

**BOARD OF PUBLIC UTILITIES
CITY OF McPHERSON**

FINANCIAL REPORT

**FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016**

Board of Public Utilities - McPherson, Kansas

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INDEPENDENT AUDITOR'S REPORT

Board of Public Utilities
of McPherson, Kansas

We have audited accompanying 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, 2017 and 2016, and the related notes to the 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 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinions

As discussed in Note 1, the 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, 2017 and 2016, 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.

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In our opinion, based on our audit, the 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, 2017 and 2016, and the respective changes in financial position and, where applicable, 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 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 Other Post Employment Benefits, Schedule of BPU's Proportionate Share of 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 opinions on the 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 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) 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

June 13, 2018

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 statements consisting of the Summary of Cash Receipts, Expenditures and Unencumbered Cash, Summary of Expenditures – Actual and Budget, and Summary of Cash Receipts and Expenditures. 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, 2017. 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, 2017, 2016, and 2015.

Condensed Statements of Net Position

	2017			2016	2015
	Electric	Water	Totals	Totals	Totals
Assets and Deferred Outflow of Resources					
Capital assets	\$ 36,551,124	\$ 23,543,210	\$ 60,094,334	\$ 60,121,117	\$ 61,368,932
Other assets	51,858,738	8,726,000	60,584,738	58,355,138	53,251,772
Total Assets and Deferred Outflow of Resources	\$ 88,409,862	\$ 32,269,210	\$ 120,679,072	\$ 118,476,255	\$ 112,458,994
Liabilities and Deferred Inflow of Resources					
Long-term debt outstanding	\$ 3,919,112	\$ 9,172,545	\$ 13,091,657	\$ 16,442,574	\$ 17,116,362
Other liabilities	6,510,807	1,581,275	8,092,082	8,303,876	8,235,128
Total Liabilities and Deferred Inflow of Resources	10,429,919	10,753,820	21,183,739	24,746,450	26,795,645
Net Position					
Net assets invested in capital assets, net of related debt	36,551,124	14,221,170	50,772,294	47,409,640	47,688,070
Restricted	-	339,076	339,076	1,585,644	2,055,486
Unrestricted	41,428,819	6,955,144	48,383,963	44,734,521	39,525,658
Total Net Position	77,979,943	21,515,390	99,495,333	93,729,805	85,663,349
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 88,409,862	\$ 32,269,210	\$ 120,679,072	\$ 118,476,255	\$ 112,458,994

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2017			2016	2015
	Electric	Water	Totals	Totals	Totals
Operating revenues:					
Residential	\$ 6,605,317	\$ 1,945,280	\$ 8,550,597	\$ 9,026,099	\$ 8,482,771
Commercial and industrial	52,919,442	1,552,669	54,472,111	51,788,217	48,911,307
Other	423,429	154,014	577,443	559,400	550,524
Total operating revenue	<u>59,948,188</u>	<u>3,651,963</u>	<u>63,600,151</u>	<u>61,373,716</u>	<u>57,944,602</u>
Operating expenses:					
Fuel	699,695	-	699,695	1,076,493	2,116,929
Purchased power	42,806,144	-	42,806,144	39,637,092	36,049,858
Production	2,407,357	566,451	2,973,808	4,094,369	3,858,216
Distribution and transmission	3,755,060	1,067,109	4,822,169	5,540,991	5,011,263
Administration and general	2,071,168	356,122	2,427,290	2,509,276	3,058,226
Payments to City of McPherson	1,759,776	53,258	1,813,034	1,734,787	1,530,474
Depreciation and amortization	2,146,702	607,218	2,753,920	2,548,783	2,505,460
Total operating expenses	<u>55,645,902</u>	<u>2,650,158</u>	<u>58,296,060</u>	<u>57,141,791</u>	<u>54,130,426</u>
Operating income	4,302,286	1,001,805	5,304,091	4,231,925	3,814,176
Nonoperating income (expenses)	<u>353,581</u>	<u>107,859</u>	<u>461,440</u>	<u>228,666</u>	<u>(208,311)</u>
Increase in net position	4,655,867	1,109,664	5,765,531	4,460,591	3,605,865
Net position, beginning	<u>73,324,079</u>	<u>20,405,726</u>	<u>93,729,805</u>	<u>89,269,214</u>	<u>85,663,349</u>
Net position, ending	<u>\$ 77,979,946</u>	<u>\$ 21,515,390</u>	<u>\$ 99,495,336</u>	<u>\$ 93,729,805</u>	<u>\$ 89,269,214</u>

Financial Highlights

2017 Compared to 2016

- Gross electric revenue for 2017 increased 1.05% from 2016. Gross water revenue for 2017 increased 1.04% from 2016.
- Total outstanding bond indebtedness for the water department is \$8,025,000 at December 31, 2017. The electric department paid the remaining bond indebtedness off in April, 2017.
- The 2017 debt service coverage ratio of the water department was 1.30 times higher than the 1.25% required by the bond covenant agreement. For the year 2016 the ratio for the water department was 1.04 times higher than the 1.25% required by the bond covenant agreement.
- Debt to Equity ratio for the water department decreased in 2017 to 0.50:1 compared with 0.58:1 in 2016. The Debt to Equity ratio for the electric department decreased in 2017 to 0.13:1 compared with 0.18:1 in 2016.
- Available cash and investments for 2017 increased by 10.0% in the electric department and increased by 3.06% in the water department compared to 2016.
- Interest income increased by 84.7% for the electric department and increased by 90.4% for the water department in 2017 compared to 2016.

2016 Compared to 2015

- Gross water revenue for 2016 has increased 1.03%, while the quantity sales decreased by 10.42% compared to 2015. For 2015, gross water revenues were up 1.09% and gallons sold down 5.48% compared to 2014.
- On January 1, 2016, the water department issued a rate increase (WAT-16) as approved on September 8, 2014. The approved water rate increases were the result of a Cost of Service and Rate Study performed by Burns & McDonnell. The imposed rate adjustments have resulted in sufficient revenues to meet minimum coverage requirements for 2016 and 2015.
- Total outstanding bond indebtedness for the water department is \$8,690,000 and for the electric department is \$2,595,000 at December 31, 2016.
- The 2016 debt service coverage ratios of both the electric and water departments were 6.51 and 1.33 times, respectfully. The ratios are again higher than the 1.25 times required by the bond covenant agreements. For the year 2015 the ratios for the electric and water departments were 5.56 and 1.42 times, respectively.
- Debt to Equity ratio for the water department decreased to 0.57:1 in 2016 compared with 0.64:1 in 2015. The Debt to Equity ratio for the electric department remained unchanged at 0.18:1 in 2016 and 2015.
- Available cash and investments for 2016 increased by 14.3% in the electric department and increased by 2.43% in the water department compared to 2015.
- Interest income increased by 46.0% for the electric department and increased by 46.9% for the water department in 2016 compared to 2015.

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

STATEMENTS OF NET POSITION December 31, 2017 (With comparative totals for December 31, 2016)

	<u>ASSETS</u>		<u>Totals</u>	
	<u>Electric</u>	<u>Water</u>	<u>2017</u>	<u>2016</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 13,803,897	\$ 1,743,109	\$ 15,547,006	\$ 12,473,006
Certificates of deposit	28,350,000	4,540,787	32,890,787	28,090,788
Investments	-	-	-	3,500,000
Accounts receivable, customer and other	5,753,980	592,097	6,346,077	6,084,928
Inventories	2,175,875	297,069	2,472,944	2,745,104
Accrued interest	53,220	8,818	62,038	39,613
Total current assets	50,136,972	7,181,880	57,318,852	52,933,439
Noncurrent assets				
Restricted cash and cash equivalents	201,936	-	201,936	167,327
Restricted certificates of deposit	500,000	1,409,213	1,909,213	3,209,213
Capital Assets				
Land	551,355	5,703,610	6,254,965	6,254,965
Buildings and equipment	98,964,120	26,944,045	125,908,165	124,203,332
Construction in process	1,335,955	119,985	1,455,940	288,388
Less accumulated depreciation	(64,300,306)	(9,224,430)	(73,524,736)	(70,625,568)
Industrial development property, at cost	369,322	-	369,322	713,176
Other assets	12,500	-	12,500	12,500
Total noncurrent assets	37,634,882	24,952,423	62,587,305	64,223,333
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	-	22,317	22,317	349,648
Pension contributions subsequent to the measurement date	221,896	39,158	261,054	259,941
Differences between expected and actual experience	18,359	3,240	21,599	27,945
Net difference between projected and actual earnings on pension plan investment	119,071	21,013	140,084	568,767
Changes of assumptions	204,426	36,075	240,501	-
Changes in proportionate share of contributions	74,256	13,104	87,360	113,182
Total deferred outflow of resources	638,008	134,907	772,915	1,319,483
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	\$ 88,409,862	\$ 32,269,210	\$ 120,679,072	\$ 118,476,255

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION December 31, 2017 (With comparative totals for December 31, 2016)

LIABILITIES AND NET POSITION

			Totals	
	Electric	Water	2017	2016
LIABILITIES				
Current liabilities				
Accounts payable	\$ 4,914,446	\$ 72,927	\$ 4,987,373	\$ 4,640,974
Current maturities of revenue bonds	-	685,000	685,000	1,280,000
Accrued interest on revenue bonds	-	37,554	37,554	53,299
Current portion of notes payable	-	249,221	249,221	265,683
Accrued interest on notes payable	-	57,625	57,625	88,567
Customer meter and other deposits	702,618	-	702,618	671,863
Self-insurance claims payable	30,600	5,400	36,000	9,000
Accrued payroll	667,925	105,397	773,322	742,022
Accrued interest on customer meter deposits	2,902	-	2,902	2,017
Due to City of McPherson	-	334,213	334,213	344,942
Total current liabilities	6,318,491	1,547,337	7,865,828	8,098,367
Long-term liabilities				
Long-term debt - revenue bonds	-	7,619,269	7,619,269	10,421,277
Long-term debt - notes payable	-	861,668	861,668	1,110,888
Postemployment benefit liability	123,201	21,741	144,942	112,521
Net pension liability	3,795,911	669,867	4,465,778	4,814,766
Total long-term liabilities	3,919,112	9,172,545	13,091,657	16,459,452
Other liabilities				
Water meter advances	-	-	-	47,438
TOTAL LIABILITIES	10,237,603	10,719,882	20,957,485	24,605,257
DEFERRED INFLOWS OF RESOURCES				
Differences between expected and actual experience	131,255	23,163	154,418	86,902
Changes of assumptions	27,758	4,898	32,656	45,039
Changes in proportionate share of contributions	33,300	5,877	39,177	9,252
TOTAL DEFERRED INFLOWS OF RESOURCES	192,313	33,938	226,251	141,193
NET POSITION				
Invested in capital assets, net of related debt	36,551,124	14,221,170	50,772,294	47,409,640
Restricted for debt service	-	339,076	339,076	1,585,644
Unrestricted	41,428,822	6,955,144	48,383,966	44,734,521
TOTAL NET POSITION	77,979,946	21,515,390	99,495,336	93,729,805
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 88,409,862	\$ 32,269,210	\$ 120,679,072	\$ 118,476,255

The notes to the financial statements are an integral part of this statement.

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

			<u>Totals</u>	
	<u>Electric</u>	<u>Water</u>	<u>2017</u>	<u>2016</u>
OPERATING REVENUE				
Electric				
Metered sales	\$ 56,045,689	\$ -	\$ 56,045,689	\$ 53,499,384
Street lighting	249,316	-	249,316	242,045
Sales to interconnection	3,653,183	-	3,653,183	4,109,101
Water				
Sale of water	-	3,651,963	3,651,963	3,523,186
Total operating revenue	<u>59,948,188</u>	<u>3,651,963</u>	<u>63,600,151</u>	<u>61,373,716</u>
OPERATING EXPENSE				
Fuel	699,695	-	699,695	1,076,493
Purchased power	42,806,144	-	42,806,144	39,637,092
Production	2,407,357	566,451	2,973,808	4,094,369
Distribution and transmission	3,755,060	1,067,109	4,822,169	5,540,991
Administrative and general	2,071,168	356,122	2,427,290	2,509,276
Payment to City of McPherson	1,759,776	53,258	1,813,034	1,734,787
Depreciation and amortization	<u>2,146,702</u>	<u>607,218</u>	<u>2,753,920</u>	<u>2,548,783</u>
Total operating expense	<u>55,645,902</u>	<u>2,650,158</u>	<u>58,296,060</u>	<u>57,141,791</u>
OPERATING INCOME	<u>4,302,286</u>	<u>1,001,805</u>	<u>5,304,091</u>	<u>4,231,925</u>
NONOPERATING INCOME (EXPENSE)				
Interest income	276,141	71,215	347,356	186,939
Revenues from merchandising, jobbing and contract work and miscellaneous income	304,542	297,301	601,843	658,196
Less cost of merchandising	(170,802)	(10,163)	(180,965)	(450,147)
Refuse collection and sewer service fees	85,056	15,006	100,062	73,007
Penalties, earned discounts and other	97,991	-	97,991	83,591
Farm rents, net of expense	(2,405)	38,994	36,589	192,563
Gain (loss) on disposal of assets	10,676	(2,153)	8,523	(15,088)
Interest on debt	<u>(247,618)</u>	<u>(302,341)</u>	<u>(549,959)</u>	<u>(500,395)</u>
Total nonoperating income (expense)	<u>353,581</u>	<u>107,859</u>	<u>461,440</u>	<u>228,666</u>
CHANGES IN NET POSITION	4,655,867	1,109,664	5,765,531	4,460,591
TOTAL NET POSITION, BEGINNING OF YEAR	<u>73,324,079</u>	<u>20,405,726</u>	<u>93,729,805</u>	<u>89,269,214</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 77,979,946</u>	<u>\$ 21,515,390</u>	<u>\$ 99,495,336</u>	<u>\$ 93,729,805</u>

The notes to the financial statements are an integral part of this statement.

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

	<u>Electric</u>	<u>Water</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$60,227,722	\$3,978,520	\$64,206,242	\$62,004,398
Payments to suppliers	(44,517,843)	(763,601)	(45,281,444)	(45,103,244)
Payments to employees	(6,605,623)	(1,154,896)	(7,760,519)	(7,234,948)
Other receipts (payments)	(1,759,776)	(53,258)	(1,813,034)	(1,734,787)
Net cash provided from (used in) operating activities	<u>7,344,480</u>	<u>2,006,765</u>	<u>9,351,245</u>	<u>7,931,419</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchase of property, plant and equipment	(2,415,198)	(583,595)	(2,998,793)	(1,592,609)
Proceeds from sale of equipment	10,676	8,697	19,373	28,775
Proceeds from sale of industrial development property	343,854	-	343,854	-
Principal payments on bonds	(2,595,000)	(665,000)	(3,260,000)	(1,240,000)
Principal payments on notes payable	-	(265,682)	(265,682)	(264,686)
Interest paid on debt	(61,883)	(344,440)	(406,323)	(490,907)
Net cash provided from (used in) capital and related financing activities	<u>(4,717,551)</u>	<u>(1,850,020)</u>	<u>(6,567,571)</u>	<u>(3,559,427)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(16,000,000)	3,250,000	(12,750,000)	(34,800,000)
Proceeds from sale or maturity of investments	16,000,000	(3,250,000)	12,750,000	32,290,615
Interest received	255,785	69,147	324,932	163,758
Net cash provided from (used in) investing activities	<u>255,785</u>	<u>69,147</u>	<u>324,932</u>	<u>(2,345,627)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,882,714	225,892	3,108,606	2,026,365
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,123,116</u>	<u>1,517,217</u>	<u>12,640,333</u>	<u>10,613,968</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$14,005,830</u>	<u>\$1,743,109</u>	<u>\$15,748,939</u>	<u>\$12,640,333</u>

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2017

(With comparative totals for the year ended December 31, 2016)

	<u>Electric</u>	<u>Water</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH				
PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 4,302,286	\$ 1,001,805	\$ 5,304,091	\$ 4,231,925
Adjustments to reconcile operating income to net cash				
provided by operating activities:				
Depreciation and amortization	2,348,750	665,976	3,014,726	2,796,561
Other nonoperating income	325,058	338,985	664,043	542,122
(Gain) loss on disposal of fixed assets	(10,676)	2,153	(8,523)	15,088
Changes in:				
Accounts and notes receivable	(236,405)	(24,744)	(261,149)	(432,025)
Inventories	254,326	17,834	272,160	152,624
Prepaid insurance	-	-	-	272,453
Accounts payable	316,799	29,597	346,396	307,547
Accrued expenses	24,018	24,438	48,456	81,434
Postemployment benefit asset	27,558	4,863	32,421	45,547
KPERS liability net of deferred inflows/outflows	(37,989)	(6,704)	(44,693)	(42,649)
Water meter advances	-	(47,438)	(47,438)	(58,960)
Customer meter deposits	30,755	-	30,755	19,752
Net cash provided from operating activities	<u>\$ 7,344,480</u>	<u>\$ 2,006,765</u>	<u>\$ 9,351,245</u>	<u>\$ 7,931,419</u>

BOARD OF PUBLIC UTILITIES - McPHERSON, KANSAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(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.

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 production 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	
			2017	2016
Fuel	\$ -	\$ 1,120,317	\$ 1,120,317	\$ 1,340,615
Materials and supplies	297,069	1,055,558	1,352,627	1,404,489
Total	<u>\$ 297,069</u>	<u>\$ 2,175,875</u>	<u>\$ 2,472,944</u>	<u>\$ 2,745,104</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 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 fixed assets, allowances for doubtful accounts, inventory, investments, notes receivable, and reserves for employee benefit obligations, environmental liabilities, and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(i) *Deferred Charges*

Costs incurred in the development of computer systems 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.

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 15 years	120 working hours	180 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, 2017, for the electric department and the water department of \$354,412 and \$46,838, respectively, and at December 31, 2016, for the electric department and the water department of \$356,962 and \$31,240, respectively, has been accrued in the accompanying financial statements.

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, 2017, the BPU's total interest expense was \$549,959. Net interest cost of \$0 was capitalized in connection with construction in progress during 2017. For the year ended December 31, 2016, the BPU's total interest expense was \$500,395. Net interest cost of \$0 was capitalized in connection with construction in progress during 2016.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(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".

(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 2017 or 2016.

(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.

In addition to liabilities, the statement of financial 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 one item that qualifies for reporting in this category. It is the deferred inflows related to pensions as actuarially determined and explained in Note 17.

2. COMMITMENTS

At December 31, 2017, there was one material contract commitment for \$561,968. At December 31, 2016, there were no material contract commitments.

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, 2017, the BPU has established a liability of \$36,000 that is recorded on the balance sheet for claims arising out of the self-insurance program. At December 31, 2016, this liability was \$9,000. Management believes claims incurred, but not reported, are insignificant at December 31, 2017.

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.

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, 2017.

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, 2017 and 2016, the carrying amount of the BPU's deposits, including certificates of deposit, was \$50,547,942 and \$47,439,334, respectively, and the bank balance was \$50,880,552 and \$44,208,219, 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 \$50,130,552 was collateralized with securities held by the pledging financial institutions agents in the BPU's name and deposit surety bonds.

5. DEPOSITS AND INVESTMENTS (CONT.)

(b) Investments

At December 31, 2016, the BPU had invested in funds in the State's Municipal Investment Pool. The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations that are insured as to principal and interest, by the U.S. government or any agency thereof, with maturities up to four years. No more than ten percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

As of December 31, 2017 and 2016, the BPU had the following investments.

Investment type	Fair Value 2017	Investment Maturities (In Years) < 1 year	2016	Rating
Kansas Municipal Investment Pool	\$ -	\$ -	\$ 3,500,000	S&P AAAF/S1+

Deposits and investments are shown on the combined balance sheets at December 31, 2017 and 2016, as follows:

	2017	2016
Current assets		
Cash and cash equivalents	\$ 15,547,006	\$ 12,473,006
Certificates of deposit	32,890,787	28,090,788
Investments	-	3,500,000
Noncurrent assets		
Cash and cash equivalents	201,936	167,327
Certificates of deposit	1,909,213	3,209,213
Total	<u>\$ 50,548,942</u>	<u>\$ 47,440,334</u>

A summary of deposits and cash at December 31, 2017 and 2016 is as follows:

	2017	2016
Total investments	\$ -	\$ 3,500,000
Total deposits	50,547,942	43,939,334
Cash on hand	1,000	1,000
Total	<u>\$ 50,548,942</u>	<u>\$ 47,440,334</u>

(c) Designated Assets

Certain unrestricted cash and investment amounts that have been designated by Board policy for specific purposes are as follows at December 31:

			Totals	
	Electric	Water	2017	2016
Long Range Electric Supply	\$ 16,950,749	\$ -	\$ 16,950,749	\$ 16,950,749
Long Range Water Supply	-	2,867,703	2,867,703	2,867,703
Workers Comp Insurance Fund	210,513	37,149	247,662	251,849
Total	<u>\$ 17,161,262</u>	<u>\$ 2,904,852</u>	<u>\$ 20,066,114</u>	<u>\$ 20,070,301</u>

5. DEPOSITS AND INVESTMENTS (CONT.)

(d) *Restricted Assets*

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

	Electric	Water	Totals	
			2017	2016
Bond Reserve Fund	\$ -	\$ 959,213	\$ 959,213	\$ 959,213
Bond Emergency Fund	-	100,000	100,000	1,100,000
Bond and Interest Fund	-	350,000	350,000	650,000
Health Insurance Fund	-	-	-	22,460
Customer Deposit Fund	701,936	-	701,936	667,486
Employee Flex Fund	7,427	-	7,427	10,954
Refuse Fund	-	34,672	34,672	34,672
Sewer Fund	-	109,024	109,024	109,024
Total	<u>\$ 709,363</u>	<u>\$ 1,552,909</u>	<u>\$ 2,262,272</u>	<u>\$ 3,553,809</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 \$2,867,703 balance at December 31, 2017 and 2016, 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 balances at December 31, 2017 and 2016, were \$16,950,749.

7. CAPITAL ASSETS

The following is a summary of capital assets at December 31, 2017:

	Electric Department			
	Balance December 31, 2016	Additions	Deletions	Balance December 31, 2017
Land and improvements	\$ 551,355	\$ -	\$ -	\$ 551,355
Production plants	50,121,184	-	(12,825)	50,108,359
Transmission and distribution	40,779,541	1,300,459	-	42,080,000
General plant	6,722,187	67,172	(13,600)	6,775,759
Construction in progress	288,388	2,389,358	(1,341,791)	1,335,955
	98,462,655	3,756,989	(1,368,216)	100,851,428
Less accumulated depreciation	(61,977,979)	(2,348,750)	26,423	(64,300,306)
Total	<u>\$ 36,484,676</u>	<u>\$ 1,408,239</u>	<u>\$ (1,341,793)</u>	<u>\$ 36,551,122</u>

7. CAPITAL ASSETS (CONT.)

	Water Department				Balance December 31, 2017
	Balance December 31, 2016	Additions	Deletions	Transfers	
Land and improvements	\$ 5,703,610	\$ -	\$ -	\$ -	\$ 5,703,610
Production plants	1,370,006	-	-	-	1,370,006
Transmission and distribution	23,713,316	461,710	(99,986)	-	24,075,040
General plant	1,497,098	1,901	-	-	1,498,999
Construction in progress	-	495,401	(375,416)	-	119,985
	32,284,030	959,012	(475,402)	-	32,767,640
Less accumulated depreciation	(8,647,589)	(665,976)	89,135	-	(9,224,430)
Total	\$ 23,636,441	\$ 293,036	\$ (386,267)	\$ -	\$ 23,543,210

The following is a summary of capital assets at December 31, 2016:

	Electric Department				Balance December 31, 2016
	Balance December 31, 2015	Additions	Deletions	Transfers	
Land and improvements	\$ 551,355	\$ -	\$ -	\$ -	\$ 551,355
Production plants	49,134,747	1,036,168	(49,731)	-	50,121,184
Transmission and distribution	40,526,002	482,755	(229,216)	-	40,779,541
General plant	6,630,814	131,196	(39,823)	-	6,722,187
Construction in progress	654,649	4,996,204	(5,362,465)	-	288,388
	97,497,567	6,646,323	(5,681,235)	-	98,462,655
Less accumulated depreciation	(60,105,564)	(2,147,321)	274,906	-	(61,977,979)
Total	\$ 37,392,003	\$ 4,499,002	\$ (5,406,329)	\$ -	\$ 36,484,676

	Water Department				Balance December 31, 2016
	Balance December 31, 2015	Additions	Deletions	Transfers	
Land and improvements	\$ 5,668,307	\$ 35,303	\$ -	\$ -	\$ 5,703,610
Production plants	1,370,006	-	-	-	1,370,006
Transmission and distribution	23,515,482	277,344	(79,510)	-	23,713,316
General plant	1,484,698	13,995	(1,595)	-	1,497,098
Construction in progress	17,891	236,490	(254,381)	-	-
	32,056,384	563,132	(335,486)	-	32,284,030
Less accumulated depreciation	(8,079,455)	(649,239)	81,105	-	(8,647,589)
Total	\$ 23,976,929	\$ (86,107)	\$ (254,381)	\$ -	\$ 23,636,441

Depreciation expense for the year ended December 31, 2017, for the electric and water departments is \$2,348,749 and \$665,977, respectively, as illustrated in the following table. Depreciation expense does not include vehicle depreciation of \$202,048 and \$58,759 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, 2016	Additions	Transfers/ Deletions	Accumulated Depreciation December 31, 2017
Production plants	\$ 33,216,298	\$ 1,034,846	\$ (12,824)	\$ 34,238,320
Transmission and distribution	27,047,857	1,008,641	-	28,056,498
General plant	1,713,824	305,263	(13,599)	2,005,488
	<u>\$ 61,977,979</u>	<u>\$ 2,348,750</u>	<u>\$ (26,423)</u>	<u>\$ 64,300,306</u>
	Water Department			
	Accumulated Depreciation December 31, 2016	Additions	Transfers/ Deletions	Accumulated Depreciation December 31, 2017
Production plants	\$ 1,225,775	\$ 8,575	\$ -	\$ 1,234,350
Transmission and distribution	7,140,875	597,661	(89,135)	7,649,401
General plant	280,939	59,740	-	340,679
	<u>\$ 8,647,589</u>	<u>\$ 665,976</u>	<u>\$ (89,135)</u>	<u>\$ 9,224,430</u>

Depreciation expense for the year ended December 31, 2016, for the electric and water departments is \$2,147,321 and \$649,239, respectively, as illustrated in the following table. Depreciation expense does not include vehicle depreciation of \$198,891 and \$48,887 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, 2015	Additions	Transfers/ Deletions	Accumulated Depreciation December 31, 2016
Production plants	\$ 32,404,868	\$ 861,160	\$ (49,731)	\$ 33,216,297
Transmission and distribution	26,239,679	993,530	(185,352)	27,047,857
General plant	1,461,017	292,631	(39,823)	1,713,825
	<u>\$ 60,105,564</u>	<u>\$ 2,147,321</u>	<u>\$ (274,906)</u>	<u>\$ 61,977,979</u>
	Water Department			
	Accumulated Depreciation December 31, 2015	Additions	Transfers/ Deletions	Accumulated Depreciation December 31, 2016
Production plants	\$ 1,217,200	\$ 8,575	\$ -	\$ 1,225,775
Transmission and distribution	6,638,860	581,525	(79,510)	7,140,875
General plant	223,395	59,139	(1,595)	280,939
	<u>\$ 8,079,455</u>	<u>\$ 649,239</u>	<u>\$ (81,105)</u>	<u>\$ 8,647,589</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, 2017 and 2016, the BPU exceeded this coverage requirement for water debt, respectively. 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, 2017 and 2016.

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	Water 12-31-17	Electric 12-31-17	Total Outstanding 12-31-17
Water Utility System						
Refunding and Improvement						
Revenue Bonds,		2.00 to				
Series 2012	\$ 11,085,000	4.00%	10-01-2027	\$ 8,025,000	\$ -	\$ 8,025,000
Add Unamortized Bond Premium				279,269	-	279,269
				8,304,269	-	8,304,269
Less Current Maturities				(685,000)	-	(685,000)
Long-Term Portion of Bonds Payable				\$ 7,619,269	\$ -	\$ 7,619,269

SUMMARY OF CHANGES IN LONG-TERM DEBT

	Outstanding 12-31-16	Issued	Retired	Refunding	Outstanding 12-31-17
Water Utility System					
Series 2012	\$ 8,690,000	\$ -	\$ 665,000	\$ -	\$ 8,025,000
Electric Utility System					
Series 2011	2,595,000	-	2,595,000	-	-
	11,285,000	-	3,260,000	-	8,025,000
Add Unamortized Bond Premium	416,277	-	(137,008)	-	279,269
Total	\$ 11,701,277	\$ -	\$ 3,122,992	\$ -	\$ 8,304,269
	Outstanding 12-31-15	Issued	Retired	Refunding	Outstanding 12-31-16
Water Utility System					
Series 2012	\$ 9,330,000	\$ -	\$ 640,000	\$ -	\$ 8,690,000
Electric Utility System					
Series 2011	3,195,000	-	600,000	-	2,595,000
	12,525,000	-	1,240,000	-	11,285,000
Add Unamortized Bond Premium	473,817	-	(57,540)	-	416,277
Total	\$ 12,998,817	\$ -	\$ 1,182,460	\$ -	\$ 11,701,277

8. REVENUE BONDS (CONT.)

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

	2012 WATER ISSUE		
	Bonds	Interest	Total
2018	\$ 685,000	\$ 267,368	\$ 952,368
2019	705,000	246,819	951,819
2020	735,000	218,619	953,619
2021	755,000	203,000	958,000
2022	780,000	172,800	952,800
2023 - 2027	4,365,000	420,863	4,785,863
Total	\$ 8,025,000	\$ 1,529,469	\$ 9,554,469

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.

On January 1, 2014, the BPU purchased land in the amount of \$1,222,500 for the purpose of securing water rights. The note was financed by the sellers with payments due in five annual payments of principal and interest due on January 10th, except for the first payment, which was due January 3, 2014. The interest is set annually at a rate equal to 1% over the New York Prime Rate as published on the first day of each new year.

	12-31-16	Issued	Payments	12-31-17
Land Note Payable - Water Rights	\$ 914,071	\$ -	\$ 25,682	\$ 888,389
Land Note Payable - Water Rights	462,500	-	240,000	222,500
Total	\$ 1,376,571	\$ -	\$ 265,682	\$ 1,110,889

	12-31-15	Issued	Payments	12-31-16
Land Note Payable - Water Rights	\$ 938,757	\$ -	\$ 24,686	\$ 914,071
Land Note Payable - Water Rights	702,500	-	240,000	462,500
Total	\$ 1,641,257	\$ -	\$ 264,686	\$ 1,376,571

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

	NOTE PAYABLE - WATER RIGHTS			NOTE PAYABLE - WATER RIGHTS			TOTAL LONG TERM NOTES
	Principal	Interest	Total	Principal	Interest	Total	
2018	\$ 26,721	\$ 35,271	\$ 61,992	\$ 222,500	\$ 10,013	\$ 232,513	\$ 294,505
2019	27,800	34,191	61,991	-	-	-	61,991
2020	28,923	33,069	61,992	-	-	-	61,992
2021	30,092	31,900	61,992	-	-	-	61,992
2022	31,308	30,684	61,992	-	-	-	61,992
2023 - 2027	176,563	133,395	309,958	-	-	-	309,958
2028 - 2032	215,230	94,728	309,958	-	-	-	309,958
2033 - 2037	262,364	47,594	309,958	-	-	-	309,958
2038 - 2039	89,388	3,599	92,987	-	-	-	92,987
Total	\$ 888,389	\$ 444,431	\$ 1,332,820	\$ 222,500	\$ 10,013	\$ 232,513	\$ 1,565,333

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 2016 to 2017 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 Westar Energy, formally Kansas Power and Light Company. 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 Westar Energy for resale to its retail and wholesale customers. In return, the BPU is obligated to sell all of its energy production to Westar Energy. The contract specifies that all sales between the entities be sold at fuel cost plus twelve percent. In addition, Westar Energy has agreed to pay the BPU an annual capacity charge that obligates the BPU to have its generation available to Westar Energy 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.

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, 2017 and 2016. Payments to the City from the water department are calculated at \$.06 per thousand gallons of water sold for the years ended December 31, 2017 and 2016. The BPU was required to remit \$1,759,776 and \$1,684,097 in 2017 and 2016, respectively, from the electric department. The BPU was required to remit \$53,258 and \$50,690 in 2017 and 2016, 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. SUBSEQUENT EVENT

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.

15. PRINCIPAL CUSTOMERS

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

	2017			
	Sales	Percent of Total Sales	KWH (000)	Percent of Total KWH
CHS (Refinery)	\$ 21,758,322	38.8%	457,940	45.5%
Johns Manville Corp.	7,258,059	12.9%	151,679	15.1%
Pfizer	2,721,493	4.8%	53,690	5.3%
Moundridge City	1,981,666	3.5%	30,415	3.0%
North American Specialty	<u>1,041,067</u>	<u>1.9%</u>	<u>19,765</u>	<u>2.0%</u>
Total	<u>\$ 34,760,607</u>	<u>61.9%</u>	<u>713,489</u>	<u>70.9%</u>

	2016			
	Sales	Percent of Total Sales	KWH (000)	Percent of Total KWH
CHS (Refinery)	\$ 19,559,417	36.4%	414,892	43.2%
Johns Manville Corp.	7,130,742	13.3%	149,265	15.5%
Pfizer	2,776,692	5.2%	54,803	5.7%
Moundridge City	1,921,434	3.6%	29,930	3.1%
North American Specialty	<u>999,011</u>	<u>1.9%</u>	<u>19,114</u>	<u>2.0%</u>
Total	<u>\$ 32,387,296</u>	<u>60.3%</u>	<u>668,004</u>	<u>69.5%</u>

16. POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description. The BPU provides certain postemployment healthcare benefits to eligible retirees and their spouses in accordance with the provisions established by the BPU's Board of Directors. The plan is a single-employer defined benefit healthcare plan self-insured by the City and BPU and administrated by Blue Cross and Blue Shield of Kansas. The plan does not issue separate financial statements. Employees may elect to continue coverage paying 100% of the premium cost the day they retire. To qualify for retirement an employee must be either age 65 with one year of service credit, be age 55 with 10 years of service credit, or at any age when age and years of service equal 85 points. The retiree plan is a comprehensive major medical with a \$500 deductible per person or \$1,000 per family. The plan pays 80% of the next \$1,500 allowed charges per person or \$3,000 per family with 100% thereafter. The plan has an unlimited lifetime maximum. Benefits cease at the earlier date the retired employee attains age 65 or death. Retirees become ineligible for health insurance coverage when they qualify for coverage under another health insurance group. Spouse benefits end at the earlier of the date the spouse attains age 65, the date the employee attains age 65, or the spouse's death. There were 76 participants eligible to receive benefits under this plan as of the last valuation date, (December 31, 2017).

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

16. POSTEMPLOYMENT HEALTHCARE BENEFITS (CONT.)

The BPU annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation (asset) for 2017 and 2016 are as follows:

	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
Year Ended:			
December 31, 2017	\$ 20,980	(55%)	\$ 144,942
December 31, 2016	26,594	(71%)	112,521

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

	<u>2017</u>	<u>2016</u>
Annual OPEB cost	\$ 20,980	\$ 26,594
Contributions made	<u>11,441</u>	<u>18,953</u>
Increase (decrease) in OPEB obligation	32,421	45,547
Net OPEB obligation (asset) - beginning of year	<u>112,521</u>	<u>66,974</u>
Net OPEB obligation (asset) - end of year	<u>\$ 144,942</u>	<u>\$ 112,521</u>

(a) Funding Status and Funding Progress

The funded status of the plan as of the most recent valuation date (December 31, 2017) is as follows:

Actuarial accrued liability (AAL)	\$ 197,330
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 197,330
Funded ratio	0%
Covered payroll	\$ 5,547,018
UAAL as a percentage of covered payroll	3.6%

16. POSTEMPLOYMENT HEALTHCARE BENEFITS (CONT.)

(b) Actuarial Methods and Assumptions

Actuarial valuations on an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, is information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include benefits provided at the time of each valuation and the historical pattern of sharing benefits costs between the employer and plan member to that point. The actuarial methods used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the December 31, 2017, actuarial valuation, the Entry Age Actuarial Cost Method was used. The actuarial assumptions included a 4.5% projected investment rate of return. The annual healthcare cost trend is 8% in year one decreasing by .5% every year until year seven when it reaches an ultimate rate of 5%. The projected salary increase is 3.0%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percent of payroll.

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.

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

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.

17. DEFINED BENEFIT PENSION PLAN (CONT.)

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, 2017.

The actuarially determined employer contribution rates and the statutory contribution rates for local government employees are 8.46% and 8.46%, 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 and contribution rates 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.

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, 2017, 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, 2017. The contributions used exclude contributions made for prior service, excess benefits and irregular payments.

17. DEFINED BENEFIT PENSION PLAN (CONT.)

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

At December 31, 2017 and 2016, BPU reported a liability of \$4,465,778 and \$4,814,766 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, which was rolled forward to June 30, 2017. 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, 2017 and 2016, respectively. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2017, BPU's proportion was 0.474% percent, which was an increase of 0.004% from its proportion measured as of June 30, 2016.

For the actuarial report as of June 30, 2017, there were changes in assumptions or benefits as described in the notes to the required supplemental information.

There were no changes between the measurement date of December 31, 2016, rolled forward to June 30, 2017, and BPU's reporting date of December 31, 2017.

For the year ended December 31, 2017, rolled forward from June 30, 2017, BPU recognized pension expense of \$44,692, 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, 2017, 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	\$ 21,599	\$ 154,418
Changes of assumptions	240,501	32,656
Net difference between projected and actual earnings on pension plan investments	140,084	-
Changes in proportion and differences between BPU contributions and proportionate share of contributions	87,360	39,177
BPU contributions subsequent to the measurement date	<u>261,054</u>	<u>-</u>
Total	<u>\$ 750,598</u>	<u>\$ 226,251</u>

The deferred outflows of resources related to pensions totaling \$261,054, resulting from BPU contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expenses as follows:

Year ended December 31,	Amount
2018	\$ 4,640
2019	179,295
2020	115,590
2021	(46,727)
2022	<u>10,495</u>
	<u>\$ 263,293</u>

17. DEFINED BENEFIT PENSION PLAN (CONT.)

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, 2016, which was rolled forward to June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

• Inflation	2.75 percent
• Salary increases, including wage increases	3.5 to 12.0 percent, including inflation
• Long-term rate of return, compounded annually, net of investment expense, and including price	7.75 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.

The actuarial assumptions used in the December 31, 2016, valuation were based on the results of an actuarial experience study conducted for the period January 1, 2013, through December 31, 2015. The experience study is dated November 18, 2016.

The actuarial assumptions changes adopted by the Pension Plan for all groups based on the experience study:

- Price inflation lowered from 3.00 percent to 2.75 percent
- Investment return assumption was lowered from 8.00 percent to 7.75 percent
- General wage growth assumption was lowered from 4.00 to 3.50 percent
- Payroll growth assumption was lowered from 4.00 percent to 3.00 percent

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 and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, dated November 18, 2016, 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>
Global Equity	47.00%	6.80%
Fixed Income	13.00%	1.25%
Yield Driven	8.00%	6.55%
Real Return	11.00%	1.71%
Real Estate	11.00%	5.05%
Alternatives	8.00%	9.85%
Short-term Investments	2.00%	-0.25%
Total	<u>100.00%</u>	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate was based on member and employer contributions as outlined below:

17. DEFINED BENEFIT PENSION PLAN (CONT.)

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 2017 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.

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. 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 8.00%, 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 (7.00%) or 1-percentage point higher (9.00%) than the current rate:

1% Decrease (7.00%)	Discount rate (8.00%)	1% Increase (9.00%)
\$6,431,699	\$4,465,780	\$2,808,587

REQUIRED SUPPLEMENTARY INFORMATION

Board of Public Utilities - McPherson, Kansas

REQUIRED SUPPLEMENTARY INFORMATION

Other Post Employment Benefits

Year ended December 31, 2017

Schedule of Funding Progress:

Actuarial Valuation Date, January 1	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded (Overfunded) AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
2011	\$ -	\$ 327,118	0%	\$ 327,118	\$ 4,692,680	7.0%
2014	-	278,891	0%	278,891	5,015,013	5.6%
2017	-	197,330	0%	197,330	5,547,018	3.6%

Schedule of Employer Contributions:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2015	\$ 27,338	\$ (16,270)	\$ 66,974
12/31/2016	26,594	18,953	112,521
12/31/2017	20,980	11,441	144,942

Board of Public Utilities - McPherson, Kansas

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the BPU's Proportionate Share of the Net Pension Liability

Kansas Public Employees Retirement System

Last 10 Fiscal Years*

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
BPU's proportion of the net pension liability (asset)	0.05%	0.05%	0.04%	0.04%	0.04%	0.05%					
BPU's proportionate share of the net pension liability (asset)	\$ 4,465,778	\$ 4,814,766	\$ 3,980,974	\$ 3,706,716	\$ 4,602,993						For 2007 to 2012, this data is not yet available.
BPU's covered-employee payroll	\$ 5,808,272	\$ 5,739,489	\$ 5,592,263	\$ 5,199,578	\$ 5,211,338						For 2007 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	76.89%	83.89%	71.19%	71.29%	88.33%						For 2007 to 2012, this data is not yet available.
Plan fiduciary net position as a percentage of the total pension liability	204.13%	186.51%	185.27%	199.42%	149.64%						For 2007 to 2012, this data is not yet available.

* The amounts presented for each fiscal year were determined as of the calendar year end that occurred within the fiscal year.

Board of Public Utilities - McPherson, Kansas

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Contributions

Kansas Public Employees Retirement System

Last 10 Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 507,015	\$ 531,672	\$ 519,427	\$ 459,642	\$ 413,780	\$ 370,167	\$ 330,394	\$ 294,108	\$ 262,781	\$ 227,201	\$ 183,866
Contributions in relation to the contractually required contribution	(507,015)	(531,672)	(519,427)	(459,642)	(413,780)	(370,167)	(330,394)	(294,108)	(262,781)	(227,201)	(183,866)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
BPU's covered-employee payroll	\$ 5,808,272	\$ 5,739,489	\$ 5,592,263	\$ 5,199,578	\$ 5,211,338	\$ 5,043,146	\$ 4,901,988	\$ 4,790,050	\$ 4,743,333	\$ 4,634,069	\$ 4,266,029
Contributions as a percentage of covered-employee payroll	8.73%	9.26%	9.29%	8.84%	7.94%	7.34%	6.74%	6.14%	5.54%	4.90%	4.31%

Board of Public Utilities - McPherson, Kansas

REQUIRED SUPPLEMENTARY INFORMATION

Notes to Required Supplementary Information

For the Year Ended December 31, 2017

Changes in benefit terms:

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.

Changes in assumptions:

The actuarial assumptions changes adopted by the Pension Plan for all groups based on the experience study:

- Price inflation lowered from 3.00 percent to 2.75 percent
- Investment return assumption was lowered from 8.00 percent to 7.75 percent
- General wage growth assumption was lowered from 4.00 to 3.50 percent
- Payroll growth assumption was lowered from 4.00 percent to 3.00 percent

ADDITIONAL INFORMATION

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION - ELECTRIC

December 31, 2017 and 2016

ASSETS

	<u>Electric</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 13,803,897	\$ 10,974,721
Certificates of deposit	28,350,000	23,550,000
Investments	-	3,500,000
Accounts receivable, customer and other	5,753,980	5,517,575
Inventories	2,175,875	2,430,201
Accrued interest	53,220	32,864
	<u>50,136,972</u>	<u>46,005,361</u>
Total current assets		
Noncurrent assets		
Restricted cash and cash equivalents	201,936	148,395
Restricted certificates of deposit	500,000	1,800,000
Capital Assets		
Land	551,355	551,355
Buildings and equipment	98,964,120	97,622,912
Construction in process	1,335,955	288,388
Less accumulated depreciation	(64,300,306)	(61,977,979)
Industrial development property, at cost	369,322	713,176
Other assets	12,500	12,500
	<u>37,634,882</u>	<u>39,158,747</u>
Total noncurrent assets		
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	-	325,042
Pension contributions subsequent		
to the measurement date	221,896	220,950
Differences between expected and actual experience	18,359	23,753
Net difference between projected and actual		
earnings on pension plan investment	119,071	483,452
Changes of assumptions	204,426	-
Changes in proportionate share of contributions	74,256	96,205
	<u>638,008</u>	<u>1,149,402</u>
Total deferred outflow of resources		
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 88,409,862</u>	<u>\$ 86,313,510</u>

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION - ELECTRIC

December 31, 2017 and 2016

LIABILITIES AND NET POSITION

	<u>Electric</u>	
	<u>2017</u>	<u>2016</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 4,914,446	\$ 4,597,644
Current maturities of revenue bonds	-	615,000
Accrued interest on notes payable	-	30,942
Customer meter and other deposits	702,618	671,863
Self-insurance claims payable	30,600	7,650
Accrued payroll	667,925	667,742
Accrued interest on customer meter deposits	2,902	2,017
Total current liabilities	<u>6,318,491</u>	<u>6,592,858</u>
Long-term liabilities		
Long-term debt - revenue bonds	-	2,088,365
Postemployment benefit liability	123,201	95,643
Net pension liability	<u>3,795,911</u>	<u>4,092,551</u>
Total long-term liabilities	<u>3,919,112</u>	<u>6,276,559</u>
TOTAL LIABILITIES	<u>10,237,603</u>	<u>12,869,417</u>
DEFERRED INFLOWS OF RESOURCES		
Differences between expected and actual experience	131,255	73,867
Changes of assumptions	27,758	38,283
Changes in proportionate share of contributions	<u>33,300</u>	<u>7,864</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>192,313</u>	<u>120,014</u>
NET POSITION		
Invested in capital assets, net of related debt	36,551,124	33,781,311
Restricted for debt service	-	1,243,573
Unrestricted	<u>41,428,822</u>	<u>38,299,195</u>
TOTAL NET POSITION	<u>77,979,946</u>	<u>73,324,079</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 88,409,862</u>	<u>\$ 86,313,510</u>

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - ELECTRIC

For the Years Ended December 31, 2017 and 2016

	Electric	
	2017	2016
OPERATING REVENUE		
Metered sales	\$ 56,045,689	\$ 53,499,384
Street lighting	249,316	242,045
Sales to interconnection	3,653,183	4,109,101
Total operating revenue	59,948,188	57,850,530
OPERATING EXPENSE		
Fuel	699,695	1,076,493
Purchased power	42,806,144	39,637,092
Production	2,407,357	3,496,177
Distribution and transmission	3,755,060	4,433,309
Administrative and general	2,071,168	2,113,925
Payment to City of McPherson	1,759,776	1,684,097
Depreciation and amortization	2,146,702	1,948,431
Total operating expense	55,645,902	54,389,524
OPERATING INCOME	4,302,286	3,461,006
NONOPERATING INCOME (EXPENSE)		
Interest income	276,141	149,527
Revenues from merchandising, jobbing and contract work and miscellaneous income	304,542	520,704
Less cost of merchandising	(170,802)	(413,189)
Refuse collection and sewer service fees	85,056	60,766
Penalties, earned discounts and other	97,991	83,591
Farm rents, net of expense	(2,405)	(8,822)
Gain (loss) on disposal of assets	10,676	(15,088)
Interest on debt	(247,618)	(162,606)
Total nonoperating income (expense)	353,581	214,883
CHANGES IN NET POSITION	4,655,867	3,675,889
TOTAL NET POSITION, BEGINNING OF YEAR	73,324,079	69,648,190
TOTAL NET POSITION, END OF YEAR	\$ 77,979,946	\$ 73,324,079

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS - ELECTRIC
For the Years Ended December 31, 2017 and 2016

	<u>Electric</u>	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 60,227,722	\$ 58,211,684
Payments to suppliers	(44,517,843)	(43,988,370)
Payments to employees	(6,605,623)	(6,295,139)
Other receipts (payments)	(1,759,776)	(1,684,097)
Net cash provided from (used in) operating activities	<u>7,344,480</u>	<u>6,244,078</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property, plant and equipment	(2,415,198)	(1,283,858)
Proceeds from sale of equipment	10,676	28,775
Proceeds from sale of industrial development property	343,854	-
Principal payments on bonds	(2,595,000)	(600,000)
Interest paid on debt	(61,883)	(110,826)
Net cash provided from (used in) capital and related financing activities	<u>(4,717,551)</u>	<u>(1,965,909)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(16,000,000)	(28,350,000)
Proceeds from sale or maturity of investments	16,000,000	26,100,000
Interest received	255,785	130,295
Net cash provided from (used in) investing activities	<u>255,785</u>	<u>(2,119,705)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,882,714	2,158,464
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>11,123,116</u>	<u>8,964,652</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 14,005,830</u>	<u>\$ 11,123,116</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 4,302,286	\$ 3,461,006
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	2,348,750	2,147,322
Other nonoperating income	325,058	227,962
(Gain) loss on disposal of fixed assets	(10,676)	15,088
Changes in:		
Accounts and notes receivable	(236,405)	(350,435)
Inventories	254,326	110,611
Prepaid insurance	-	246,685
Accounts payable	316,799	324,318
Accrued expenses	24,018	39,281
Postemployment benefit asset	27,558	38,740
KPERS liability net of deferred inflows/outflows	(37,989)	(36,252)
Customer meter deposits	30,755	19,752
Net cash provided from operating activities	<u>\$ 7,344,480</u>	<u>\$ 6,244,078</u>

The notes to the financial statements are an integral part of this statement.

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION - WATER

December 31, 2017 and 2016

ASSETS

	<u>Water</u>	
	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,743,109	\$ 1,498,285
Certificates of deposit	4,540,787	4,540,788
Accounts receivable, customer and other	592,097	567,353
Inventories	297,069	314,903
Accrued interest	8,818	6,749
Total current assets	<u>7,181,880</u>	<u>6,928,078</u>
Noncurrent assets		
Restricted cash and cash equivalents	-	18,932
Restricted certificates of deposit	1,409,213	1,409,213
Capital Assets		
Land	5,703,610	5,703,610
Buildings and equipment	26,944,045	26,580,420
Construction in process	119,985	-
Less accumulated depreciation	<u>(9,224,430)</u>	<u>(8,647,589)</u>
Total noncurrent assets	<u>24,952,423</u>	<u>25,064,586</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	22,317	24,606
Pension contributions subsequent to the measurement date	39,158	38,991
Differences between expected and actual experience	3,240	4,192
Net difference between projected and actual earnings on pension plan investment	21,013	85,315
Changes of assumptions	36,075	-
Changes in proportionate share of contributions	<u>13,104</u>	<u>16,977</u>
Total deferred outflow of resources	<u>134,907</u>	<u>170,081</u>
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	<u>\$ 32,269,210</u>	<u>\$ 32,162,745</u>

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION - WATER
December 31, 2017 and 2016

LIABILITIES AND NET POSITION

	<u>Water</u>	
	<u>2017</u>	<u>2016</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 72,927	\$ 43,330
Current maturities of revenue bonds	685,000	665,000
Accrued interest on revenue bonds	37,554	53,299
Current portion of notes payable	249,221	265,683
Accrued interest on notes payable	57,625	57,625
Self-insurance claims payable	5,400	1,350
Accrued payroll	105,397	74,280
Due to City of McPherson	334,213	344,942
Total current liabilities	<u>1,547,337</u>	<u>1,505,509</u>
Long-term liabilities		
Long-term debt - revenue bonds	7,619,269	8,332,912
Long-term debt - notes payable	861,668	1,110,888
Postemployment benefit liability	21,741	16,878
Net pension liability	669,867	722,215
Total long-term liabilities	<u>9,172,545</u>	<u>10,182,893</u>
Other liabilities		
Water meter advances	-	47,438
TOTAL LIABILITIES	<u>10,719,882</u>	<u>11,735,840</u>
DEFERRED INFLOWS OF RESOURCES		
Differences between expected and actual experience	23,163	13,035
Changes of assumptions	4,898	6,756
Changes in proportionate share of contributions	5,877	1,388
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>33,938</u>	<u>21,179</u>
NET POSITION		
Invested in capital assets, net of related debt	14,221,170	13,628,329
Restricted for debt service	339,076	342,071
Unrestricted	6,955,144	6,435,326
TOTAL NET POSITION	<u>21,515,390</u>	<u>20,405,726</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 32,269,210</u>	<u>\$ 32,162,745</u>

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - WATER

For the Years Ended December 31, 2017 and 2016

	Water	
	2017	2016
OPERATING REVENUE		
Sale of water	\$ 3,651,963	\$ 3,523,186
Total operating revenue	<u>3,651,963</u>	<u>3,523,186</u>
OPERATING EXPENSE		
Production	566,451	598,192
Distribution and transmission	1,067,109	1,107,682
Administrative and general	356,122	395,351
Payment to City of McPherson	53,258	50,690
Depreciation and amortization	<u>607,218</u>	<u>600,352</u>
Total operating expense	<u>2,650,158</u>	<u>2,752,267</u>
OPERATING INCOME	<u>1,001,805</u>	<u>770,919</u>
NONOPERATING INCOME (EXPENSE)		
Interest income	71,215	37,412
Revenues from merchandising, jobbing and contract work and miscellaneous income	297,301	137,492
Less cost of merchandising	(10,163)	(36,958)
Refuse collection and sewer service fees	15,006	12,241
Farm rents, net of expense	38,994	201,385
Gain (loss) on disposal of assets	(2,153)	-
Interest on debt	<u>(302,341)</u>	<u>(337,789)</u>
Total nonoperating income (expense)	<u>107,859</u>	<u>13,783</u>
CHANGES IN NET POSITION	1,109,664	784,702
TOTAL NET POSITION, BEGINNING OF YEAR	<u>20,405,726</u>	<u>19,621,024</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 21,515,390</u>	<u>\$ 20,405,726</u>

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS - WATER
For the Years Ended December 31, 2017 and 2016

	Water	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,978,520	\$ 3,792,714
Payments to suppliers	(763,601)	(1,114,874)
Payments to employees	(1,154,896)	(939,809)
Other receipts (payments)	(53,258)	(50,690)
Net cash provided from (used in) operating activities	<u>2,006,765</u>	<u>1,687,341</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property, plant and equipment	(583,595)	(308,751)
Proceeds from sale of equipment	8,697	-
Principal payments on bonds	(665,000)	(640,000)
Principal payments on notes payable	(265,682)	(264,686)
Interest paid on debt	<u>(344,440)</u>	<u>(380,081)</u>
Net cash provided from (used in) capital and related financing activities	<u>(1,850,020)</u>	<u>(1,593,518)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	3,250,000	(6,450,000)
Proceeds from sale or maturity of investments	(3,250,000)	6,190,615
Interest received	<u>69,147</u>	<u>33,463</u>
Net cash provided from (used in) investing activities	<u>69,147</u>	<u>(225,922)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	225,892	(132,099)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,517,217</u>	<u>1,649,316</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,743,109</u>	<u>\$ 1,517,217</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,001,805	\$ 770,919
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	665,976	649,239
Other nonoperating income	338,985	314,160
(Gain) loss on disposal of fixed assets	2,153	-
Changes in:		
Accounts and notes receivable	(24,744)	(81,590)
Inventories	17,834	42,013
Prepaid insurance	-	25,768
Accounts payable	29,597	(16,771)
Accrued expenses	24,438	42,153
Postemployment benefit asset	4,863	6,807
KPERS liability net of deferred inflows/outflows	(6,704)	(6,397)
Water meter advances	<u>(47,438)</u>	<u>(58,960)</u>
Net cash provided from operating activities	<u>\$ 2,006,765</u>	<u>\$ 1,687,341</u>

The notes to the financial statements are an integral part of this statement.

Board of Public Utilities - McPherson, Kansas
Summary Statement of Revenues and Expenses - Electric
Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Operating Income</u>	<u>Nonoperating Income (Expense)</u>	<u>Change in Net Position</u>
2013	\$ 52,145,331	\$ 47,578,885	\$ 4,566,446	\$ 529,686	\$ 5,096,132
2014	55,786,526	51,307,019	4,479,507	159,276	4,638,783
2015	54,516,932	51,469,663	3,047,269	(133,939)	2,913,330
2016	57,850,530	54,389,524	3,461,006	214,883	3,675,889
2017	59,948,188	55,645,902	4,302,286	353,581	4,655,867

Board of Public Utilities - McPherson, Kansas
Operating Expenses - Electric
 Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Fuel</u>	<u>Purchased Power</u>	<u>Production</u>	<u>Distribution and Transmission</u>	<u>Administrative and General</u>	<u>Payment to City of McPherson</u>	<u>Depreciation and Amortization</u>	<u>Total Operating Expense</u>
2013	\$ 251,456	\$ 35,678,145	\$ 2,390,350	\$ 3,857,130	\$ 1,866,329	\$ 1,551,000	\$ 1,984,475	\$ 47,578,885
2014	1,444,855	37,887,538	2,275,723	4,094,603	2,100,203	1,593,282	1,910,815	51,307,019
2015	2,116,929	36,049,858	3,281,661	4,052,466	2,595,732	1,471,017	1,902,000	51,469,663
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	2,071,168	1,759,776	2,146,702	55,645,902

Board of Public Utilities - McPherson, Kansas
Summary Statement of Revenues and Expenses - Water
Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Operating Income</u>	<u>Nonoperating Income (Expense)</u>	<u>Income Before Operating transfers</u>	<u>Transfers</u>	<u>Change in Net Position</u>
2013	\$ 3,135,807	\$ 2,563,949	\$ 571,858	\$ (135,275)	\$ 436,583	\$ (63,000)	\$ 373,583
2014	3,145,733	2,403,306	742,427	(26,439)	715,988	(48,372)	667,616
2015	3,427,670	2,660,763	766,907	(74,372)	692,535	-	692,535
2016	3,523,186	2,752,267	770,919	13,783	784,702	-	784,702
2017	3,651,963	2,650,158	1,001,805	107,859	1,109,664	-	1,109,664

Board of Public Utilities - McPherson, Kansas
Operating Expenses - Water
 Last Five Fiscal Years

<u>Fiscal Year</u>	<u>Production</u>	<u>Distribution and Transmission</u>	<u>Administrative and General</u>	<u>Payment to City of McPherson</u>	<u>Depreciation and Amortization</u>	<u>Total Operating Expense</u>
2013	\$ 456,817	\$ 1,056,810	\$ 457,815	\$ -	\$ 592,507	\$ 2,563,949
2014	458,615	918,170	417,416	12,012	597,093	2,403,306
2015	576,555	958,797	462,494	59,457	603,460	2,660,763
2016	598,192	1,107,682	395,351	50,690	600,352	2,752,267
2017	566,451	1,067,109	356,122	53,258	607,218	2,650,158

**ADDITIONAL INFORMATION
(UNAUDITED)**

Board of Public Utilities - McPherson, Kansas

**COMMENTS AND OPERATING STATISTICS
(UNAUDITED)**

<u>Electric Utility:</u>	<u>2017</u>	<u>2016</u>	<u>Difference Inc. (Dec.)</u>	<u>Percent Inc. (Dec.)</u>
Kilowatt hours (in thousands) -				
Gross generation KWH	8,205	16,057	(7,852)	-48.90%
Purchased from Westar	1,027,808	979,328	48,480	4.95%
Total generated and purchased	1,036,013	995,385	40,628	4.08%
Station power generated	44	87	(43)	-49.43%
Sales KWH (000) -				
Residential	63,269	64,098	(829)	-1.29%
Commercial	89,914	91,001	(1,087)	-1.19%
Industrial	789,013	741,683	47,330	6.38%
Rural	22,013	22,812	(799)	-3.50%
Wholesale	36,389	36,023	366	1.02%
Street lighting	2,849	2,937	(88)	-3.00%
Water utility	2,422	2,346	76	3.24%
Westar sales	8,161	15,970	(7,809)	-48.90%
Total sales and station power	1,014,074	976,957	37,117	3.80%
System losses	21,939	18,428	3,511	19.05%
Total customers served (2017 - 8,664; 2016 - 8,727)				
Operating revenue -				
Residential	\$ 6,374,842	\$ 4,940,043		
Commercial	7,689,783	7,825,092		
Industrial	39,193,253	36,527,206		
Rural	151,984	1,634,902		
Wholesale	2,391,456	2,329,928		
Street lighting	254,302	247,184		
Water utility	169,128	166,404		
Westar interconnection	3,653,183	4,109,101		
Light rental	70,257	70,670		
Total	\$ 59,948,188	\$ 57,850,530		

The electric department's operations may be separated into two segments. In accordance with a contract entered into with Kansas Power and Light (Westar Energy) in 1972, the department purchases all of its energy requirements from Westar for resale to its retail and wholesale customers. In return, the BPU is obligated to sell all of the System's energy production to Westar. 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 Westar, are segregated between customers inside and outside a three mile limit from the City. Those sales outside the three mile limit are reported to the Kansas Corporation Commission and such sales approximated 6.60% of total sales in 2017. Expenses attributable to such sales are allocated on the same percentage as sales.

Water Utility:

The water department serves 5,132 residential, 758 commercial, 15 industrial, and various other city and wholesale customers. Water pumped in 2017 was 988,680,100 gallons which was approximately 4.81% more than 2016. Gross revenue increased 3.66% from the prior year.

INFORMATION CONCERNING THE ELECTRIC UTILITY SYSTEM

THE SYSTEM

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 Westar Agreement and the System customers well into the future.

The System's total generating capacity is 235.4 MW, and its firm generating capability is 207.2 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 Westar at two locations, such locations being Westar's 115 kV West McPherson Substation at the west side of the City and Westar'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 Manville 115 kV substation on the east side of the City. A 115 kV transmission line was constructed tying this substation to the Westar West McPherson Substation. Currently the entire City is surrounded by a 115 kV transmission loop. Westar 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
2013	7,067	89,739,950	\$ 6,312,678	1,520	91,696,865	\$ 7,404,276
2014	7,087	90,410,029	6,860,830	1,490	93,791,913	7,662,837
2015	7,087	88,040,744	6,774,016	1,538	92,801,962	7,684,004
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

Industrial				Wholesale		
2013	18	668,787,860	\$ 32,594,940	2	36,814,740	\$ 2,254,754
2014	19	669,649,540	33,959,325	2	35,776,200	2,324,042
2015	19	627,031,180	32,186,074	2	35,170,500	2,238,051
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

Customers, Sales and Revenues (Cont.)

Totals			
Customers			
Year	Served	Sales (kWh)	Revenue
2013	8,607	887,039,415	\$ 48,566,648
2014	8,598	889,627,682	50,807,034
2015	8,646	842,963,174	48,882,145
2016	8,727	955,354,123	53,325,451
2017	8,664	1,000,598,777	55,887,646

Ten Largest Electric Utility Customers in Recent Years						
Customer	kwh	2017	kWh	2016	kWh	2015
CHS	457,940,293	\$ 21,758,322	413,945,000	\$ 19,476,790	318,850,000	\$ 15,874,951
Johns Manville	151,679,500	7,258,058	149,264,500	7,130,742	139,671,000	6,708,358
Pfizer	53,690,000	2,721,493	54,803,000	2,776,692	54,855,500	2,710,422
CertainTeed	13,484,400	845,361	15,854,400	878,074	14,193,600	796,831
City of Moundridge	30,415,216	1,981,666	29,774,400	1,896,994	28,915,200	1,818,635
Nustar	16,022,254	941,665	16,713,600	966,035	15,398,400	954,431
Viega	18,660,837	1,160,679	15,501,500	900,359	11,126,500	628,255
North American Pipe	19,764,716	1,041,067	19,041,600	993,141	18,720,000	1,001,035
Ferguson Production	7,836,000	431,907	7,453,200	437,177	7,651,200	441,437
Grain Craft	8,518,187	511,153	8,798,400	501,887	8,294,880	464,072
Total	778,011,403	\$ 38,651,371	731,149,600	\$ 35,957,891	617,676,280	\$ 31,398,427

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
2013	8,607	143	892,956	\$ 48,938,206
2014	8,598	142	895,486	51,208,780
2015	8,646	146	848,775	49,291,201
2016	8,727	149	960,900	53,743,759
2017	8,664	158	1,005,869	56,311,076

(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

The rates charged by the Board to customers of the System were modified, effective January 1, 2011, as an adjustment due to the increased transmission charges from Westar. Current electric rates as of June 1, 2017, 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 1,500 kWh.	\$0.0265/kWh for first 240 kWh/kVA of billing capacity, \$0.0235/kW for over 240 kWh/kVA of billing capacity
Capacity Charge	\$0.01405/kWH	\$0.01405/kWH	\$0.01405/kWH	\$4.15/kVA	\$4.15/kVA for all kVA of billing capacity
Transmission Charge	\$0.01466/kWH	\$0.01466/kWH	\$0.01466/kWH	\$4.33/kVA	\$4.33/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	N/A	N/A	N/A	\$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.

System Indebtedness

The following is a table of outstanding indebtedness of the Electric Utility System:

Description of Indebtedness	Date of Indebtedness	Final Maturity	Original Principal Amount	Amount Outstanding
Electric Utility System Refunding Bonds Series 2011	10/13/2011	9/1/2020	\$5,445,000	\$0

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:

	2014	2015	2016	2017
Operating Revenue				
Metered Sales	\$ 50,992,685	\$ 49,061,505	\$ 53,499,384	\$ 56,045,689
Street Lighting	216,095	229,696	242,045	249,316
Sales to Interconnection	4,577,746	5,225,731	4,109,101	3,653,183
Total Operating Revenues	55,786,526	54,516,932	57,850,530	59,948,188
Operating Expenses				
Fuel	1,444,855	2,116,929	1,076,493	699,695
Purchased Power	37,887,538	36,049,858	39,637,092	42,806,144
Production	2,275,723	3,281,661	3,496,177	2,407,357
Distribution and Transmission	4,094,603	4,052,466	4,433,309	3,755,060
Administrative and General	2,100,203	2,595,732	2,113,925	2,071,168
Depreciation and Amortization	1,910,815	1,902,000	1,948,431	2,146,702
Payment to City of McPherson	1,593,282	1,471,017	1,684,097	1,759,776
Total Operating Expense	51,307,020	51,469,663	54,389,524	55,645,902
Operating Income	4,479,506	3,047,269	3,461,006	4,302,286
Nonoperating Income (Expense)				
Interest Income	70,433	102,401	149,527	276,141
Revenues from Merchandising	317,438	249,640	520,704	304,542
Less Cost from Merchandising	(170,505)	(131,985)	(413,189)	(170,802)
Refuse Collection	63,254	63,481	60,766	85,056
Penalties	87,694	78,230	83,591	97,991
Farm Rents	(6,307)	(1,563)	(8,822)	(2,405)
Gain (Loss) on Disposal of Assets	(5,425)	(313,937)	(15,088)	10,676
Interest on Debt	(197,306)	(180,206)	(162,606)	(247,618)
Total Nonoperating Income (Expense)	159,277	(133,939)	214,883	353,581
Change in Net Position	\$ 4,638,784	\$ 2,913,330	\$ 3,675,889	\$ 4,655,867
Income Available for Debt Service	\$ 6,689,124	\$ 4,937,756	\$ 5,729,146	\$ 6,992,407
Debt Service Requirements	\$ 885,281	\$ 888,565	\$ 884,781	\$ -
Debt Service Coverage Ratio	755.59%	555.70%	647.52%	0.00%

Previous Defaults

There have been no defaults by the Issuer on any System indebtedness.

Management's Discussion on Financial Operations

On April 19, 2010 the Board signed Addendum No. 5 to the Westar Agreement, which extended the current power supply until 2039. This action should continue to provide the City 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 cost, transmission cost, and purchase capacity component protecting utility net revenue from these variable costs. They also continue to generate revenues to fully fund the bond reserve, emergency accounts, meet all debt service requirements, fund normal annual capital expenditures, and depreciation. Even with this average increase of approximately 18%, the rates are among the lowest in the state and should allow the System to continue to attract and retain all types of customers.

The present Westar power plants that are stipulated in the Westar Agreement to provide the 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. Westar has installed significant equipment to reduce emissions at these facilities which will reduce the rate impact of new regulations being imposed by the EPA and ensure the plants can continue to operate.

In November 2015 the utility sent out a request for proposals (RFP) for renewable resources. With the Westar contract resulting in an energy supply mix of roughly 85% coal, which produces 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 Westar, resulting in 37 MW of wind capacity added to the energy supply mix from Westar. The addition of the wind capacity began in December 2016. As a result, 15.2% of the 2017 energy supply mix was from carbon free wind while the coal portion was reduced to 77.4%.

The deregulation of the electric industry, retail wheeling, 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, assure high reliability factors, 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 2017

The Board of Public Utilities (BPU) operates a vertically integrated electric utility consisting of generation, transmission, and distribution. The utility has approximately 8700 total customers, which includes two wholesale customers, the cities of Moundridge and Galva. Sales in 2017 were up 4.68%, which came from the industrial sector.

BPU's generation resources consist of four General Electric (GE) gas turbines with a total summer capacity of approximately 235 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 also typically operates less than 200 hours and 35 starts per year. With the new Southwest Power Pool (SPP) Integrated Market, which began in March 2014, the utilities gas-fueled turbines saw significant increased operations over previous years. In 2017 operations were closer to past levels with the gas fired units starting between 22 and 24 times, which is a slight increase over the historical average, but less than 2015. Gas turbine #3 at Plant 2 received a major inspection in the spring of 2015 and should be in good shape for at least 5-10 years. Gas turbine #1 at Plant 2 had a major inspection in the spring of 2016 and should be set for several years of operations as well. The gas turbine at Plant 3 continues to perform well and may require work to address a bearing temperature issue, which should be less costly than the major inspection performed on unit 1 and 3 at Power Plant #2. Also in 2015, due to the discontinuation of support for the current system, all gas turbine controls were upgraded to GE Mark V. Going forward, the utility will continue to perform periodic borescope inspections so small problems can be found and addressed before they become major issues.

In November 2015 the utility sent out a Request for Proposal (RFP) for renewable generation resources. At that time, approximately 85% of the BPU's energy supply came from coal fired generation, which has a high carbon footprint. The three main reasons for considering renewable resources were additional regulation and cost on coal due to the high carbon footprint, the production tax credit for renewable resources is being phased out, and current favorable prices for wind generation. Over 20 proposals were received and in the end the utility signed an agreement with Westar Energy, the utility's long time power supply provider, for 37 MW of wind capacity. The term of the contract is 20 years and the first delivery of energy occurred in December 2016. Pricing was very favorable when compared to other resources and should provide a degree of protection from carbon emission regulation going forward. In 2017, 15.2% of the utility's energy was from this renewable source.

The BPU owns roughly 20 miles of 115 kV transmission line and four 115 kV ring bus style substations. Poles are inspected by Osmose on a regular schedule and poles found to be structurally deficient are replaced. Recently, with the use of a drone, some of the poles were inspected and degradation was observed in the top section. Because of this, money was set aside in the 2017 and 2018 budget to begin a pole replacement program for the older sections of the transmission system, which were installed in the mid 1970's. Money was also included in the 2017 and 2018 budget to replace electromechanical transmission line relaying that again, were installed in the 1970's. These relays were replaced in early 2018 and should reduce operating and maintenance costs as well as keep the system current.

BPU's distribution system consists of approximately 30 miles of 35 kV overhead line, 520 miles of 12.5 kV overhead line, 30 miles of 12.5 kV underground line, and some 5kV. Poles located on main feeder lines are inspected by Osmose 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 good condition with no significant planned replacements being considered in the near future, other than a pole replacement program on single phase lines. In 2017, the utility did convert another area within the city limits from overhead single phase distribution to underground. The area had no alley access to service the equipment and significant tree growth. These conversions improve system reliability, enhance worker safety, and reduce operation expense and the intent is to continue these type projects, time permitting. For the past several years, the distribution system has continued to utilize the last two 5 kV circuits. In 2017, work began on upgrading these circuits to 12.5 kV. This project will take several years and will involve removal of two unit substations and converting significant overhead in blind alleys to underground, again updating the system.

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 industry. Plans are to continue to invest in the system as we move to 2018 and beyond.

INFORMATION CONCERNING THE WATER UTILITY SYSTEM THE SYSTEM

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 is 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

Number of Customers

<u>Year</u>	<u>Number of Customers</u>
2017	5,905
2016	5,909
2015	5,822
2014	5,826
2013	5,783

History of Water Usage

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>
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%
2015	1,056,379,500	948,126,000	11,099,380	97,154,120	9.20%
2014	1,117,708,500	1,003,102,000	11,065,690	103,540,810	9.26%
2013	1,139,612,300	1,048,122,000	11,174,150	80,316,150	7.05%

Wholesale Water Sales

Wholesale Water Sales

<u>Year</u>	<u>Gallons</u>	<u>Revenue</u>
2017	40,296,000	\$ 154,016
2016	38,526,000	145,814
2015	40,789,000	141,468
2014	42,044,000	129,835
2013	44,235,000	131,942

Ten Largest Customers

Ten Largest Customers

<u>Customer</u>	<u>Gallons</u>	<u>Total Revenue</u>
Pfizer	84,271	\$ 313,408
CHS	38,966	168,130
Johns Manville	35,933	133,049
Rural Water #4	28,323	103,565
Viega	27,724	103,989
The Cedars Inc	17,243	72,090
Recreation Commission	14,591	44,973
William Pendlay	13,209	32,299
McPherson College	11,201	42,486
McPherson USD #418	10,136	36,258

Rates

Current 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"	\$10.40	\$15.60
1"	\$21.00	\$31.50
1 1/2"	\$44.50	\$66.75
2"	\$78.60	\$117.90
3"	\$183.40	\$275.10
4"	\$324.80	\$487.20
6"	\$654.90	\$982.35
8"	\$943.10	\$1,414.65

Residential Unit Charge: (Meters with gallon readings)

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
0-20 units	\$2.15/unit	\$3.23/unit
21-40 units	\$2.58/unit	\$3.87/unit
41-60 units	\$3.10/unit	\$4.65/unit
Over 60 units	\$3.72/unit	\$5.58/unit

Commercial Unit Charge:

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
Base Rate	\$2.32/unit	\$3.48/unit

1 unit – 1,000 gallons

Connection Charge: Effective October 1, 2012

	<u>Inside City Limits</u>	<u>Outside City Limits</u>
5/8"	\$600.00	\$900.00
1"	\$675.00	\$1,012.50
1 1/2"	\$1,050.00 plus bore	\$1,575.00 plus bore
2"	\$1,200.00 plus bore	\$1,800.00 plus bore
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.

Wherever water service is required outside the city limits, the customer shall construct his water line to the nearest water main. The rate schedule for this service shall be one and one half (1 ½) times the published rate.

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>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Operating Revenue				
Sale Of Water	\$ 3,145,733	\$ 3,427,670	\$ 3,523,186	\$ 3,651,963
Total Operating Revenues	<u>3,145,733</u>	<u>3,427,670</u>	<u>3,523,186</u>	<u>3,651,963</u>
Operating Expenses				
Production	458,615	576,555	598,192	566,451
Distribution and Transmission	918,170	958,797	1,107,682	1,067,109
Administrative and General	417,416	462,494	395,351	356,122
Depreciation and Amortization	597,093	603,460	600,352	607,218
Transfer: Payments in Lieu of Taxes	<u>12,012</u>	<u>59,457</u>	<u>50,690</u>	<u>53,258</u>
Total Operating Expense	<u>2,403,306</u>	<u>2,660,763</u>	<u>2,752,267</u>	<u>2,650,158</u>
Operating Income	<u>742,427</u>	<u>766,907</u>	<u>770,919</u>	<u>1,001,805</u>
Nonoperating Income (Expense)				
Interest Income	22,149	25,470	37,412	71,215
Revenues from Merchandising	269,455	166,909	137,492	297,301
Less Cost from Merchandising	(76,007)	(48,320)	(36,958)	(10,163)
Refuse Collection & Sewer Service Fee	12,096	11,203	12,241	15,006
Farm Rents	132,886	133,952	201,385	38,994
Gain (Loss) on Disposal of Assets	(17)	-	-	(2,153)
Interest on Debt	<u>(387,001)</u>	<u>(363,586)</u>	<u>(337,789)</u>	<u>(302,341)</u>
Total Nonoperating Income (Expense)	<u>(26,439)</u>	<u>(74,372)</u>	<u>13,783</u>	<u>107,859</u>
Net Income Prior to Transfers	715,988	692,535	784,702	1,109,664
Transfer: Payments in Lieu of Taxes	<u>(48,372)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>\$ 667,616</u>	<u>\$ 692,535</u>	<u>\$ 784,702</u>	<u>\$ 1,109,664</u>
Income Available for Debt Service	\$ 1,572,924	\$ 1,678,064	\$ 1,665,219	\$ 1,972,859
Debt Service Requirements	\$ 950,419	\$ 952,919	\$ 952,319	\$ 952,919
Debt Service Coverage Ratio	165.50%	176.10%	174.86%	207.03%

Management's Discussion of Financial Operations

The Board of Public Utilities (BPU) most recent rate increase occurred on January 1, 2018, which was 6%, with the previous two adjustments taking place on October 1, 2014 and January 1, 2016. Combined, these have resulted in an overall increase of 35%, but the utility's water rates still compare favorably with other communities. When the cost of service study was performed by Burns & McDonnell in 2014, they recommended an increase of 6% in 2017 and 2018, the recommendation was not acted on by the Board of Directors due to sufficient revenue in 2016. The current intention will be to review water rates at the end of 2018 for a possible adjustment at the beginning of 2019. The main driver for these increases is 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. 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 have been completed determining that additional water is available in the area. In late 2017, three water right applications were approved by the Division of Water Resources Chief Engineer for this site and staff is working with Burns and McDonnell to refine the project cost estimate, which will be used to determine rate impact to the customer. The goal is to determine whether to proceed with this project in 2019.

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. In 2017, \$340,000 was spent on water main replacement, and the current budget contains a line item setting aside \$250,000 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 to update the distribution system and improve the water supply while maintaining comparable rates. Since current rates are low by comparison, this should be achievable.

Report on Water System Condition For the Year 2017

The Board of Public Utilities (BPU) water system consists of 12 ground water wells, two treatment facilities, and a distribution system. The utility sold 904 million gallons of water to 5910 retail and four wholesale customers in 2017.

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 has developed in recent years due to the average decline across the well field of (9.319) feet since 2000. Staff has evaluated supply options, both surface and groundwater, and current efforts are focused on developing additional groundwater supplies south of McPherson in a location outside the IGUCA. Consequently, at the end of 2013, 220 acres were purchased and three applications for Water Appropriation were filed with the Division of Water Resources. This potential well field is located in an area that exhibits high recharge rates but there is concern that a chloride plumb located north of the site may start to migrate due to the additional pumping. A groundwater model for the area has been 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 plumb. In late 2017 three water right applications were approved by the chief engineer of the Division of Water Resources for this site and staff is working with Burns and McDonnell to refine the project cost estimate, which will be used to determine rate impact to the customer. The goal is to determine whether to proceed with this project in 2019.

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 great 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 into production that had been removed from service due to high nitrate levels. The facility consists of a 1.5 million gallon ground storage tank with high service pumps, which re-pressures 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 of a full treatment facility if the utility chooses, or is required, to install additional treatment in the future.

The water distribution system contains over 100 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 utilized a thin wall which has not held up over time due to the stresses imposed. When repeated breaks have occurred in locations where this pipe was used, a replacement program was initiated utilizing new PVC pipe with a substantially thicker wall. There are still locations with the thin walled 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 and are located on main arterial streets. Not only do these types of breaks cause water service interruption, they also cause significant roadway damage and traffic disruption. 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 and has proven to be a valuable tool in determining where water line replacement dollars should be invested. In 2017, approximately \$340,000 was spent on main replacement, and going forward, \$250,000 per year is being allocated.

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