healthcare Cost Trend Rate 7.00% decreasing 5.00%	1% Increase 8.00% decreasing 6.00%
Total OPEB Liability	\$ 269,274	\$ 294,782	\$ 324,965

**Sensitivity of Total OPEB Liability to changes in the Discount Rate.** The following present the total OPEB liability of the BPU as of December 31, 2020, calculated using the discount rate of 2.74%, as well as what the BPU's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.74%) or 1 percentage point higher (3.74%) than the current rate.

	1% Decrease 1.74%	Current Discount Rate 2.74%	1% Increase 3.74%
Total OPEB Liability	\$ 311,396	\$ 294,782	\$ 278,729

**OPEB Expense.** For the year ended December 31, 2020, the BPU recognized OPEB expense of \$26,086, which includes the changes in the total OPEB liability, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

**Deferred Outflows of Resources and Deferred Inflows of Resources.** At December 31, 2020 the BPU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Under GASB 75, gains and losses which are amortized over future years are referred to as deferred inflows or gains, and deferred outflows or losses. Economic and demographic gains and losses and changes in the total OPEB liability due to changes in assumptions are recognized over a closed period equal to the average expected remaining service lives of all covered active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2020, deferred inflows and outflows of resources are as follows:

Category	Deferred outflows of resources	Deferred inflows of resources
Differences between actual and expected experience (1)	\$ 3,539	\$ -
Changes in assumptions	23,429	-
Benefit payments subsequent to the measurement date	-	-
Total	<u>\$ 26,968</u>	<u>\$ -</u>

(1) Economic/demographic (gains) and losses for the period ending December 31, 2020 should be adjusted by the unamortized balance of the difference between actual and employer contributions.

## 16. OTHER POST-EMPLOYMENT BENEFIT PLAN - KPERS DEATH AND DISABILITIES

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as an expense/(income) item in future years' OPEB expense as follows:

Year ended December 31:	Amount
2021	\$ 2,452
2022	2,452
2023	2,452
2024	2,452
2025	2,452
Thereafter	14,708

**Plan Description.** The BPU participates in a multiple-employer defined benefit other post-employment benefit (OPEB) plan (the Plan) which is administered by the Kansas Public Employees Retirement System (KPERS). The Plan provides long-term disability benefits and a life insurance benefit for disabled members to KPERS members, as provided by K.S.A. 74-04927. The Plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. However because the trust's assets are used to pay employee benefits other than OPEB, the trust does not meet the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Accordingly, the Plan is considered to be administered on a pay-as-you-go basis.

**Benefits** - Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60% (prior to January 1, 2006, 66 2/3 percent) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver of premium provision.

The monthly long-term disability benefit is 60% of the member's monthly compensation, with a minimum of \$100 and a maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, workers compensation benefits, other disability benefits from any other sources by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while the disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability begins after age 60, benefits are payable while the disability continues, for a period of five years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the shorter of the term of the disability or 24 months per lifetime.

The death benefit paid to beneficiaries of disabled members is 150% of the greater of 1) the member's annual rate of compensation at the time of disability, or 2) the members previous 12 months of compensation at the time of the last date on payroll. If the member has been disabled for five or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual insurance policy.

**Covered Employees.** The BPU has the following employees covered by the Plan as of June 30, 2020 (actuary measurement date):

Inactive employees or beneficiaries currently receiving benefit payments	1
Active employees	<u>72</u>
Total	<u>73</u>

## 16. OTHER POST-EMPLOYMENT BENEFIT PLAN - KPERS DEATH AND DISABILITIES (CONT.)

**Total OPEB Liability.** At December 31, 2020, the total OPEB liability recognized by the BPU was \$337,019. BPU's total OPEB liability was determined by an actuarial valuation as of December 31, 2019, calculated based on the discount rate and actuarial assumptions below, and rolled forward to the measurement date as of June 30, 2020. Any significant changes during this period have been reflected as prescribed by GASB 75.

**Actuarial Assumptions.** The financial information for the year December 31, 2020, is based upon an actuarial valuation performed as of December 31, 2019, rolled forward to June 30, 2020, using the participant census as of December 31, 2019.

The measurement date as selected by the BPU under GASB 75 Standards is June 30th. The results of the valuation were projected to the end of year measurement date using standard actuarial techniques.

Price inflation	2.75%
Salary increases, including wage increases	3.00%
Discount rate (based on the 20 year municipal bond rate with an average rating of AA/Aa or better, obtained from the index.)	2.21%

Mortality rates used for the death benefits were based on the Society of Actuaries RPH-2014 annuitant distinct mortality table Adjusted to 2006 with MP-2019 Full Generational Projection of Future Mortality Improvement.

The actuarial assumptions used in the December 31, 2019, valuation were based on the results of an actuarial experience study conducted during 2016 - 2018.

**Annual OPEB Cost and Net OPEB Obligation.** The BPU's annual OPEB cost (expense) consists of the service cost plus interest on total OPEB liability and changes in assumptions and inputs. The service cost is the portion of the Actuarial Present Value of OPEB benefits that is allocated to the current year by the Actuarial Cost method. The following table presents the components of the BPU's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the BPU's total OPEB obligation to the Plan.

	December 31, 2020
Net OPEB liability - beginning of year	\$ 243,901
Service cost	22,469
Interest on total OPEB liability	8,871
Effect of economic/demographic gains or losses	68,118
Effect of assumptions changes or inputs	19,713
Benefit payments	(26,054)
Net OPEB liability - end of year	<u>\$ 337,018</u>

The BPU saw no benefit changes to the disability's percentage of replacement income due to the changes from FY 19 to FY 20.

Changes in assumptions and other inputs from FY 19 to FY 20 reflect the following:

- The discount rate was changed from 3.50% in FY 19 to 2.21% in FY 20.

### Sensitivity of Total OPEB Liability to changes in Healthcare Cost Trend Rate

The following present the total OPEB liability of the BPU as of June 30, 2020 (measurement date), calculated using the current healthcare cost trend rates as well as what the BPU's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates. The reader should note that healthcare trend rates do not affect the liabilities related to the long-term disability benefits sponsored by KPERS, but this exhibit is provided as it is a required disclosure under GASB 75.

	1% Decrease	Current Trend Assumption	1% Increase
Total OPEB Liability	\$ 337,018	\$ 337,018	\$ 337,018

## 16. OTHER POST-EMPLOYMENT BENEFIT PLAN - KPERS DEATH AND DISABILITIES (CONT.)

### Sensitivity of Total OPEB Liability to changes in the Discount Rate

The following present the total OPEB liability of the BPU as of June 30, 2020 (measurement date), calculated using the discount rate of 3.50%, as well as what the BPU's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.21%) or 1 percentage point higher (3.21%) than the current rate.

	1% Decrease 1.21%	Current Single Discount Rate Assumption 2.21%	1% Increase 3.21%
Total OPEB Liability	\$ 347,664	\$ 337,018	\$ 325,548

**OPEB Expense.** For the year ended December 31, 2020, the BPU recognized OPEB expense of \$40,071, which includes the changes in the total OPEB liability, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

**Deferred Outflows of Resources and Deferred Inflows of Resources.** At December 31, 2020 BPU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Category	Deferred outflows of resources	Deferred inflows of resources
Differences between actual and expected experience	\$ 67,888	\$ 3,524
Changes in assumptions	20,520	5,066
Total	<u>\$ 88,408</u>	<u>\$ 8,590</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as an expense/(income) item in OPEB expense as follows:

Year ended June 30:	Amount
2021	\$ 8,731
2022	8,731
2023	8,731
2024	8,731
2025	8,731
Thereafter	36,163

## 17. DEFINED BENEFIT PENSION PLAN

**Plan Description.** The BPU participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by Kansas law and administered by KPERS, a body corporate and an instrumentality of the State of Kansas. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available, stand-alone comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737, or at the KPERS website at [www.kpers.org](http://www.kpers.org).

KPERS provides benefit to the following statewide pension groups under one plan, as provided by K.S.A 74 article 49:

- Public employees, which include:
  - State/School Employees
  - Local Employees
- Police and Firemen
- Judges

## 17. DEFINED BENEFIT PENSION PLAN (CONT.)

Substantially all public employees in Kansas are covered by the pension plan. The State of Kansas and Kansas schools are required to participate, while participation by local political subdivisions is optional, but irrevocable once elected.

Those employees participating in the pension plan for BPU are included in the local employee group.

*Benefits provided.* Benefits are established by statute and may only be changed by the Legislature. Members with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever a member's combined age and years of credited service equal 85 "points."

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, members may withdraw their contributions from their individual accounts, including interest. Members who withdraw their accumulated contributions lose all rights and privileges of membership. For all pension coverage groups, the accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

Members choose one of seven payment options for their monthly retirement benefits. At retirement a member may receive a lump sum payment of up to 50% of the actuarial present value of the member's lifetime benefit. The monthly retirement benefit is then permanently reduced based on the amount of the lump sum. Benefit increases, including ad hoc postretirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement is available at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

*Contributions.* Member contributions are established by state law, and are paid by the employee according to the provisions of Section 414(h) of the internal revenue code. State law provides that the employer contribution rates are determined based on the results of an annual actuarial valuation. The contributions and assets of all groups are deposited in the Kansas Public Employees Retirement Fund established by K.S.A. 74-4921. All of the retirement systems are funded on an actuarial reserve basis.

For fiscal years beginning in 1995, Kansas legislation established statutory limits on increases in contribution rates for KPERS employers. Annual increases in the employer contribution rates related to subsequent benefit enhancements are not subject to these limitations. The statutory cap increase over the prior year contribution rate is 1.2% of total payroll for the fiscal year ended June 30, 2020.

The actuarially determined employer contribution rates and the statutory contribution rates for local government employees are 8.61% and 8.61%, respectively. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015. Effective January 1, 2015, Kansas law established the KPERS member-employee contribution rate of 6% of covered salary for KPERS 1, KPERS 2 and KPERS 3 members.

## 17. DEFINED BENEFIT PENSION PLAN (CONT.)

*Employer Allocations.* Although KPERS administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each of the following groups of the plan:

- State/School
- Local
- Police and Fireman
- Judges

To facilitate the separate (sub) actuarial valuations, KPERS maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and nonemployer allocations are applied to amounts presented in the schedules of pension amounts by employer and nonemployer. The allocation percentages for each group as of June 30, 2020, are based on the ratio of the employer's contributions to total employer and nonemployer contributions of the group for the fiscal years ended June 30, 2020. The contributions used exclude contributions made for prior service, excess benefits and irregular payments.

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At December 31, 2020 and 2019, BPU reported a liability of \$5,896,724 and \$4,502,648 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2019, which was rolled forward to June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. BPU's proportion of the net pension liability was based on the ratio of its contributions to the total of the employer and nonemployer contributions of the group for the fiscal years ended June 30, 2020 and 2019, respectively. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2020, BPU's proportion was 0.523% percent, which was an increase of 0.028% from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, rolled forward from June 30, 2020, BPU recognized pension expense of \$314,333, which include the changes in the collective net pension liability, projected earnings on pension plan investments, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

At December 31, 2020, BPU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 98,456	\$ 75,809
Changes of assumptions	355,179	10,668
Net difference between projected and actual earnings on pension plan investments	688,001	-
Changes in proportion and differences between BPU contributions and proportionate share of contributions	294,035	-
BPU contributions subsequent to the measurement date	318,774	-
Total	<u>\$ 1,754,445</u>	<u>\$ 86,477</u>

## 17. DEFINED BENEFIT PENSION PLAN (CONT.)

The deferred outflows of resources related to pensions totaling \$318,774, resulting from BPU contributions subsequent to the measurement date is recognized as a reduction of the net pension liability in the year ended December 31, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

<u>Year ended December 31,</u>	<u>Amount</u>
2021	\$ 305,575
2022	369,420
2023	350,937
2024	306,946
2025	16,316
	<u>\$ 1,349,194</u>

BPU contributes 100% of the contributions to the pension plan, therefore, there is no revenue recognized for the support provided by nonemployer contributing entities.

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of December 31, 2019, which was rolled forward to June 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

- Inflation 2.75 percent
- Salary increases, including wage increases 3.25 to 11.75 percent, including inflation
- Long-term rate of return, compounded annually, net of investment expense, and including price 7.50 percent

Mortality rates were based on the RP-2014 Mortality Tables with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated used Scale MP-2016.

There were no changes between the measurement date of December 31, 2019, rolled forward to June 30, 2020, and BPU's reporting date of December 31, 2020.

The long-term expected rate of return of pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. Best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, dated January 7, 2020, as provided by KPER's investment consultant, are summarized in the following table.

<u>Asset class</u>	<u>Long-term target allocation</u>	<u>Long-term expected real rate of return</u>
U.S. Equities	23.50%	5.20%
Non-U.S. Equities	23.50%	6.40%
Private Equity	8.00%	9.50%
Private Real Estate	11.00%	4.45%
Yield Driven	8.00%	4.70%
Real Return	11.00%	3.25%
Fixed Income	11.00%	1.55%
Short-term Investments	4.00%	0.25%
Total	<u>100.00%</u>	



## 17. DEFINED BENEFIT PENSION PLAN (CONT.)

*Discount rate.* The discount rate used to measure the total pension liability at the measurement date of June 30, 2020 was 7.50 percent. The discount rate used to measure total pension liability at the prior measurement date of June 30, 2019 was 7.75%. The actuarial assumptions used in the calculation of the total pension liability were based on the results of the most recent actuarial experience study. It covered the three-year period of January 1, 2016 through December 31, 2018 and was dated January 7, 2020.

In KPERS, the State/School and Local groups do not necessarily contribute the full actuarial determined rate. Based on legislation first passed in 1993 and subsequent legislation, the employer contribution rates certified by the Board may not increase by more than the statutory cap. The statutory cap for Fiscal Year 2020 was 1.2 percent.

In recent years, the Legislature has made several changes to statutory rates that deviate from the scheduled contribution increases set under the caps established in 2012 for the State/School group. Under 2015 SB 4, the previously certified State/School statutory rate for the Fiscal Year 2015 of 11.27 percent was reduced to 8.65 percent for the last half of the fiscal year as part of the Governor's allotment. That same session, SB 228 recertified statutory rates for the State/School group to 10.91 percent for Fiscal Year 2016 and 10.81 percent for Fiscal Year 2017 in anticipation of the issuance of \$1 billion in pension obligation bonds. Legislation in the 2016 session (SB 161) provided for the delay of up to \$100 million in State and School contributions to the Pension Plan. Legislation passed by the 2017 Legislature removed the repayment provisions included in SB 161.

In addition, 2017 S Sub. For Sub. HB 2052 delayed \$64.1 million in Fiscal Year State/School contribution, to be repaid over 20 years in level dollar installments. The first year payment of \$6.4 million was received in July 2017 and appropriation for Fiscal Year 2018 are intended to fully fund the State/School group statutory contribution rate of 12.01 percent for that year. Additional legislation in the 2017 Session (S Sub For HB 2002) provided for a reduction of \$194 million from the previously certified contribution rate of 13.21 percent in the State/School contributions for Fiscal Year 2019. Like the Fiscal Year 2017 reduction, it is to be paid back over a 20 year period, beginning in Fiscal Year 2020. Therefore, both reductions will be accounted for as long-term receivables by the Pension Plan. The 2019 Legislature passed House Sub for Sen Bill 109, which directed on-behalf payments of \$56 million and \$82 million be made to the System. The \$56 million payment was received by the system on June 30, 2018, and recorded as Fiscal Year 2018 contributions. The \$82 million was received July 1, 2019, and was recorded as Fiscal Year 2019 contributions. The 2019 Legislative session passed Senate Bill 9 which authorized a transfer of \$115 million to KPERS, received in March 2020.

Based on employer contribution history as described above, it is a reasonable estimate that the State/School group's contribution rate may not be certified at the statutory rate. It has been assumed that contribution rates will be made within the same range as have been seen in the past few years, between 11 to 12 percent. Using this assumption actuarial modeling indicates that employer contribution rates for the State/School group are sufficient to avoid a depletion date.

*Sensitivity of BPU's proportionate share of the net pension liability to changes in the discount rate.* The following presents BPU's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what BPU's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.50%) or 1-percentage point higher (8.50%) than the current rate:

1% Decrease (6.50%)	Discount rate (7.50%)	1% Increase (8.50%)
\$8,299,050	5,896,724	\$3,876,993

## **18. COVID-19**

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the BPU's financial condition, liquidity and future results of operations. Management is actively monitoring the global and local situation on its financial condition, liquidity, operations, suppliers, industry and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the BPU is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition or liquidity for fiscal year 2021. Future potential impacts may include a decrease in certain revenues, reduced customer traffic and the temporary closure of operating hours of our offices.

## **19. SUBSEQUENT EVENTS**

In January of 2021, BPU issued water system refunding and improvement revenue bonds in the amount of \$31,555,000. The issue is to refund the 2012 water bond and construction of the South Well Field. Terms include repayment through 2051 with interest rates varying from 2.00% to 3.50%.

Management has evaluated the effects on the financial statements of subsequent events occurring through the date of this report, which is the date at which the financial statements were available to be issued.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## Board of Public Utilities - McPherson, Kansas

**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY - HEALTHCARE****For the Year Ended December 31, 2020**

Last 10 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total OPEB Liability - Beginning of year	<u>\$ 289,476</u>	<u>\$ 250,307</u>	<u>\$ 228,618</u>	For 2011 to 2017, this data is not yet available.						
Service cost	15,528	11,846	10,556	For 2011 to 2017, this data is not yet available.						
Interest cost	8,106	10,556	10,635	For 2011 to 2017, this data is not yet available.						
Changes in benefit terms	-	-	-	For 2011 to 2017, this data is not yet available.						
Differences between actual and expected experience	-	4,155	-	For 2011 to 2017, this data is not yet available.						
Changes in assumptions and inputs	-	22,024	6,206	For 2011 to 2017, this data is not yet available.						
Benefit payments	<u>(18,328)</u>	<u>(9,412)</u>	<u>(5,708)</u>	For 2011 to 2017, this data is not yet available.						
Net Changes	<u>5,306</u>	<u>39,169</u>	<u>21,689</u>	For 2011 to 2017, this data is not yet available.						
Total OPEB Liability - End of year	<u>\$ 294,782</u>	<u>\$ 289,476</u>	<u>\$ 250,307</u>	For 2011 to 2017, this data is not yet available.						

Note: For December 31, 2018, GASB 75 was implemented. The information for years 2011-2017 is not available under the measurement requirements of GASB 75.

## Board of Public Utilities - McPherson, Kansas

**SCHEDULE OF THE TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL - HEALTHCARE**

For the Year Ended December 31, 2020

	Last 10 Fiscal Years									
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total OPEB liability	\$ 294,782	\$ 289,476	\$ 250,307	For 2011 to 2017, this data is not yet available.						
Fiduciary net position	<u>-</u>	<u>-</u>	<u>-</u>	For 2011 to 2017, this data is not yet available.						
Net OPEB liability	<u>\$ 294,782</u>	<u>\$ 289,476</u>	<u>\$ 250,307</u>	For 2011 to 2017, this data is not yet available.						
Fiduciary net position as a percentage of total OPEB liability	0.00%	0.00%	0.00%	For 2011 to 2017, this data is not yet available.						
Covered-employee payroll	\$ 6,395,186	\$ 6,208,918	\$ 5,713,429	For 2011 to 2017, this data is not yet available.						
Net OPEB liability as a percentage of covered-employee payroll	4.61%	4.66%	4.38%	For 2011 to 2017, this data is not yet available.						

Note: For December 31, 2018, GASB 75 was implemented. The information for years 2011-2017 is not available under the measurement requirements of GASB 75.

## Board of Public Utilities - McPherson, Kansas

**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY - KPERS DEATH AND DISABILITY**

For the Year Ended December 31, 2020

	Last 10 Fiscal Years									
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total OPEB Liability - Beginning of year	<u>\$ 243,900</u>	<u>\$ 216,272</u>	<u>\$ 211,572</u>	For 2011 to 2017, this data is not yet available.						
Service cost	22,469	21,891	21,783	For 2011 to 2017, this data is not yet available.						
Interest cost	8,871	8,927	8,044	For 2011 to 2017, this data is not yet available.						
Changes in benefit terms	-	-	-	For 2011 to 2017, this data is not yet available.						
Differences between actual and expected experience	-	-	-	For 2011 to 2017, this data is not yet available.						
Effect of economic/demographic gains or losses	68,118	8,380	(5,105)	For 2011 to 2017, this data is not yet available.						
Changes in assumptions and inputs	19,713	3,524	(2,522)	For 2011 to 2017, this data is not yet available.						
Benefit payments	<u>(26,053)</u>	<u>(15,094)</u>	<u>(17,500)</u>	For 2011 to 2017, this data is not yet available.						
Net Changes	<u>93,118</u>	<u>27,628</u>	<u>4,700</u>	For 2011 to 2017, this data is not yet available.						
Total OPEB Liability - End of year	<u>\$ 337,018</u>	<u>\$ 243,900</u>	<u>\$ 216,272</u>	For 2011 to 2017, this data is not yet available.						

Note: For December 31, 2018, GASB 75 was implemented. The information for years 2011-2017 is not available under the measurement requirements of GASB 75.

## Board of Public Utilities - McPherson, Kansas

**SCHEDULE OF THE TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL - KPERS DEATH & DISABILITY**

For the Year Ended December 31, 2020

Kansas Public Employees Retirement System

Last 10 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total OPEB liability	\$ 337,018	\$ 243,900	\$ 216,272	For 2011 to 2017, this data is not yet available.						
Fiduciary net position	-	-	-	For 2011 to 2017, this data is not yet available.						
Net OPEB liability	<u>\$ 337,018</u>	<u>\$ 243,900</u>	<u>\$ 216,272</u>	For 2011 to 2017, this data is not yet available.						
Fiduciary net position as a percentage of total OPEB	0.00%	0.00%	0.00%	For 2011 to 2017, this data is not yet available.						
Covered-employee payroll	\$ 6,031,057	\$ 5,685,724	\$ 5,593,278	For 2011 to 2017, this data is not yet available.						
Net OPEB liability as a percentage of covered-employee payroll	5.59%	4.29%	3.87%	For 2011 to 2017, this data is not yet available.						

Note: For December 31, 2018, GASB 75 was implemented. The information for years 2011-2017 is not available under the measurement requirements of GASB 75.

## Board of Public Utilities - McPherson, Kansas

**SCHEDULE OF THE BPU'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

For the Year Ended December 31, 2020

Kansas Public Employees Retirement System

Last 10 Fiscal Years

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
BPU's proportion of the net pension liability (asset)	0.06%	0.05%	0.05%	0.05%	0.05%	0.04%	0.04%	0.05%	For 2011 to 2012, this data is not yet available.	
BPU's proportionate share of the net pension liability (asset)	\$ 5,896,724	\$ 4,502,648	\$ 4,457,948	\$ 4,465,778	\$ 4,814,766	\$ 3,980,974	\$ 3,706,716	\$ 4,602,993	For 2011 to 2012, this data is not yet available.	
BPU's covered-employee payroll	\$ 6,595,221	\$ 6,687,361	\$ 6,098,876	\$ 5,808,272	\$ 5,739,489	\$ 5,592,263	\$ 5,199,578	\$ 5,211,338	For 2011 to 2012, this data is not yet available.	
BPU's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	89.41%	67.33%	73.09%	76.89%	83.89%	71.19%	71.29%	88.33%	For 2011 to 2012, this data is not yet available.	
Plan fiduciary net position as a percentage of the total pension liability	66.30%	69.88%	68.88%	67.12%	65.10%	64.95%	66.60%	59.94%	For 2011 to 2012, this data is not yet available.	



**Board of Public Utilities - McPherson, Kansas**

**SCHEDULE OF CONTRIBUTIONS  
For the Year Ended December 31, 2020**

Kansas Public Employees Retirement System

Last 10 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 634,417	\$ 663,059	\$ 573,476	\$ 507,015	\$ 531,672	\$ 519,427	\$ 459,642	\$ 413,780	\$ 370,167	\$ 330,394
Contributions in relation to the contractually required contribution	<u>(634,417)</u>	<u>(663,059)</u>	<u>(573,476)</u>	<u>(507,015)</u>	<u>(531,672)</u>	<u>(519,427)</u>	<u>(459,642)</u>	<u>(413,780)</u>	<u>(370,167)</u>	<u>(330,394)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BPU's covered-employee payroll	\$ 6,595,221	\$ 6,687,361	\$ 6,098,876	\$ 5,808,272	\$ 5,739,489	\$ 5,592,263	\$ 5,199,578	\$ 5,211,338	\$ 5,043,146	\$ 4,901,988
Contributions as a percentage of covered-employee payroll	9.62%	9.92%	9.40%	8.73%	9.26%	9.29%	8.84%	7.94%	7.34%	6.74%

**Board of Public Utilities - McPherson, Kansas**

**REQUIRED SUPPLEMENTARY INFORMATION**

**Notes to Required Supplementary Information**

**For the Year Ended December 31, 2020**

**Other Post Employment Benefits - Healthcare**

**Changes in benefit terms:**

There are no changes in benefits.

**Changes in assumptions:**

There are no changes in assumptions.

**Other Post Employment Benefits - KPERS Death and Disabilities**

**Changes in benefit terms:**

There are no changes in benefits.

**Changes in assumptions:**

Changes of assumptions and other inputs reflect a change in the discount rate from 3.50% in 2019 to 2.21% in 2020.

**Defined Benefit Pension Plan**

**Changes in benefit terms:**

There are no changes in benefits.

**Changes in assumptions:**

There are no changes in assumptions.

## **ADDITIONAL INFORMATION**

## Board of Public Utilities - McPherson, Kansas

**Summary Statement of Revenues and Expenses - Electric**  
**Last Five Fiscal Years**

<b><u>Fiscal Year</u></b>	<b><u>Operating Revenues</u></b>	<b><u>Operating Expenses</u></b>	<b><u>Operating Income</u></b>	<b><u>Nonoperating Income (Expense)</u></b>	<b><u>Change in Net Position</u></b>
2016	\$ 57,850,530	\$ 54,389,524	\$ 3,461,006	\$ 214,883	\$ 3,675,889
2017	59,948,188	55,733,378	4,214,810	353,581	4,568,391
2018	65,585,841	59,400,616	6,185,225	896,103	7,081,328
2019	62,515,079	60,412,879	2,102,200	1,504,390	3,606,590
2020	60,794,404	58,486,630	2,307,774	1,024,850	3,332,624

## Board of Public Utilities - McPherson, Kansas

**Operating Expenses - Electric**  
**Last Five Fiscal Years**

<b><u>Fiscal Year</u></b>	<b><u>Fuel</u></b>	<b><u>Purchased Power</u></b>	<b><u>Production</u></b>	<b><u>Distribution and Transmission</u></b>	<b><u>Administrative and General</u></b>	<b><u>Payment to City of McPherson</u></b>	<b><u>Depreciation and Amortization</u></b>	<b><u>Total Operating Expense</u></b>
2016	\$ 1,076,493	\$ 39,637,092	\$ 3,496,177	\$ 4,433,309	\$ 2,113,925	\$ 1,684,097	\$ 1,948,431	\$ 54,389,524
2017	699,695	42,806,144	2,407,357	3,755,060	2,158,644	1,759,776	2,146,702	55,733,378
2018	2,416,132	45,264,278	2,035,144	3,530,688	2,192,819	1,798,072	2,163,483	59,400,616
2019	2,438,382	43,343,403	3,837,927	3,998,941	2,615,601	1,682,523	2,496,102	60,412,879
2020	1,759,357	42,587,516	2,698,025	4,345,638	2,742,447	1,828,568	2,525,079	58,486,630

**Board of Public Utilities - McPherson, Kansas**

**Summary Statement of Revenues and Expenses - Water**  
**Last Five Fiscal Years**

<b>Fiscal Year</b>	<b>Operating Revenues</b>	<b>Operating Expenses</b>	<b>Operating Income</b>	<b>Nonoperating Income (Expense)</b>	<b>Change in Net Position</b>
2016	\$ 3,523,186	\$ 2,752,267	\$ 770,919	\$ 13,783	\$ 784,702
2017	3,651,963	2,665,595	986,368	107,859	1,094,227
2018	3,930,502	2,940,113	990,389	158,436	1,148,825
2019	4,068,284	3,256,400	811,884	229,339	1,041,223
2020	4,743,238	3,013,886	1,729,352	286,953	2,016,305

## Board of Public Utilities - McPherson, Kansas

**Operating Expenses - Water**  
**Last Five Fiscal Years**

<b><u>Fiscal Year</u></b>	<b><u>Production</u></b>	<b><u>Distribution and Transmission</u></b>	<b><u>Administrative and General</u></b>	<b><u>Payment to City of McPherson</u></b>	<b><u>Depreciation and Amortization</u></b>	<b><u>Total Operating Expense</u></b>
2016	\$ 598,192	\$ 1,107,682	\$ 395,351	\$ 50,690	\$ 600,352	\$ 2,752,267
2017	566,451	1,067,109	371,559	53,258	607,218	2,665,595
2018	644,482	1,255,324	370,612	54,871	614,824	2,940,113
2019	567,204	1,555,804	438,450	52,439	642,503	3,256,400
2020	588,017	1,213,210	494,076	53,801	664,782	3,013,886

**ADDITIONAL INFORMATION  
(UNAUDITED)**



**Board of Public Utilities - McPherson, Kansas**

**COMMENTS AND OPERATING STATISTICS  
(UNAUDITED)**

<u><b>Electric Utility:</b></u>	<u><b>2020</b></u>	<u><b>2019</b></u>	<u><b>Difference Inc. (Dec.)</b></u>	<u><b>Percent Inc. (Dec.)</b></u>
Kilowatt hours (in thousands) -				
Purchased from Evergy	<u>1,039,199</u>	<u>996,610</u>	<u>42,589</u>	<u>4.27%</u>
Total generated and purchased	<u>1,039,199</u>	<u>996,610</u>	<u>42,589</u>	<u>4.27%</u>
Sales KWH (000) -				
Residential	65,729	67,024	(1,295)	-1.93%
Commercial	88,476	94,913	(6,437)	-6.78%
Industrial	799,973	749,707	50,266	6.70%
Rural	23,542	24,442	(900)	-3.68%
Light Rental	247	252	(5)	-1.98%
Wholesale	36,923	37,157	(234)	-0.63%
Street lighting	2,641	2,718	(77)	-2.83%
Water utility	<u>2,505</u>	<u>2,417</u>	<u>88</u>	<u>3.64%</u>
Total sales and station power	<u>1,020,036</u>	<u>978,630</u>	<u>41,406</u>	<u>4.23%</u>
System losses	<u>19,163</u>	<u>17,980</u>	<u>1,183</u>	<u>6.58%</u>
Total customers served (2020 - 8806, 2019 - 8740)				
Operating revenue -				
Residential	\$ 5,113,841	\$ 4,829,968		
Commercial	7,157,233	7,739,762		
Industrial	39,270,625	39,472,208		
Rural	1,672,003	1,740,157		
Wholesale	2,254,080	2,369,396		
Street lighting	320,196	480,346		
Water utility	175,601	169,174		
Evergy interconnection	4,741,058	5,621,874		
Light rental	<u>89,767</u>	<u>92,194</u>		
Total	<u>\$ 60,794,404</u>	<u>\$ 62,515,079</u>		

The electric department's operations may be separated into two segments. In accordance with a contract entered into with Kansas Power and Light (Evergy) in 1972, the department purchases all of its energy requirements from Evergy for resale to its retail and wholesale customers. In return, the BPU is obligated to sell all of the System's energy production to Evergy. In February 1997, the BPU signed an addendum extending the current agreement to 2027. In April 2010 the contract was extended to 2039.

Sales, other than Evergy, are segregated between customers inside and outside a three mile limit from the City. These sales approximated 8.4% of total sales in 2020. Expenses attributable to such sales are allocated on the same percentage as sales.

**Water Utility:**

The water department serves 5,195 residential, 765 commercial, 16 industrial, and various other city and wholesale customers. Water pumped in 2020 was 987,741,300 gallons which was approximately 2.76% more than 2019. Gross revenue increased 16.59% from the prior year.

## INFORMATION CONCERNING THE ELECTRIC UTILITY SYSTEM

(UNAUDITED)

### Description of the Existing Facilities of the System

The System presently owns and operates two generating plants. Power Plant No. 2 consists of three General Electric combustion turbines with a combined aggregate rating of approximately 155 MW. Power Plant No. 3 was brought on line in October 1998 with a nominally rated 80 MW General Electric combustion turbine. This level of generating capability should support the Evergy Agreement and the System customers well into the future.

The System's total generating capacity is 233.8 MW, and its firm generating capability is 208.8 MW, allowing for reserves to match the current requirements by the Southwest Power Pool.

### Distribution System

All rural and most urban customers of the System which have been added in recent years are served by 7.2/12.5 kV distribution facilities. One small section of the City is still served at 4,160 volts from two 2,500 kVA substations. Several of the principal feeders have been rebuilt in recent years using T-2 ACSR conductor with increased capacity. Underground distribution is used in new subdivisions.

The System presently owns 20 miles of 115 kV transmission line which interconnects with Evergy at two locations, such locations being Evergy's 115 kV West McPherson Substation at the west side of the City and Evergy's 230 kV high voltage transmission line between Salina and Hutchinson at the System's East Substation located southeast of the City. Construction was completed in 1992 on a 115 kV ring bus at the Marville 115 kV substation on the east side of the City. A 115 kV transmission line was constructed tying this substation to the Evergy West McPherson Substation. Currently the entire City is surrounded by a 115 kV transmission loop. Evergy recently rebuilt its transmission line feeding the West McPherson Substation, substantially improving the power quality for System customers.

### Customers, Sales and Revenues

The following tables set forth certain statistical data for the System on customers, sales and revenues for the years listed below for major customer classifications and list the total System energy sales and revenues, excluding pool interchange.

Customers, Sales and Revenue by Customer Classification						
Residential				Commercial		
Customers				Customers		
Year	Served	Sales (kWh)	Revenue	Served	Sales (kWh)	Revenue
2016	7,161	87,173,641	\$ 6,643,224	1,545	90,737,523	\$ 7,825,092
2017	7,225	85,364,092	6,616,290	1,418	89,832,345	7,686,648
2018	7,256	94,601,610	7,332,509	1,451	95,031,065	8,129,879
2019	7,302	91,718,014	6,925,984	1,417	100,048,674	8,389,282
2020	7,384	89,518,353	6,793,655	1,401	93,621,871	7,653,029
Industrial				Wholesale		
2016	19	741,683,200	\$ 36,527,207	2	36,023,100	\$ 2,329,928
2017	19	789,012,940	39,193,252	2	36,389,400	2,391,456
2018	19	800,973,868	41,643,937	2	38,033,700	2,511,877
2019	19	749,707,360	39,472,208	2	37,157,400	2,369,396
2020	19	799,972,920	39,270,625	2	36,922,500	2,254,080

## Customers, Sales and Revenues (Cont.)

Totals			
Customers			
Year	Served	Sales (kWh)	Revenue
2016	8,727	955,354,123	\$ 53,325,451
2017	8,664	1,000,598,777	55,887,646
2018	8,728	1,028,640,243	59,618,201
2019	8,740	973,495,741	56,507,349
2020	8,806	1,020,035,644	55,971,389

Ten Largest Electric Utility Customers in Recent Years						
Customer	kwh	2020	kwh	2019	kwh	2018
CHS	451,710,000	\$ 21,306,934	406,665,000	\$ 20,919,697	465,360,000	\$ 23,133,058
Johns Manville	149,341,500	7,123,996	150,209,500	7,487,284	148,078,000	7,487,369
Pfizer	56,133,000	2,779,942	56,539,000	2,881,332	54,502,000	2,851,461
CertainTeed	13,658,400	751,326	13,905,600	824,534	13,744,800	866,380
City of Moundridge	31,003,200	1,861,418	31,185,600	1,958,428	31,617,600	2,064,861
Nustar	18,864,000	975,938	18,835,200	1,038,269	18,064,800	1,026,430
Viega	28,525,000	1,628,557	25,298,000	1,534,758	22,053,500	1,399,387
North American Pipe	20,287,200	1,015,263	19,771,200	1,038,545	20,088,000	1,082,320
Ferguson Production	7,963,200	441,661	7,270,800	423,522	6,835,200	416,464
Grain Craft	10,439,040	566,762	8,055,360	512,264	8,760,960	540,645
Total	<u>787,924,540</u>	<u>\$ 38,451,797</u>	<u>737,735,260</u>	<u>\$ 38,618,632</u>	<u>789,104,860</u>	<u>\$ 40,868,375</u>

## System Growth

The growth of the System's customers, electric sales and revenues from sales is shown in the following table:

Year	Customers Served	Peak Demand (MW) (1)	Sales (MWh)	Annual Revenue from Energy Sales
2016	8,727	149	960,900	\$ 53,743,759
2017	8,664	158	1,005,869	56,311,076
2018	8,728	158	1,033,644	60,247,777
2019	8,740	163	978,631	57,156,870
2020	8,806	161	1,020,036	55,971,389

(1) Includes two small municipal systems (Galva and Moundridge) served as wholesale customers and sales for light rental, street lighting and power for water pumping.

## Rates

Current electric rates as of June 1, 2020, for the System are as follows:

	<i>Residential Electric Service</i>	<i>Residential All Electric</i>	<i>General Service Small</i>	<i>General Service Medium</i>	<i>General Service Large</i>
Service Charge	\$10.00/month	\$10.00/month	\$15.00/month	\$15.00/month	N/A
Energy Rate	\$0.0310/Kwh	May-Oct: \$0.310/kWH, Nov-Apr; \$0.0310/kWH for first 400 kWH, \$0.0260/kWH for over 400 kWH	\$0.0415/kWH for first 1,500 kWH, \$0.0375/kWH for over 1,500 kWH	\$0.0265/kWH for first 10,000 kWH, \$0.0235/kWH for over 10,000 kWH	\$0.0265/kWH for first 240 kWH/kVa of billing capacity, \$0.0235/kWH for over 240 kWH/kVa of billing capacity
Capacity Charge	\$0.01227/kWH	\$0.01227/kWH	\$0.01227/kWH	\$2.78/kVA	\$2.78/kVA for all kVa of billing capacity
Transmission Charge	\$0.01703/kWH	\$0.01703/kWH	\$0.01703/kWH	\$3.85/kVA	\$3.85/kVa for all kVa of billing capacity
City Transfer Charge	\$0.00175/kWH	\$0.00175/kWH	\$0.00175/kWH	\$0.00175/kWH	\$0.00175/kWH
Demand Rate	NA	NA	NA	\$3.80/kVA	\$2.75/kVa for all kVa of billing capacity
Interruptible Rate Demand multiplier	N/A	N/A	N/A	\$0.80	N/A

## Financial Reporting

The financial records of the Board are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. In recent years, the Board's annual audit has been performed by Swindoll, Janzen, Hawk & Loyd, LLC, Certified Public Accountants, McPherson, Kansas. Copies of the audit reports for the past five years are on file in the Treasurer – Comptroller's office and are available for review and shall be considered as a part of the annual report.

## Statement of Revenues and Expenses; Historical Debt Service Coverage Ratio

The operating results of the System presented in the following table are derived from the annual financial statements of the BPU. No assurance can be given that operating results for future years will be comparable to operating results for the prior years listed below:

	2017	2018	2019	2020
Operating Revenue				
Electric				
Metered Sales	\$ 56,045,689	\$ 59,801,506	\$ 56,417,616	\$ 55,737,772
Street Lighting	249,316	446,061	475,589	315,574
Sales to Interconnection	3,653,183	5,338,274	5,621,874	4,741,058
Total Operating Revenues	59,948,188	65,585,841	62,515,079	60,794,404
Operating Expenses				
Fuel	699,695	2,416,132	2,438,382	1,759,357
Purchased Power	42,806,144	45,264,278	43,343,403	42,587,516
Production	2,407,357	2,035,144	3,837,927	2,698,025
Distribution and Transmission	3,755,060	3,530,688	3,998,941	4,345,638
Administrative and General	2,158,644	2,192,819	2,615,601	2,742,447
Depreciation and Amortization	2,146,702	2,163,483	2,496,102	1,828,568
Payment to City of McPherson	1,759,776	1,798,072	1,682,523	2,525,079
Total Operating Expense	55,733,378	59,400,616	60,412,879	58,486,630
Operating Income	4,214,810	6,185,225	2,102,200	2,307,774
Nonoperating Income (Expense)				
Interest Income	276,142	588,329	1,006,128	731,512
Revenues from Merchandising	304,542	253,330	481,436	274,565
Less Cost from Merchandising	(170,802)	(155,470)	(136,335)	(113,179)
Refuse Collection	85,056	85,006	85,620	86,059
Penalties	97,991	86,363	64,272	46,386
Farm Rents	(2,406)	(476)	3,309	(22,368)
Gain (Loss) on Disposal of Assets	10,676	39,021	(40)	21,875
Interest on Debt	(247,618)	-	-	-
Total Nonoperating Income (Expense)	353,581	896,103	1,504,390	1,024,850
Change in Net Position	\$ 4,568,391	\$ 7,081,328	\$ 3,606,590	\$ 3,332,624
Income Available for Debt Service	\$ 6,962,711	\$ 9,244,811	\$ 6,102,692	\$ 5,161,192
Debt Service Requirements	\$ -	\$ -	\$ -	\$ -
Debt Service Coverage Ratio	0.00%	0.00%	0.00%	0.00%

## **Management's Discussion on Financial Operations**

On April 19, 2010, the utility signed Addendum No. 5 to the Evergy (formerly Westar) Agreement, extending the current power supply contract until 2039. This action provides the community with a long-term supply which should continue providing the customer with attractive electric rates for several years.

As a result of Addendum No. 5, the Board implemented a rate adjustment, designed by Burns & McDonnell, effective January 1, 2011. The rates contained a variable energy, transmission, and purchase capacity component protecting utility net revenue from these variable costs. They also continue to generate revenues to fully fund the emergency accounts, fund normal annual capital expenditures, and depreciation. The electric side of the utility currently has no outstanding revenue bonds. The rates continue to be among the lowest in the state and region, allowing the System to continue to attract and retain all types of customers.

In 2019, the utility again hired Burns & McDonnell to perform a rate review, not due to a need for additional revenue, but in an effort to accommodate distributed generation (DG). The goal was to develop cost of service based rates for DG customers so they can choose to self-supply energy while ensuring full payment for use of the electric system. In December 2019, new rates were adopted for residential and small commercial customers with DG. These rates include demand type charges and consideration is being given to modifying other customer class rates to reduce reliance on kWh sales for revenue. In general, kWh charges are reduced, and demand type charges are increased, resulting in the same revenue.

The present Evergy power plants stipulated in the Agreement to provide base load energy requirements for the System, consist of four coal fired units. Three of these units are at the Jeffrey Energy Center, where the first of these entered commercial service in the spring of 1978. In 1983, the newest unit, number three, began commercial operation. The fourth unit is located at Lawrence, Kansas. Evergy has installed significant equipment to reduce emissions, such as SO<sub>2</sub> and NO<sub>x</sub>, at these facilities which should limit exposure to additional revenue requirements to meet emission regulations.

In November 2015, the utility sent out a request for proposals (RFP) for renewable resources. With the Evergy contract resulting in an energy supply mix of roughly 85% coal, which produces a high level of carbon per MWH, the addition of renewable resources is an effort to mitigate exposure to carbon regulation. Over 20 proposals were received from the RFP. The most favorable prices were received from Evergy, resulting in 37 MW of wind capacity being added to the power supply contract. The addition of the wind capacity began in December 2016. As a result, approximately 18% of the 2020 energy supply was from carbon-free wind and the coal portion was reduced to 67%. Wind energy also cost slightly less than coal in 2020.

On September 5, 2018, the utility signed another Renewable Energy Agreement with Evergy. The new agreement was for 50 MW of capacity with a commercial operation date of December 31, 2020. Given the favorable cost, an addendum for 25 MW of additional capacity was signed on April 29, 2020. This energy supply, from Soldier Creek Wind Farm, will most likely be the utility's cheapest, and increase the amount of carbon-free energy to approximately 40%. The utility started receiving energy from this resource in November 2020.

Effective June 2021 the City of Moundridge will move their power supply from BPU to Kansas Municipal Energy Agency (KMEA). The utility never likes losing a customer, but this change will free up substation capacity for the utility's largest customer CHS and reduce maintenance cost on a dedicated 35 kV radial line serving Moundridge.

Deregulation of the electric industry, climate change, distributed generation, and environmental compliance bring uncertainty to the entire industry. The BPU has taken a pro-active approach doing all it can to enhance customer relations, guarantee adequate revenue, assure high reliability, purchase energy from alternate sources, and maintain competitive rates. Management has worked diligently to prepare for these issues and feels confident that the System will continue to prosper.

## **Report On Electric System Conditions For The Year 2020**

The Board of Public Utilities (BPU) operates a vertically integrated electric utility consisting of generation, transmission, and distribution. The utility has approximately 8,700 total customers, which includes two wholesale customers, the cities of Moundridge and Galva. Kilowatt sales in 2020 were up 4.2% over the previous year.

BPU's generation resources consist of four General Electric (GE) gas turbines with a total summer capacity of approximately 234 MW. The three units located at Power Plant 2 were installed from 1973 to 1979 and operate as peaking units, typically running less than 200 hours and 15 starts per year. The newest turbine went commercial in 1998 and is located at Power Plant 3 and typically operates around 200 hours and has less than 35 starts per year. With the new Southwest Power Pool (SPP) Integrated Market, which began in March 2014, the utility's turbines continue to see increased operation over pre-integrated market operations. In 2020 operations were close to average for post integrated market operations with gas fired units starting between 38 and 50 times. Gas turbine #3 at Plant 2 received a major inspection in the spring of 2015 and depending on 2021 operations may require a combustion inspection in 2022. Gas turbine #1 at Plant 2 had a major inspection in the spring of 2018 and should be set for several years of operation. The gas turbine at Plant 3 underwent a major inspection in the spring 2019 and should require no major work for several years. Also, in 2015, due to the discontinuation of support for the current system, all gas turbine controls were upgraded to GE Mark VIe. Going forward, the utility will continue to perform periodic borescope inspections so small problems can be found and addressed before they become major issues.

The BPU owns roughly 20 miles of 115 kV transmission line and four 115 kV ring bus style substations. Poles are inspected on a regular schedule and poles found to be structurally deficient are replaced.

Recently, with the use of a drone, some of the transmission poles were inspected and degradation was observed in the top section. Because of this, the utility started replacing 115 kV multi-pole structures that were installed in the 1970's and completed all planned replacements in 2020 except for one structure. Money was also set aside in recent budgets to replace all electromechanical relays with solid state at the Plant 2 115 kV substation. This project was completed in the spring of 2020.

Electric load continues to grow in the northeast part of town, and consequently, the utility started construction in 2020 on a new 115 kV ring bus style substation with both 35 and 12.5 kV capacity. Construction should be completed by the summer of 2022. This substation should enhance the utility's ability to provide reliable service to existing customers as well as serve future residential and industrial growth for years into the future.

BPU's distribution system consists of approximately 30 miles of 35 kV overhead line, 520 miles of 12.5 kV overhead line, 35 miles of 12.5 kV underground line, and some 5 kV overhead lines. Poles located on main feeder lines are inspected for structural integrity on a set schedule. In recent years, several of the arterial lines located in the rural areas have been rebuilt using ACSR T-2 conductor and stronger poles. Both of these steps are intended to make the lines less vulnerable to ice and wind loading, with the ultimate goal being increased reliability. In general, most rural 12.5 kV lines are in sound condition with no significant planned replacements being considered in the near future, other than a pole replacement program on single phase lines. The utility is continuing a program to convert sections of overhead to underground inside the City. Areas converted have no alley access for servicing the equipment and significant tree issues. These conversions improve system reliability, enhance worker safety, and reduce operation expense, and the intent is to continue these types of projects as time permits. For the past several years, the distribution system has continued to utilize the last two 5 kV circuits. In 2019, the load on one of these circuits was moved to 12.5 kV, and the goal is to complete this transfer on the other circuit by the end of 2022. This project is taking several years and will involve removal of two unit substations and converting significant overhead in blind alleys to underground, but again, will update the system.

In 2020, the utility also converted all residential and small commercial meters to AMI, which allows for remote reading/disconnect/reconnect and monitoring of the service. The balance of the customers should be on the new system by the end of second quarter 2021. This upgrade will improve customer service since the system monitors voltage down to the customer level and notifies the utility when the power is out or system voltage is low.

Due to the continual investment in the system, BPU's generation, transmission, and distribution system are well maintained and able to deliver the level of reliable service required by today's customers. Plans are to continue to invest in the system as we move to 2021 and beyond.



## INFORMATION CONCERNING THE WATER UTILITY SYSTEM

(UNAUDITED)

### Description of the Existing Facilities of the System

The System is maintained and operated by the Water Department, which is managed under the direction of the Board acting through the General Manager. The billings, collections and data processing are accomplished in conjunction with other Utility operations. Appropriate allocation of costs for these services are made to the Water Department.

At the present time, the Water Department and the water production operations employ the following number of people:

Production	2
Transmission & Distribution	6
Administration & Office	3

### History of the Area Served

The water department was the first of the City's utilities to be developed. A notation was found under the date (line) of May 30, 1872, stating that water can be found at the new town of McPherson at a depth of 25 feet.

The Board also provides water to four rural districts, which includes the community of Windom, or a total estimated population of 680 persons. It is projected that the Board will continue to provide water for 700 persons in the rural water districts.

It is projected that the Board will provide water to a design population of 17,000 people in 2035.

### Number of Customers

<u>Year</u>	<u>Number of Customers</u>
2020	5,980
2019	5,941
2018	5,902
2017	5,905
2016	5,909

### History of Water Usage

<u>Year</u>	<u>Gallons Pumped</u>	<u>Gallons Sold</u>	<u>Bearing Water</u>	<u>Gallons Unaccounted</u>	<u>Percentage Water Loss</u>
2020	987,741,300	903,195,000	11,273,200	73,273,100	7.42%
2019	961,174,700	879,477,000	11,371,050	70,326,650	7.32%
2018	999,133,500	908,506,000	11,382,910	79,244,590	7.93%
2017	988,380,100	904,296,000	11,281,410	72,802,690	7.37%
2016	943,024,900	849,290,000	10,601,270	83,133,630	8.82%

## Wholesale Water Sales

<u>Year</u>	<u>Gallons</u>	<u>Revenue</u>
2020	38,547,000	\$ 187,962
2019	39,370,000	167,290
2018	43,641,000	173,652
2017	40,296,000	154,016
2016	38,526,000	145,814

## Ten Largest Customers

<u>Customer</u>	<u>Gallons</u>	<u>Total Revenue</u>
Pfizer	95,552	\$ 455,214
Johns Manville	34,572	165,203
Viega	34,045	162,800
CHS	29,108	169,777
Rural Water District #4	26,151	123,514
North American Speciality	17,869	59,715
Wald Family Foods	9,793	35,003
Central States Mktg & Mfg Inc	8,843	42,152
Recreation Commission	7,817	34,075
WM Pendlay	7,209	22,750

## Rates

2020 water rates for the System are listed below:

**Base Charge:** Based on size of meter.

<u>Meter Size</u>	<u>Inside City Limits</u>	<u>Outside City Limits</u>
5/8"	\$13.43	\$20.15
1"	\$27.14	\$40.71
1 1/2"	\$57.50	\$86.25
2"	\$101.57	\$152.36
3"	\$236.97	\$355.45
4"	\$419.69	\$629.54
6"	\$846.22	\$1,269.33
8"	\$1,218.62	\$1,827.93

**Residential Unit Charge:** (Meters with gallon readings)

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
0-20 units	\$2.78/unit	\$4.17/unit
21-40 units	\$3.32/unit	\$4.98/unit
41-60 units	\$4.01/unit	\$6.02/unit
Over 60 units	\$4.81/unit	\$7.22/unit

## Commercial Customers

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
Base Rate	\$3.00/unit	\$4.50/unit
<b>Wholesale Customers</b>		
		<u>Outside City Limits</u>
All Units		\$4.50/unit

**Connection Charge:** Effective January 1, 2018

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
5/8"	\$800.00	\$1,200.00 plus bore & street repair
1"	\$900.00	\$1,350.00 plus bore & street repair
1 1/2"	\$1,700.00 plus drill cost	\$2,550.00 plus bore & street repair
2"	\$1,750.00 plus drill cost	\$2,625.00 plus bore & street repair
Larger than 2"	Actual Cost	Cost x 1 1/2

Connection charges must be paid in full before service is turned on.

**General Note:**

In the event the customer orders a disconnection and reconnection of water at the same premise within a period of twelve (12) months, the Board may collect a reconnection charge the sum of such minimum bills as would have accrued during the period of disconnection.

In the interest of water conservation, indiscriminate waste of water by the customer will be grounds for temporary disconnection of water service by the utility. It will be the customers' responsibility to demonstrate corrective measures that will stop excessive waste of the water resource.

**Financial Reporting**

The financial records of the Board are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. In recent years, the Board's annual audit has been performed by Swindoll, Janzen, Hawk & Loyd, LLC, Certified Public Accountants, McPherson, Kansas. Copies of the audit reports for the past five years are on file in the Comptroller's office and are available for review and shall be considered as a part of the annual report.

## Statement of Revenues and Expenses; Historical Debt Service Coverage Ratio

The operating results of the System presented in the following table are derived from the annual financial statements of the Utility. No assurance can be given that operating results for future years will be comparable to operating results of the prior years listed below:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Operating Revenue				
Sale Of Water	<u>\$ 3,651,963</u>	<u>\$ 3,930,502</u>	<u>\$ 4,068,284</u>	<u>\$ 4,743,238</u>
Operating Expenses				
Production	566,451	644,482	567,204	588,017
Distribution and Transmission	1,067,109	1,255,324	1,555,804	1,213,210
Administrative and General	356,122	370,612	438,450	494,076
Depreciation and Amortization	607,218	614,824	642,503	664,782
Payments to City of McPherson	<u>53,258</u>	<u>54,871</u>	<u>52,439</u>	<u>53,801</u>
Total Operating Expense	<u>2,650,158</u>	<u>2,940,113</u>	<u>3,256,400</u>	<u>3,013,886</u>
Operating Income	<u>1,001,805</u>	<u>990,389</u>	<u>811,884</u>	<u>1,729,352</u>
Nonoperating Income (Expense)				
Interest Income	71,215	115,572	174,209	116,155
Revenues from Merchandising	297,301	137,164	180,784	245,308
Less Cost from Merchandising	(10,163)	(67,280)	(5,466)	(11,740)
Refuse Collection & Sewer Service Fee	15,006	15,008	15,114	15,199
Farm Rents	38,994	228,586	110,825	141,351
Gain (Loss) on Disposal of Assets	(2,153)	-	923	1,530
Interest on Debt	<u>(302,341)</u>	<u>(270,614)</u>	<u>(247,050)</u>	<u>(220,850)</u>
Total Nonoperating Income (Expense)	<u>107,859</u>	<u>158,436</u>	<u>229,339</u>	<u>286,953</u>
Change in Net Position	<u>\$ 1,109,664</u>	<u>\$ 1,148,825</u>	<u>\$ 1,041,223</u>	<u>\$ 2,016,305</u>
Income Available for Debt Service	<u>\$ 1,972,859</u>	<u>\$ 1,999,522</u>	<u>\$ 1,897,139</u>	<u>\$ 2,869,447</u>
Debt Service Requirements	<u>\$ 952,919</u>	<u>\$ 947,231</u>	<u>\$ 953,619</u>	<u>\$ 953,619</u>
Debt Service Coverage Ratio	207.03%	211.09%	198.94%	300.90%

## **Management's Discussion of Financial Operations**

The Board of Public Utilities (BPU) most recent rate increase occurred on January 1, 2021, which was 8%, with the previous four adjustments taking place on January 1, 2016, January 1, 2018, January 1, 2019, and January 1, 2020. Combined, these have resulted in an overall increase of 46%, but the utility's water rates still compare favorably with other communities in the area. When a cost-of-service study was performed by Burns & McDonnell in 2014, they recommended four increases totaling 41%. The increase at the beginning of 2019 was the last proposed from the 2014 study, and it was implemented one year late due to sufficient revenue in 2016. The 2020 and 2021 increases were implemented to fund development of a new water supply source, the South Well Field (SWF). Two 8% rate adjustments, occurring in 2022 and 2023, have been approved to fully fund the new well field. The main reasons for these increases are the desire to ensure a long-term water supply for the community by developing additional sources and replacement of an aging distribution system.

Due to the declining aquifer in and around McPherson, staff has focused significant time on development of additional water supplies outside the immediate McPherson area. Two potential sources considered were Kanopolis Reservoir and the development of a groundwater well field several miles south of town, the SWF. A site investigation in and around this potential well field was completed in 2012 with property being purchased at the end of 2013. The necessary engineering studies were completed, determining that additional water was available. In late 2017, three water right applications were approved by the Division of Water Resources Chief Engineer for this site. During 2018 Burns & McDonnell developed an estimated cost and looked at rate impact for the project. The estimated cost is \$27.6 million and was projected to require total rate adjustments in the neighborhood of 48%. The average residential customer's bill was expected to increase approximately \$17 per month. While the increase is material, there are still several growing communities in the region with higher rates, so the increase should have limited impact on the community. In December 2019, the Board made the decision to move forward with the project and began adjusting rates in January 2020. Given the low interest rates, 2.05%, the Board made the decision in October 2020 to issue \$27.6 million in bonds to fund development of the SWF and refinance \$5.9 million in outstanding bonds. The refinance will result in a net present value benefit to the utility of \$588,000 and should reduce the size of future rate increases.

For the past several years, the utility has made an effort to replace older water mains that have experienced frequent failures. Plans are to continue this approach in an effort to keep the system from having to perform a mass replacement program in the future. The average spend on water main replacement over the last four years was \$428,000. The 2021 budget allocated \$350,000 for replacement and, depending on new development, up to an additional \$250,000 would be available.

Financially, the department is solid and the challenge going forward will be replacement of an aging distribution system and improvement of the water supply while maintaining comparable rates. Since current rates compare favorably, this should be achievable.

## **Report on Water System Condition For the Year 2020**

The Board of Public Utilities (BPU) water system consists of 12 groundwater wells, two treatment facilities, and a distribution system with approximately 130 miles of main. The utility sold 903 million gallons of water to 5,976 retail and four wholesale customers in 2020.

All of the utility's groundwater wells are located in and around the McPherson area, which is part of the McPherson Intensive Groundwater Use Control Area (IGUCA). The IGUCA was formed in 1980 due to concern about the long-term sustainability of the region given the appropriated quantity of water. Aquifer levels for each supply well are monitored by staff and heightened concern exists due to the average decline across the well field of -11.59 feet since 2000. Staff has evaluated supply options, both surface and groundwater, and currently the utility is moving forward with development of additional groundwater supplies south of McPherson, the South Well Field, which is located outside the IGUCA. Land for well sites was acquired in 2013 and three water rights were approved by the Division of Water Resources in late 2017. The South Well Field is located in an area that exhibits high recharge rates but there was concern that a chloride plume located north of the site may start to migrate due to the additional pumping. A groundwater model for the area was updated and results indicate that the proposed well field will have no effect on groundwater elevation in the area or an impact on the chloride plume. In 2021, bonds were issued for the new well field and work began on acquiring pipeline right-of-way and engineering. The project will include 3 water wells, approximately 20 miles of transmission line, and treatment for iron and manganese removal. The South Well Field should be operational in 2023 and secure a water supply for the community for at least the next 50 years.

The BPU operates two treatment facilities, one for removal of volatile organic compounds (VOC) and one for blending of water sources to reduce nitrate levels. The VOC plant was built in the early 1990's to primarily remove a dry-cleaning solvent and is performing as designed. The facility is in good shape, with minor maintenance and no capital expenditures planned. The blending plant was completed in 2010, lowering the nitrate levels at the point of entry and allowing the utility to return two water wells to production. The facility consists of a 1.5-million-gallon ground storage tank with high service pumps, which re-pressure the water so it can be placed back in the distribution system. As with any new facility, minor operational issues were discovered and have been rectified. Overall, the facility has worked well and will be an integral part in integrating water from the South Well Field.

The water distribution system contains close to 130 miles of pipe ranging in size from 2" to 24" and age from new to over 100 years old. Water main material consists of cast iron, ductile iron, asbestos cement, and PVC, with the majority of the line being cast iron and PVC. Cast iron was the material of choice prior to 1960 and is predominant in the older sections of town, while PVC is almost exclusively installed today. When water line breaks occur, they are typically on older cast iron pipes or PVC lines that were installed when PVC was just beginning to be used in the water industry. The first PVC pipe installed by the utility was thin walled, which has not held up over time due to stresses imposed. When repeated breaks have occurred on this type of pipe, a replacement program has been initiated utilizing new PVC pipe with a substantially thicker wall. There are still locations with thin-walled PVC pipe and, as warranted, plans will be made to replace these sections.

The other area of concern is older sections of pipe that experience high failure rates. Not only do these types of breaks cause water service interruption, but they also cause significant roadway damage, traffic disruption, and high maintenance cost. Over the last few years effort has been given to replacing sections of older cast iron pipe, and in 2015, a GIS mapping system was initiated which allows line breaks to be visually mapped. This has proven to be a valuable tool in determining where water line replacement dollars should be invested. In 2020, the main break rate was 11 breaks per 100 miles per year. By comparison, about 300 utilities throughout North America saw an average of 14 breaks per 100 miles per year, according to a 2018 study by Utah State University. In 2020, approximately \$589,000 was spent replacing 1.2 miles of main, and going forward, \$350,000-\$600,000 per year is being allocated, depending on spending for new developments.

Overall, the BPU's water system is in good condition, but looking ahead, focus should continue on the development of the South Well Field and keeping the distribution system reliable by replacing pipe that has reached the end of useful life.