# BOARD OF PUBLIC UTILITIES CITY OF McPHERSON

### **FINANCIAL REPORT**

For the Years Ended December 31, 2019 & 2018



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### INDEPENDENT AUDITOR'S REPORT

Board of Public Utilities of McPherson, Kansas

We have audited the 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, 2019 and 2018, 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.

### **Opinion**

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, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audits, the 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, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

### Report on Supplementary Information

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

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

### Other Information

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

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

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

Swindoll, Janzen, Hawk & Loyd, LLC Swindoll, Janzen, Hawk and Loyd, LLC

McPherson, Kansas

June 3, 2020

### 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, 2019. 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, 2019, 2018, and 2017.

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

	2019 ELECTRIC	2019 WATER	2019 TOTALS	2018 TOTALS	2017 TOTALS
ASSETS Capital assets Other assets	\$ 38,417,557 60,279,556	\$ 23,584,673 <u>9,163,825</u>	\$ 62,002,230 69,443,381	\$ 61,320,218 66,811,054	\$ 60,094,334 60,584,738
TOTAL ASSETS	\$ 98,697,113	\$ 32,748,498	\$131,445,611	\$128,131,272	\$120,679,072
LIABILITIES					
Long-term debt outstanding Other liabilities	\$ 4,280,621 5,999,589	\$ 7,682,330 1,405,017	\$ 11,962,951 7,404,606	\$ 12,644,020 8,057,011	\$ 13,386,905 8,092,079
Other habilities	5,999,569	1,405,017	7,404,000	0,037,011	0,092,079
Total Liabilities	10,280,210	9,087,347	19,367,557	20,701,031	21,478,984
NET POSITION					
Invested in capital assets, net of related debt	38,417,556	16,853,034	55,270,590	53,840,899	50,772,294
Restricted	1,476,889	517,115	1,994,004	1,960,572	339,076
Unrestricted	48,522,458	6,291,002	54,813,460	51,628,770	48,088,718
Officolifica	40,022,400	0,201,002	04,010,400	01,020,770	40,000,710
Total Net Position	88,416,903	23,661,151	112,078,054	107,430,241	99,200,088
TOTAL LIABILITIES AND NET POSITION	\$ 98,697,113	\$ 32,748,498	\$131,445,611	\$128,131,272	\$120,679,072

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

	2019 ELECTRIC	2019 WATER	2019 TOTALS	2018 TOTALS	2017 TOTALS
Operating revenues:					
Residential	\$ 6,833,788	\$ 2,031,695	\$ 8,865,483	\$ 9,394,305	\$ 8,550,594
Commercial and industrial	55,200,946	1,869,299	57,070,245	59,499,610	54,472,111
Other	480,345	167,290	647,635	622,428	577,446
Total operating revenue	62,515,079	4,068,284	66,583,363	69,516,343	63,600,151
Operating expenses:					
Fuel	2,438,382	-	2,438,382	2,416,132	699,695
Purchased power	43,343,403	-	43,343,403	45,264,278	42,806,144
Production	3,837,927	567,204	4,405,131	2,679,626	2,973,808
Distribution and transmission	3,998,941	1,555,804	5,554,745	4,786,012	4,822,169
Administrative and general	2,615,601	438,450	3,054,051	2,563,431	2,530,203
Payment to City of McPherson	1,682,523	52,439	1,734,962	1,852,943	1,813,034
Depreciation and amortization	2,496,102	642,503	3,138,605	2,778,307	2,753,920
Total operating expenses	60,412,879	3,256,400	63,669,279	62,340,729	58,398,973
Operating income	2,102,200	811,884	2,914,084	7,175,614	5,201,178
Nonoperating income (expenses)	1,504,390	229,339	1,733,729	1,054,539	461,440
Increase in net position	3,606,590	1,041,223	4,647,813	8,230,153	5,662,618
Net position, beginning	84,810,313	22,619,928	107,430,241	99,200,088	93,537,470
Net position, ending	\$ 88,416,903	\$ 23,661,151	\$112,078,054	\$107,430,241	\$ 99,200,088

### Financial Highlights

### 2019 Compared to 2018

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

### 2018 Compared to 2017

- Gross electric revenue for 2018 increased 9.4% from 2017. Gross water revenue for 2018 increased 7.6% from 2017.
- Total outstanding bond indebtedness for the water department is \$7,340,000 at December 31, 2018.
- The 2018 debt service coverage ratio of the water department is 2.02. 1.25 is required by the bond covenant agreement. For the year 2017 the ratio for the water department was 1.62.
- Debt to Equity ratio for the water department decreased in 2018 to 0.44:1 compared with 0.50:1 in 2017. The Debt to Equity ratio for the electric department decreased in 2017 to 0.126:1 compared with 0.134:1 in 2017.
- Available cash and investments for 2018 increased 11.21% for the electric department and 0.11% in the water department compared to 2017.
- Interest income increased by 113.05% for the electric department and increased by 62.29% for the water department in 2018 compared to 2017.

### 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.



# COMBINING STATEMENTS OF NET POSITION December 31, 2019

### **ASSETS**

	Electric		Wa	iter	Totals		
	2019	2018	2019	2018	2019	2018	
ASSETS							
Current assets							
Cash and cash equivalents	\$ 11,099,052	\$ 8,529,126	\$ 2,039,502	\$ 1,749,892	\$ 13,138,554	\$ 10,279,018	
Certificates of deposit	38,350,000	38,350,000	4,540,787	4,540,787	42,890,787	42,890,787	
Accounts receivable, customer and other	5,731,254	6,244,286	634,331	576,047	6,365,585	6,820,333	
Inventories	2,410,318	2,184,372	241,716	268,898	2,652,034	2,453,270	
Accrued interest	176,547	162,556	26,736	25,424	203,283	187,980	
Total current assets	57,767,171	55,470,340	7,483,072	7,161,048	65,250,243	62,631,388	
Noncurrent assets							
Restricted cash and cash equivalents	976,889	934,469	138,447	137,808	1,115,336	1,072,277	
Restricted certificates of deposit	500,000	500,000	1,409,213	1,409,213	1,909,213	1,909,213	
Capital assets							
Land	769,786	769,786	5,703,610	5,703,610	6,473,396	6,473,396	
Buildings and equipment	103,951,969	101,730,553	28,426,300	27,827,735	132,378,269	129,558,288	
Construction in process	2,090,400	818,934	28,782	48,404	2,119,182	867,338	
Less accumulated depreciation	(68,394,598)	(65,714,238)	(10,574,019)	(9,864,566)	(78,968,617)	(75,578,804)	
Industrial development property, at cost	369,322	369,322	-	-	369,322	369,322	
Other assets	12,500	12,500			12,500	12,500	
Total noncurrent assets	40,276,268	39,421,326	25,132,333	25,262,204	65,408,601	64,683,530	
DEFERRED OUTFLOWS OF RESOURCES							
Deferred charge on refunding	-	-	17,739	20,028	17,739	20,028	
Pension contributions subsequent to the measurement date	268,568	244,029	47,394	43,064	315,962	287,093	
Differences between expected and actual	_00,000	, ===	,	.0,00	0.0,002	20.,000	
experience Net difference between projected and actual	18,038	13,681	3,183	2,414	21,221	16,095	
earnings on pension plan investment	90,044	88,643	15,890	15,643	105,934	104,286	
Changes of assumptions	141,400	168,930	24,953	29,812	166,353	198,742	
Changes in proportionate share of							
contributions	135,624	161,593	23,934	28,517	159,558	190,110	
Total deferred outflows of resources	653,674	676,876	133,093	139,478	786,767	816,354	
TOTAL ASSETS AND DEFERRED							
OUTFLOWS OF RESOURCES	\$ 98,697,113	\$ 95,568,542	\$ 32,748,498	\$ 32,562,730	\$131,445,611	\$128,131,272	

# COMBINING STATEMENTS OF NET POSITION (CONTINUED) December 31, 2019

### **LIABILITIES AND NET POSITION**

	Electric		Wa	iter	Totals		
	2019	2018	2019	2018	2019	2018	
LIABILITIES							
Current liabilities							
Accounts payable	\$ 4,631,849	\$ 4,935,041	\$ 15,285	\$ 85,301	\$ 4,647,134	\$ 5,020,342	
Current maturities of revenue bonds	-	-	735,000	705,000	735,000	705,000	
Accrued interest on revenue bonds	-	-	54,374	26,968	54,374	26,968	
Current maturities of notes payable	-	-	28,923	14,038	28,923	14,038	
Accrued interest on notes payable	-	-	16,958	34,737	16,958	34,737	
Customer meter and other deposits	748,287	748,981	-	-	748,287	748,981	
Self-insurance claims payable	38,250	26,775	6,750	4,725	45,000	31,500	
Accrued payroll	442,814	696,003	77,162	111,678	519,976	807,681	
Accrued interest on customer meter deposits	10,325	6,203		-	10,325	6,203	
Due to City of McPherson			347,565	331,528	347,565	331,528	
Total current liabilities	5,871,525	6,413,003	1,282,017	1,313,975	7,153,542	7,726,978	
Long-term liabilities							
Long-term debt - revenue bonds	-	-	6,121,983	6,885,626	6,121,983	6,885,626	
Long-term debt - notes payable	-	-	804,944	833,867	804,944	833,867	
Postemployment benefit liability	453,370	396,593	80,006	69,986	533,376	466,579	
Net pension liability	3,827,251	3,789,256	675,397	668,692	4,502,648	4,457,948	
Total long-term liabilities	4,280,621	4,185,849	7,682,330	8,458,171	11,962,951	12,644,020	
Other liabilities							
Water meter advances	<u> </u>		100,401	142,531	100,401	142,531	
TOTAL LIABILITIES	10,152,146	10,598,852	9,064,748	9,914,677	19,216,894	20,513,529	
DEFERRED INFLOWS OF RESOURCES							
Differences between expected and actual							
experience	99,829	111,262	17,617	19,635	117,446	130,897	
Changes of assumptions	12,781	23,989	2,256	4,233	15,036	28,222	
Changes in proportionate share of contributions	15,454	24,126	2,727	4,257	18,181	28,383	
TOTAL DEFERRED INFLOWS OF RESOURCES	128,064	159,377	22,599	28,125	150,663	187,502	
NET POSITION							
Invested in capital assets, net of related debt	38,417,556	37,605,035	16,853,034	16,235,864	55,270,590	53,840,899	
Restricted for debt service	30,417,330	37,003,033	378,668	388,295	378,668	388,295	
Restricted for health insurance	728,602	685,488	128,577	120,968	857,179	806,456	
Restricted for customer deposits	748,287	748,981	120,577	120,300	748,287	748,981	
Restricted for city collections for sewer, refuse, & storm	740,207	740,301	9,870	16,840	9,870	16,840	
Unrestricted	48,522,458	45,770,809	6,291,002	5,857,961	54,813,460	51,628,770	
TOTAL NET POSITION	88,416,903	84,810,313	23,661,151	22,619,928	112,078,054	107,430,241	
TOTAL LIABILITIES, DEFERRED INFLOWS							
OF RESOURCES AND NET POSITION	\$ 98,697,113	\$ 95,568,542	\$ 32,748,498	\$ 32,562,730	\$131,445,611	\$128,131,272	

# COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION For the Year Ended December 31, 2019

(With comparative totals for the year ended December 31, 2018)

	Electric		Wa	iter	Totals		
	2019	2018	2019	2018	2019	2018	
OPERATING REVENUE							
Electric							
Metered sales	\$ 56,417,616	\$ 59,801,506	\$ -	\$ -	\$ 56,417,616	\$ 59,801,506	
Street lighting	475,589	446,061	_	-	475,589	446,061	
Sales to interconnection	5,621,874	5,338,274	_	-	5,621,874	5,338,274	
Water							
Sale of water			4,068,284	3,930,502	4,068,284	3,930,502	
Total operating revenue	62,515,079	65,585,841	4,068,284	3,930,502	66,583,363	69,516,343	
OPERATING EXPENSE							
Fuel	2,438,382	2,416,132	_	-	2,438,382	2,416,132	
Purchased power	43,343,403	45,264,278	_	-	43,343,403	45,264,278	
Production	3,837,927	2,035,144	567,204	644,482	4,405,131	2,679,626	
Distribution and transmission	3,998,941	3,530,688	1,555,804	1,255,324	5,554,745	4,786,012	
Administrative and general	2,615,601	2,192,819	438,450	370,612	3,054,051	2,563,431	
Payment to City of McPherson	1,682,523	1,798,072	52,439	54,871	1,734,962	1,852,943	
Depreciation and amortization	2,496,102	2,163,483	642,503	614,824	3,138,605	2,778,307	
Total operating expense	60,412,879	59,400,616	3,256,400	2,940,113	63,669,279	62,340,729	
OPERATING INCOME	2,102,200	6,185,225	811,884	990,389	2,914,084	7,175,614	
NONOPERATING INCOME (EXPENSE)							
Interest income	1,006,128	588.329	174,209	115,572	1,180,337	703,901	
Revenues from merchandising, jobbing and	,,	,	,	-,-	,,	,	
contract work and miscellaneous income	481,436	253,330	180,784	137,164	662,220	390,494	
Less cost of merchandising	(136,335)	,	,	(67,280)	(141,801)	(222,750)	
Refuse collection and sewer service fees	85,620	85,006	15,114	15,008	100,734	100,014	
Penalties, earned discounts and other	64,272	86,363	´ -	· -	64,272	86,363	
Farm rents, net of expense	3,309	(476)	110,825	228,586	114,134	228,110	
Gain (loss) on disposal of capital assets	(40)	39,021	923	´ -	883	39,021	
Interest on debt			(247,050)	(270,614)	(247,050)	(270,614)	
Total nonoperating income (expense)	1,504,390	896,103	229,339	158,436	1,733,729	1,054,539	
CHANGES IN NET POSITION	3,606,590	7,081,328	1,041,223	1,148,825	4,647,813	8,230,153	
TOTAL NET POSITION, BEGINNING OF YEAR	84,810,313	77,728,985	22,619,928	21,471,103	107,430,241	99,200,088	
TOTAL NET POSITION, END OF YEAR	\$ 88,416,903	\$ 84,810,313	\$ 23,661,151	\$ 22,619,928	\$112,078,054	\$107,430,241	

### **COMBINING STATEMENTS OF CASH FLOWS**

For the Year Ended December 31, 2019

(With comparative totals for the year ended December 31, 2018)

	Elec	ctric	Water		Totals					
	2019	2018		2019		2018		2019		2018
CASH FLOWS FROM OPERATING ACTIVITIES										_
Receipts from customers	\$ 63,662,054	\$ 65,566,121	\$	4,316,723	\$	4,327,310	\$	67,978,777	\$	69,893,431
Payments to suppliers	(49,071,926)	(48,400,183)		(1,177,201)	•	(859,172)		(50,249,127)	-	(49,259,355)
Payments to employees	(7,710,470)	(6,966,607)		(1,408,896)		(1,240,277)		(9,119,366)		(8,206,884)
Other receipts (payments)	(1,682,523)	(1,798,072)		(52,439)		(54,871)		(1,734,962)		(1,852,943)
Net cash provided from (used in) operating activities	5,197,135	8,401,259	_	1,678,187		2,172,990	_	6,875,322		10,574,249
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		<i>(</i> 2 , 122 , 223 )				(2.12.22)				
Purchase of capital assets	(3,611,154)	(3,468,628)		(1,141,287)		(848,939)		(4,752,441)		(4,317,567)
Proceeds from sale of capital assets	34,228	46,138		563,267				597,495		46,138
Principal payments on bonds	-	-		(705,000)		(685,000)		(705,000)		(685,000)
Principal payments on notes payable	-	-		(14,038)		(262,984)		(14,038)		(262,984)
Interest paid on debt			_	(263,777)	_	(330,442)	_	(263,777)	_	(330,442)
Net cash provided from (used in) capital and related financing activities	(3,576,926)	(3,422,490)		(1,560,835)		(2,127,365)		(5,137,761)		(5,549,855)
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CASH FLOWS FROM INVESTING ACTIVITIES										
Purchase of certificates of deposit	(29,850,000)	(38,850,000)		(3,900,000)		(5,950,000)		(33,750,000)		(44,800,000)
Proceeds from sale or maturity of cretificates of deposit	29,850,000	28,850,000		3,900,000		5,950,000		33,750,000		34,800,000
Interest received	992,137	478,993	_	172,897	_	98,966	_	1,165,034	_	577,959
Net cash provided from (used in) investing activities	992,137	(9,521,007)	_	172,897	_	98,966	_	1,165,034	_	(9,422,041)
NET INCREASE (DECREASE) IN CASH AND										
CASH EQUIVALENTS	2,612,346	(4,542,238)		290,249		144,591		2,902,595		(4,397,647)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAF	9,463,595	14,005,833		1,887,700		1,743,109		11,351,295		15,748,942
CASITAND CASITEQUIVALENTS, BEGINNING OF TEAT	9,403,393	14,000,000	_	1,007,700	-	1,743,109	_	11,331,233	_	13,740,342
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 12,075,941	\$ 9,463,595	\$	2,177,949	\$	1,887,700	\$	14,253,890	\$	11,351,295
RECONCILIATION OF OPERATING INCOME TO NET CA	SH									
PROVIDED BY OPERATING ACTIVITIES		• • • • • • • • • • • • • • • • • • • •	•	044.004	•		•	0.044.004	•	7 475 044
Operating income Adjustments to reconcile operating income to net cash	\$ 2,102,200	\$ 6,185,225	\$	811,884	\$	990,389	\$	2,914,084	\$	7,175,614
provided by operating activities:										
Depreciation and amortization	2,764,367	2,407,603		709,453		676,966		3,473,820		3,084,569
Other nonoperating income	498,262	307,774		302,180		313,478		800,442		621,252
(Gain) loss on disposal of capital assets	40	(39,021)		(923)		-		(883)		(39,021)
Changes in:		-				-				
Accounts and notes receivable	513,032	(490,306)		(58,284)		16,050		454,748		(474,256)
Inventories	(225,946)	(8,497)		27,182		28,171		(198,764)		19,674
Accounts payable	(303,192)	20,595		(70,016)		12,374		(373,208)		32,969
Accrued expenses	(237,592)	27,554		(16,454)		2,921		(254,046)		30,475
Postemployment benefit asset	56,774	22,428		10,020		3,958		66,794		26,386
KPERS liability net of deferred inflows/outflows	29,884	(78,459)		5,275		(13,848)		35,159		(92,307)
Water meter advances	-	-		(42,130)		142,531		(42,130)		142,531
Customer meter deposits	(694)	46,363	_	<u> </u>	_		_	(694)	_	46,363
Net cash provided from operating activities	\$ 5,197,135	\$ 8,401,259	\$	1,678,187	\$	2,172,990	\$	6,875,322	\$	10,574,249

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2019 and 2018

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

### (a) Basis of Accounting and Budgeting

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

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

### (b) Cash and Cash Equivalents

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

### (c) Revenue Recognition

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

### (d) Accounts Receivable and Revenue

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

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

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

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

### (e) Allowance for Doubtful Accounts

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

### (f) Inventories

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

			Tc	tals			
	Water	Electric	2019	2018			
Fuel Materials and supplies	\$ - <u>241,716</u>	\$ 1,287,446 1,122,872	\$ 1,287,446 1,364,588	\$ 1,082,112 1,371,158			
Total	\$ 241,716	\$ 2,410,318	\$ 2,652,034	\$ 2,453,270			

### (g) Capital Assets and Depreciation

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

### (h) Estimates and Assumptions

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

### (i) Deferred Charges

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

### (i) Vacation and Sick Leave

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

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

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

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

Maximum Years of Service	Hours Accrued Per Year	Maximum Accumulation
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, 2019, for the electric department and the water department of \$325,156 and \$54,525, respectively, and at December 31, 2018, for the electric department and the water department of \$351,605 and \$51,260, respectively, has been accrued in the accompanying financial statements as accrued payroll.

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

### (k) Pensions

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

### (I) 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, 2019, the BPU's total interest expense was \$247,050. Net interest cost of \$0 was capitalized in connection with construction in progress during 2019. For the year ended December 31, 2018, the BPU's total interest expense was \$270,614. Net interest cost of \$0 was capitalized in connection with construction in progress during 2018.

### (m) Net Position

In the financial statements, net position is displayed in three components as follows:

- Invested in Capital Assets, Net of Related Debt—This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted—This consists of net assets that are legally restricted by outside parties or by law through constitutional
  provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is
  generally the BPU's policy to use restricted resources first, then unrestricted resources as they are needed.
- Unrestricted—This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

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

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

GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service to the utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. The BPU has not recorded any impairment of long-lived assets in 2019 or 2018.

### (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 Notes 15 and 16.

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

### 2. COMMITMENTS

At December 31, 2019, there were contract commitments totalling \$813,500. At December 31, 2018, there were contract commitments totalling \$480,640.

### 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, 2019, the BPU has established a liability of \$45,000 that is recorded on the statement of net position for claims arising out of the self-insurance program. At December 31, 2018, this liability was \$31,500. Management believes claims incurred, but not reported, are insignificant at December 31, 2019.

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 mimimum Health Care Plan Reserve equal to at least four months of expected Plan claim liability and will seek to maintain a range between seven months and ten months.

### 4. INDUSTRIAL DEVELOPMENT PROPERTY

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

### 5. DEPOSITS AND INVESTMENTS

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

### 5. DEPOSITS AND INVESTMENTS (CONT.)

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, 2019

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

### (a) Deposits

At December 31, 2019 and 2018, the carrying amount of the BPU's deposits, including certificates of deposit, was \$59,052,890 and \$56,150,295, respectively, and the bank balance was \$59,228,464 and \$55,999,508, 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 \$58,478,464 was collateralized with securities held by the pledging financial institutions' agents in the BPU's name and deposit surety bonds.

Deposits and investments are shown on the combined balance sheets at December 31, 2019 and 2018, as follows:

	2019	2018
Current assets Cash and cash equivalents Certificates of deposit	\$ 13,138,554 42,890,787	\$ 10,279,018 42,890,787
Noncurrent assets Restricted Cash and cash equivalents Restricted Certificates of deposit	1,115,336 1,909,213	1,072,277 1,909,213
Total	\$ 59,053,890	\$ 56,151,295

A summary of deposits and cash at December 31, 2019 and 2018 is as follows:

	2019	2018
Total deposits Cash on hand	\$ 59,052,890 	\$ 56,150,295 
Total	\$ 59,053,890	\$ 56,151,295

### (b) Designated Assets

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

			Totals		
	Electric	Water	2019	2018	
Long Range Electric Supply Long Range Water Supply Workers Comp Insurance Fund	\$ 19,085,067 - 217,062	\$ - 3,117,703 38,305	\$ 19,085,067 3,117,703 255,367	\$ 17,184,283 2,867,703 249,788	
Total	\$ 19,302,129	\$ 3,156,008	\$ 22,458,137	\$ 20,301,774	

### 5. DEPOSITS AND INVESTMENTS (CONT.)

### (c) Restricted Assets

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

					 To	tals	
	_	Electric	_	Water	 2019		2018
Bond Reserve Fund (part of invested in capital assets)	\$	-	\$	959,213	\$ 959,213	\$	959,213
Bond Emergency Fund		-		100,000	100,000		100,000
Bond and Interest Fund		-		278,668	278,668		288,295
Health Insurance Fund		728,602		128,577	857,179		806,456
Customer Deposit Fund		748,287		-	748,287		748,981
Refuse Fund		-		34,672	34,672		34,672
Sewer Fund		-		109,024	109,024		109,024
Storm Fund		<u>-</u>		(133,826)	 (133,826)		(126,885)
Total	\$	1,476,889	\$	1,610,154	\$ 2,953,217	\$	2,919,756

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

### 6. RESERVE FUNDS

In September 1983, the Board established a reserve fund in the water department for long-range water supplies. The \$3,117,703 and \$2,867,703 balance at December 31, 2019 and 2018, 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, 2019 and 2018, were \$19,085,067 and \$17,184,283, respectively.

### 7. CAPITAL ASSETS

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

			Electric Departm	nent	
	Balance December 31, 2018	Additions	Deletions	Transfers	Balance December 31, 2019
Land and improvements	\$ 769,786	\$ -	\$ -	\$ -	\$ 769,786
Production plants	51,349,539	54,810	(23,015)	_	51,381,334
Transmission and distribution	43,825,356	2,179,823	(72,730)	-	45,932,449
General plant	6,555,658	105,057	(22,529)	-	6,638,186
Construction in progress	818,934	3,831,961	(2,560,495)		2,090,400
	103,319,273	6,171,651	(2,678,769)	-	106,812,155
Less accumulated depreciation	(65,714,238)	(2,764,367)	84,007		(68,394,598)
Total	\$ 37,605,035	\$ 3,407,284	\$ (2,594,762)	\$ -	\$ 38,417,557

### 7. CAPITAL ASSETS (CONT.)

Total

			Water Departm	ent	
	Balance December 31,		·		Balance December 31,
	2018	Additions	Deletions	Transfers	2019
Land and improvements Production plants Transmission and distribution General plant Construction in progress	\$ 5,703,610 1,376,368 24,974,727 1,476,640 48,404	\$ - 3,920 594,645 - 542,722	\$ - - - (562,344)	\$ - 8,950,663 (8,950,663) - -	\$ 5,703,610 10,330,951 16,618,709 1,476,640 28,782
Less accumulated depreciation	33,579,749 (9,864,566)	1,141,287 (709,453)	(562,344)		34,158,692 (10,574,019)
Total	\$ 23,715,183	\$ 431,834	\$ (562,344)	\$ -	\$ 23,584,673
The following is a summary of capital as	sets at Decembe	r 31, 2018:			
			Electric Departm	nent	
	Balance		•		Balance
	December 31,				December 31,
	2017	Additions	Deletions	Transfers	2018
Land and improvements Production plants Transmission and distribution General plant Construction in progress	\$ 551,355 50,108,359 42,080,000 6,775,759 1,335,955	\$ 218,431 1,570,719 2,084,636 111,867 3,705,150	\$ - (329,539) (339,280) (331,968)	\$ - - - - (4,222,171)	\$ 769,786 51,349,539 43,825,356 6,555,658 818,934
Less accumulated depreciation	100,851,428 (64,300,306)	7,690,803 (2,407,603)	(1,000,787) 993,671	(4,222,171)	103,319,273 (65,714,238)
Total	\$ 36,551,122	\$ 5,283,200	\$ (7,116)	\$ (4,222,171)	\$ 37,605,035
			Water Departm	ent	
	Balance		Water Bepartin	OTIL	Balance
	December 31,	Additions	Deletions	Transfers	December 31, 2018
Land and improvements Production plants Transmission and distribution General plant Construction in progress	\$ 5,703,610 1,370,006 24,075,040 1,498,999 119,985	\$ - 6,362 899,687 14,471 965,998	\$ - - - (36,830)	\$ - - - - (1,037,579)	\$ 5,703,610 1,376,368 24,974,727 1,476,640 48,404
Less accumulated depreciation	32,767,640 (9,224,430)	1,886,518 (676,966)	(36,830)	(1,037,579)	33,579,749 (9,864,566)

<u>\$ 23,543,210</u> <u>\$ 1,209,552</u> <u>\$ -</u> <u>\$ (1,037,579)</u> <u>\$ 23,715,183</u>

### 7. CAPITAL ASSETS (CONT.)

Depreciation expense for the year ended December 31, 2019, for the electric and water departments is \$2,764,367 and \$709,453, respectively, as illustrated in the following table. Depreciation expense on the statement of revenues, expenses and changes in net position does not include vehicle depreciation of \$268,265 and \$66,951 charged to other accounts in the electric department and the water department, respectively, per guidelines of the Federal Regulatory Energy Commision (FERC).

	Electric Department			
	Accumulated Depreciation	Accumulated Depreciation		
	December 31, Transfers/ 2018 Additions Deletions	December 31, 2019		
Production plants	· · · · · · · · · · · · · · · · · · ·	15) \$ 36,195,609		
Transmission and distribution General plant	28,823,354 1,215,245 (38,4 1,941,850 279,531 (22,5	•		
General plant				
	<u>\$ 65,714,238</u>	06) \$ 68,394,598		
	Water Department			
	Accumulated	Accumulated		
	Depreciation December 31, Transfers/	Depreciation December 31,		
	2018 Additions Deletions	2019		
Production plants	\$ 1,243,879 \$ 10,435 \$ 223,7			
Transmission and distribution General plant	8,261,365 642,299 (223,7 359,322 56,719	67) 8,679,897 - 416,041		
	\$ 9,864,566 \$ 709,453 \$	- \$ 10,574,019		

Depreciation expense for the year ended December 31, 2018, for the electric and water departments is \$2,407,603 and \$668,966, respectively, as illustrated in the following table. Depreciation expense on the statement of revenues, expenses and changes in net position does not include vehicle depreciation of \$244,120 and \$62,142 charged to other accounts in the electric department and the water department, respectively, per guidelines of the Federal Regulatory Energy Commision (FERC).

	Electric Depart	ment
	,	Accumulated Depreciation Insfers/ December 31, letions 2018
	Z017 Additions De	2010
Production plants	\$ 34,238,320 \$ 1,040,253 \$	(329,539) \$ 34,949,034
Transmission and distribution	28,056,498 1,099,019	(332,163) 28,823,354
General plant	2,005,488 268,331	(331,969) 1,941,850
	\$ 64,300,306 \$ 2,407,603 \$	(993,671) \$ 65,714,238
	Water Departn	nent
	Accumulated	Accumulated
	Depreciation	Depreciation
	December 31, Tra	insfers/ December 31,
	2017 Additions De	letions 2018
Production plants	\$ 1,234,350 \$ 9,529 <b>\$</b>	- \$ 1,243,879
Transmission and distribution	7,649,401 611,964	- 8,261,365
General plant	340,679 55,473	(36,830) 359,322
	<u>\$ 9,224,430</u> <u>\$ 676,966</u> <u>\$</u>	(36,830) \$ 9,864,566

### 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, 2019 and 2018, the BPU exceeded this coverage requirement for water debt. All of the BPU's utility plant facilities are pledged under the terms of the ordinances. The BPU was in compliance with all other requirements of the revenue bond ordinances at December 31, 2019 and 2018.

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

### **SCHEDULE OF INDEBTEDNESS**

	SCHEDUL	E OF INDEDIEDI	IESS		
		Original Amount Issued	Interest Rate	Maturity	Total Outstanding 12/31/19
Water Utility System Refunding and Improvement Revenue Bonds, Series 2012		\$ 11,085,000	2.00 to 4.00%	10-01-2027	\$ 6,635,000
Add Unamortized Bond Premium					221,983
Less Current Maturities					6,856,983 (735,000)
Long-Term Debt - revenue bonds					\$ 6,121,983
	SUMMARY OF CH	ANGES IN LONG-	TERM DEBT		
Water Utility System	Outstanding 12/31/18	Issued	Retired	Refunding	Outstanding 12/31/19
Series 2012	\$ 7.340.000	) \$ -	\$ 705.000	\$ -	\$ 6.635.000

	Outstanding 12/31/18	Issued	Retired	Refunding	Outstanding 12/31/19
Water Utility System Series 2012	\$ 7,340,000	\$ -	\$ 705,000	\$ -	\$ 6,635,000
Add Unamortized Bond Premium	250,626		(28,643)		221,983
Total	\$ 7,590,626	\$ -	\$ 676,357	\$ -	\$ 6,856,983
	Outstanding 12/31/17	Issued	Retired	Refunding	Outstanding 12/31/18
Water Utility System Series 2012	\$ 8,025,000	\$ -	\$ 685,000	\$ -	\$ 7,340,000
Add Unamortized Bond Premium	279,269		(28,643)		250,626
Total	\$ 8,304,269	<u> </u>	\$ 656,357	\$ -	\$ 7,590,626

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

	2012 Water Issue						
Year Ending	Bonds		Interest		Total		
2020	\$ 735,000	\$	218,619	\$	953,619		
2021	755,000	)	203,000		958,000		
2022	780,000	)	172,800		952,800		
2023	815,000	)	141,600		956,600		
2024	845,000	)	109,000		954,000		
2025 - 2028	2,705,000	<u> </u>	170,263		2,875,263		
Total	\$ 6,635,000	\$	1,015,282	\$	7,650,282		

### 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.

	Outstanding 12/31/18	Issued	Payments	Outstanding 12/31/19
Land Note Payable - Water Rights	\$ 847,905	\$ -	\$ 14,038	\$ 833,867
Total	\$ 847,905	\$ -	\$ 14,038	\$ 833,867
	Outstanding 12/31/17	Issued	Payments	Outstanding 12/31/18
Land Note Payable - Water Rights Land Note Payable - Water Rights	•		Payments \$ 40,484 222,500	12/31/18

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

	Note Payable - Water Rights					
Year Ending	_ Principal	Interest	Total			
2020	\$ 28,923	\$ 33,069	\$ 61,992			
2021	30,092	31,900	61,992			
2022	31,308	30,684	61,992			
2023	32,572	29,419	61,991			
2024	33,888	28,103	61,991			
2025 - 2029	191,118	118,840	309,958			
2030 - 2034	232,972	76,987	309,959			
2035 - 2039	252,994	25,957	278,951			
Total	\$ 833,867	\$ 374,959	\$ 1,208,826			

### 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 2018 to 2019 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. In September 2018, the BPU entered into a Renewable Energy Purchase Agreement for purchase of the kWH output and firm capacity from 50 MW of wind generation at the Soldier Creek Wind Farm in Nemaha County, Kansas.

### 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 mils per kilowatt hours sold for the years ended December 31, 2019 and 2018. Payments to the City from the water department are calculated at \$.06 per thousand gallons of water sold for the years ended December 31, 2019 and 2018. The BPU was required to remit \$1,682,523 and \$1,798,072 in 2019 and 2018, respectively, from the electric department. The BPU was required to remit \$52,439 and \$54,871 in 2019 and 2018, respectively, from the water department. Payments are made quarterly.

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

### 13. DEFERRED COMPENSATION PLAN

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

### 14. PRINCIPAL CUSTOMERS

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

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

### 14. PRINCIPAL CUSTOMERS (CONT.)

Electric sales to the BPU's five largest customers for the year ended December 31, 2018 were as follows:

	2018				
	Sales	Percent of Total Sales	KWH (000)	Percent of Total KWH	
CHS (Refinery)	\$ 23,222,409	38.5%	466,176	45.1%	
Johns Manville Corp.	7,487,369	12.4%	148,078	14.3%	
Pfizer	2,851,461	4.7%	54,502	5.3%	
Moundridge City	2,088,902	3.5%	31,794	3.1%	
North American Specialty	1,401,479	<u>2.3</u> %	22,078	<u>2.1</u> %	
Total	\$ 37,051,620	<u>61.5</u> %	722,628	<u>69.9</u> %	

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

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

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

As of December 31, 2019, plan membership consisted of the following:

Retirees and beneficiaries receiving benefits	5
Active plan members	71
Total	76

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

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

	Dec	cember 31, 2019
Net OPEB liability - beginning of year	\$	250,307
Service cost		11,846
Interest cost		10,556
Changes in benefit terms		-
Differences between actual and expected experience		4,155
Changes in assumptions and inputs		22,024
Employer contributions (benefit payments)		(9,412)
Net OPEB liability - end of year	\$	289,476

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

The BPU saw no benefit changes to the disabilitant's percentage of replacement income due to the changes from FY 18 to FY 19.

Changes in assumptions and other inputs from FY 18 to FY 19 reflect the following:

- The assumed mortality was changed to the Society of Actuaries RPH-2014 annuitant distinct mortality table Adjusted to 2006 with MP-2019 Full Generational Projection of Future Mortality Improvement.
- The discount rate was changed from 4.10% to 2.74%.

**Total OPEB Liability.** The BPU's total OPEB liability of \$289,476 reported as of December 31, 2019 was measured as of December 31, 2019 (the measurement date), and was determined by an actuarial valuation as of December 31, 2019, using the following actuarial assumptions:

### Valuation Procedures and Discount Rate

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

The actuarial value of assets must be determined based on some recognition of the fair market value of assets. The BPU's obligation is unfunded at December 31, 2019. There are no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

As an unfunded plan, the discount rate reflects the index rate for 20 year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date. The index rate used to measure the total pension liability was 2.74% as of December 31, 2019.

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

The measurement date as selected by the BPU under GASB 75 Standards is December 31, 2019. The results of the valuation were projected to the beginning of year and end of year measurement dates using standard actuarial techniques.

In the December 31, 2019, actuarial valuation, the Entry Age Normal - Level Percent of Pay Actuarial Cost method was applied. The actuarial assumptions included a 2.74% investment rate of return, which is a blended rate of the expected long-term investment returns on Plan assets and on the BPU's pooled funds and investments. The valuation assumed annual healthcare cost trend rate of 7.00% in the first year and then decreasing by 0.50% until it reaches an ultimate rate of 5.00%. The valuation followed generally accepted actuarial methods and included tests as considered necessary to assure the accuracy of the results.

Sensitivity of Total OPEB Liability to changes in Healthcare Cost Trend Rate. The following presents the total OPEB liability of the BPU as of December 31, 2018, calculated using the current healthcare cost trend rates as well as what the BPU's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates. The reader should note that healthcare trend rates do not affect the liabilities related to the long-term disability benefits sponsored by KPERS, but this exhibit is provided as it is a required disclosure under GASB 75.

		Current			
	1% Decrease	Healthcare Cost Trend Rate	1% Increase		
	6.00%	7.00%	8.00%		
	decreasing	decreasing	decreasing 6.00%		
	4.00%	5.00%			
Total OPEB Liability	\$ 264,427	\$ 289,476	\$ 319,116		

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

Sensitivity of Total OPEB Liability to changes in the Discount Rate. The following present the total OPEB liability of the BPU as of December 31, 2019, calculated using the discount rate of 2.74%, as well as what the BPU's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.74%) or 1 percentage point higher (3.74%) than the current rate.

		1% Decrease		Current Discount Rate		1% Increase	
		1.74%		2.74%		3.74%	
Total OPEB Liability	\$	305,791	\$		289,476	\$	273,712

**OPEB Expense.** For the year ended December 31, 2019, the BPU recognized OPEB expense of \$24,854, which includes the changes in the total OPEB liability, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

**Deferred Outflows of Resources and Deferred Inflows of Resources.** At December 31, 2019 the BPU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Under GASB 75, gains and losses which are amortized over future years are referred to as deferred inflows or gains, and deferred outflows or losses. Economic and demographic gains and losses and changes in the total OPEB liability due to changes in assumptions are recognized over a closed period equal to the average expected remaining service lives of all covered active and inactive members, determined as of the beginning of the measurement period. As of December 31, 2019, deferred inflows and outflows of resources are as follows:

	_	eferred tflows of	Deferre inflows of	
Category	re	sources	resource	es
Differences between actual and expected experience (1)	\$	3,847	\$	_
Changes in assumptions		25,573		-
Benefit payments subsequent to the measurement date				
Total	\$	29,420	\$	

(1) Economic/demographic (gains) and losses for the period ending December 31, 2019 should be adjusted by the unamortized balance of the difference between actual and employer contributions.

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

Year ended December 31:	A	Amount	
2020	\$	2,452	
2021		2,452	
2022		2,452	
2023		2,452	
2024		2,452	
Thereafter		17,160	

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

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

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

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

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

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

**Covered Employees.** The BPU has the following employees covered by the Plan as of June 30, 2018 (actuary measurement date):

Inactive employees or beneficiaries currently receiving benefit payments	1
Active employees	72
Total	73

**Total OPEB Liability.** At December 31, 2019, the total OPEB liability recognized by the BPU was \$243,900. BPU's total OPEB liability was determined by an actuarial valuation as of December 31, 2018, calculated based on the discount rate and actuarial assumptions below, and rolled forward to the measurement date as of June 30, 2019. Any significant changes during this period have been reflected as prescribed by GASB 75.

**Actuarial Assumptions.** The financial information for the year December 31, 2019, is based upon an actuarial valuation performed as of December 31, 2018, rolled forward to June 30, 2019, using the participant census as of December 31, 2018.

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

Price inflation	2.75%
Salary increases, including wage increases	3.00%
Discount rate (based on the 20 year municipal bond rate with an average rating of	
AA/Aa or better, obtained from the index.)	3.87%

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

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

The actuarial assumptions used in the December 31, 2018, valuation were based on the results of an actuarial experience study conducted for three years ending December 31, 2015.

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

	Dec	ember 31, 2019
Net OPEB liability - beginning of year	\$	216,272
Service cost		21,891
Interest on total OPEB liability		8,927
Effect of economic/demographic gains or losses		8,380
Effect of assumptions changes or inputs		3,524
Benefit payments		(15,094)
Net OPEB liability - end of year	<u>\$</u>	243,900

The BPU saw no benefit changes to the disabilitant's percentage of replacement income due to the changes from FY 18 to FY 19.

Changes in assumptions and other inputs from FY 18 to FY 19 reflect the following:

- The assumed mortality was changed to the Society of Actuaries RPH-2014 annuitant distinct mortality table Adjusted to 2006 with MP-2019 Full Generational Projection of Future Mortality Improvement.
- The discount rate was changed from 3.87% in FY 18 to 3.50% in FY 19.

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

The following present the total OPEB liability of the BPU as of June 30, 2019, calculated using the current healthcare cost trend rates as well as what the BPU's total OPEB liability would be if it were calculated using trend rates that are 1 percentage point lower or 1 percentage point higher than the current trend rates. The reader should note that healthcare trend rates do not affect the liabilities related to the long-term disability benefits sponsored by KPERS, but this exhibit is provided as it is a required disclosure under GASB 75.

	<u>1%</u>	Decrease	Current Trend Assumption	1%	<u>Increase</u>
Total OPEB Liability	\$	243,900	\$ 243,900	\$	243,900

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

The following present the total OPEB liability of the BPU as of June 30, 2019, calculated using the discount rate of 3.50%, as well as what the BPU's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.50%) or 1 percentage point higher (4.50%) than the current rate.

	1	1% Decrease		Current Single Discount Rate	19	6 Increase	
		2.5%		Assumption 3.50%		4.50%	
Total OPEB Liability	\$	253,062	\$	243,900	\$	234,185	

**OPEB Expense.** For the year ended December 31, 2019, the BPU recognized OPEB expense of \$16,033, which includes the changes in the total OPEB liability, and the amortization of deferred outflows of resources and deferred inflows of resources for the current period.

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

**Deferred Outflows of Resources and Deferred Inflows of Resources.** At June 30, 2018 BPU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Category	ou	eferred tflows of sources	inf	eferred lows of sources
Differences between actual and expected experience	\$	7,519	\$	4,051
Changes in assumptions		3,162		5,911
Total	\$	10,681	\$	9,962

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

Year ended June 30:	A	mount
2020	\$	(149)
2021		(149)
2022		(149)
2023		(149)
2024		(149)
Thereafter		1,464

### 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.

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, 2019.

The actuarially determined employer contribution rates and the statutory contribution rates for local government employees are 8.89% and 8.89%, respectively. K.S.A. 74-4919 and K.S.A. 74-49,210 establish the KPERS member-employee contribution rates. KPERS has multiple benefit structures depending on whether the employee is a KPERS 1, KPERS 2 or KPERS 3 member. KPERS 1 members are active and contributing members hired before July 1, 2009. KPERS 2 members were first employed in a covered position on or after July 1, 2009, and KPERS 3 members were first employed in a covered position on or after January 1, 2015, 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, 2019, 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, 2019. The contributions used exclude contributions made for prior service, excess benefits and irregular payments.

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

At December 31, 2019 and 2018, BPU reported a liability of \$4,502,649 and \$4,457,948 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2018, which was rolled forward to June 30, 2019. 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, 2019 and 2018, respectively. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At June 30, 2019, BPU's proportion was 0.496% percent, which was an increase of 0.004% from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, rolled forward from June 30, 2018, BPU recognized pension expense of \$77,024, 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, 2019, BPU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	C	Deferred Outflows Resources	_	Deferred Inflows Resources
Differences between expected and actual experience	\$	9,855	\$	113,395
Changes of assumptions		137,618		9,126
Net difference between projected and actual earnings on pension plan investments		105,934		-
Changes in proportion and differences between BPU contributions and proportionate share of contributions		159,558		18,181
BPU contributions subsequent to the measurement date		315,962		
Total	\$	728,928	\$	140,702

The deferred outflows of resources related to pensions totaling \$309,876, 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, 2019. 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
2020	\$ 169,519
2021	471
2022	60,591
2023	42,010
2024	(327)
Thereafter	 <u> </u>
	\$ 272,264

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, 2018, which was rolled forward to June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation
 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

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

7.75 percent

other adjustments based on different membership groups. Future mortality improvements are anticipated used Scale MP-2016.

The actuarial assumptions used in the December 31, 2018, 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

There were no changes between the measurement date of December 31, 2018, rolled forward to June 30, 2019, and BPU's reporting date of December 31, 2019.

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.

Asset class	Long-term target allocation	Long-term expected real rate of return
Global Equity	47.00%	6.85%
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	100.00%	

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:

In KPERS, the State/School and Local groups do not necessarily contribute the full actuarial determined rate. Based on legislation first pased 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 2019 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 perviously certified State/School statutory rate for the Fiscal Year 2015 of 11.27 percent was reduced to 8.65 percent for the last half of the fiscal year as part of the Governor's allotment. That same session, SB 228 recertified statutory rates for the State/School group to 10.91 percent for Fiscal Year 2016 and 10.81 percent for Fiscal Year 2017 in anticipation of the issuance of \$1 billion in pension obligation bonds. Legislation in the 2016 session (SB 161) provided for the delay of up to \$100 million in State and School contributions to the Pension Plan. Legislation passed by the 2017 Legislature removed the repayment provisions included in SB 161.

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

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	Discount rate	1% Increase
(7.00%)	(8.00%)	(9.00%)
\$6,724,800	\$4,502,649	\$2,643,859

### 18. SUBSEQUENT EVENTS

In recent weeks, the coronavirus (COVID-19) outbreak in the United States has resulted in reduced customer traffic and the temporary closure of operating hours for our offices. There is unprecedented uncertainty surrounding the duration of the pandemic, its potential economic ramifications, and any government actions to mitigate them. Accordingly, while management cannot quantify the financial and other impact to the BPU as of the date of this report, management believes that a material impact on the BPU's financial position and results of future operations is reasonably possible.

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.



# SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY - HEALTHCARE For the Year Ended December 31, 2019

Last 10 Fiscal Years

	2019	2018	2017	<u>2017</u> <u>2016</u> <u>2015</u> <u>2014</u> <u>2013</u> <u>2012</u>	2015	2014	2013	2012	2011	2010
Total OPEB Liability - Beginning of year	\$ 250,307	\$ 228,618	For 2010 to 2017, this data is not yet available.	to 2017	, this da	ta is not	yet ava	ilable.		
Service cost	11,846	10,556	10,556 For 2010 to 2017, this data is not yet available.	to 2017	, this da	ta is not	yet ava	ilable.		
Interest cost	10,556	10,635	For 2010 to 2017, this data is not yet available.	to 2017	, this da	ta is not	yet ava	ilable.		
Changes in benefit terms	ı	1	For 2010 to 2017, this data is not yet available.	to 2017	, this da	ta is not	yet ava	ilable.		
Differences between actual and expected experience	4,155	1	For 2010 to 2017, this data is not yet available.	to 2017	, this da	ta is not	yet ava	ilable.		
Changes in assumptions and inputs	22,024	6,206	For 2010 to 2017, this data is not yet available.	to 2017	, this da	ta is not	yet ava	ilable.		
Benefit payments	(9,412)	(5,708)	(5,708) For 2010 to 2017, this data is not yet available.	to 2017	, this da	ta is not	yet ava	ilable.		
Net Changes	39,169	21,689	For 2010 to 2017, this data is not yet available.	to 2017	, this da	ta is not	yet ava	ilable.		
Total OPEB Liability - End of year	\$ 289,476	\$ 250,307	For 2010 to 2017, this data is not yet available.	to 2017	, this da	ta is not	yet ava	ilable.		

Note: For December 31, 2018, GASB 75 was implemented. The information for years 2010-2017 is not available under the measurement requirements of GASB 75.

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

For the Year Ended December 31, 2019

Last 10 Fiscal Years

	2019	2018 2017 2016 2015 2014 2013 2012 2011 2010
Total OPEB liability	\$ 289,476	\$ 250,307 For 2010 to 2017, this data is not yet available.
Fiduciary net position		- For 2010 to 2017, this data is not yet available.
Net OPEB liability	\$ 289,476	289,476 \$ 250,307 For 2010 to 2017, this data is not yet available.
Fiduciary net position as a percentage of total OPEB liability	0.00%	0.00% For 2010 to 2017, this data is not yet available.
Covered-employee payroll	\$ 6,208,918	\$ 6,208,918 \$ 5,713,429 For 2010 to 2017, this data is not yet available.
Net OPEB liability as a percentage of covered-employee payroll	4.66%	4.38% For 2010 to 2017, this data is not yet available.

Note: For December 31, 2018, GASB 75 was implemented. The information for years 2010-2017 is not available under the measurement requirements of GASB 75.

### SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY - KPERS DEATH AND DISABILITY For the Year Ended December 31, 2019

### Last 10 Fiscal Years

	2019	2018 2017 2016 2	2017         2016         2015         2014         2013         2012         2011	011 2010	
Total OPEB Liability - Beginning of year	\$ 216,272	\$ 211,572 For 2010 to 2017,	For 2010 to 2017, this data is not yet available.		
Service cost	21,891	21,783 For 2010 to 2017,	21,783 For 2010 to 2017, this data is not yet available.		
Interest cost	8,927	8,044 For 2010 to 2017,	For 2010 to 2017, this data is not yet available.		
Changes in benefit terms	ı	- For 2010 to 2017,	- For 2010 to 2017, this data is not yet available.		
Differences between actual and expected experience	ı	- For 2010 to 2017,	- For 2010 to 2017, this data is not yet available.		
Effect of economic/demographic gains or losses	8,380	(5,105) For 2010 to 2017,	(5,105) For 2010 to 2017, this data is not yet available.		
Changes in assumptions and inputs	3,524	(2,522) For 2010 to 2017,	(2,522) For 2010 to 2017, this data is not yet available.		
Benefit payments	(15,094)	(17,500) For 2010 to 2017, this data is not yet available.	this data is not yet available.		
Net Changes	27,628	4,700 For 2010 to 2017,	4,700 For 2010 to 2017, this data is not yet available.		
Total OPEB Liability - End of year	\$ 243,900	\$ 216,272 For 2010 to 2017,	For 2010 to 2017, this data is not yet available.		

Note: For December 31, 2018, GASB 75 was implemented. The information for years 2010-2017 is not available under the measurement requirements of GASB 75.

# SCHEDULE OF THE TOTAL OPEB LIABILITY AS A PERCENTAGE OF COVERED EMPLOYEE PAYROLL - KPERS DEATH & DISABILITY For the Year Ended December 31, 2019

Kansas Public Employees Retirement System

Last 10 Fiscal Years

		2019	2018	2017	<u>2017</u> <u>2016</u> <u>2015</u>	2014	2013	2012	2012 2011	2010
Total OPEB liability	↔	243,900	\$ 216,272 For 2010 to 2017, this data is not yet available.	For 2010	to 2017, th	nis data is	not ye	t availak	je.	
Fiduciary net position			1	For 2010	For 2010 to 2017, this data is not yet available	nis data is	not ye	t availak	<u>Je</u>	
Net OPEB liability	↔	243,900	\$ 216,272 For 2010 to 2017, this data is not yet available	For 2010	to 2017, th	nis data is	not ye	t availak	<u>Je</u>	
Fiduciary net position as a percentage of total OPEB		%00.0	0.00%	For 2010	0.00% For 2010 to 2017, this data is not yet available	is data is	s not ye	t availak	ole.	
Covered-employee payroll	↔	5,685,724	\$ 5,593,278 For 2010 to 2017, this data is not yet available	For 2010	to 2017, th	is data is	s not ye	t availak	ole.	
Net OPEB liability as a percentage of covered-employee payroll		3.87%	3.87%	For 2010	3.87% For 2010 to 2017, this data is not yet available	nis data is	s not ye	t availak	je.	

Note: For December 31, 2018, GASB 75 was implemented. The information for years 2010-2017 is not available under the measurement requirements of GASB 75.

# SCHEDULE OF THE BPU'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY For the Year Ended December 31, 2019

Kansas Public Employees Retirement System

Last 10 Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
BPU's proportion of the net pension liability (asset)	0.05%	0.05%	0.05%	0.05%	0.04%	0.04%	0.05%	0.05% For 2010 to 2012, this data is not yet available.	, this data is not	yet available.
BPU's proportionate share of the net pension liability (asset)	\$ 4,502,648	\$ 4,457,948	\$ 4,465,778	\$ 4,814,766	\$ 3,980,974	\$ 3,706,716	\$ 4,602,993	\$ 4,502,648 \$ 4,457,948 \$ 4,465,778 \$ 4,814,766 \$ 3,980,974 \$ 3,706,716 \$ 4,602,993 For 2010 to 2012, this data is not yet available.	, this data is not	yet available.
BPU's covered-employee payroll	\$ 6,687,361	\$ 6,687,361 \$ 6,098,876		\$ 5,739,489	\$ 5,592,263	\$ 5,199,578	\$ 5,211,338	\$ 5,808,272 \$ 5,739,489 \$ 5,592,263 \$ 5,199,578 \$ 5,211,338 For 2010 to 2012, this data is not yet available.	e, this data is not	yet available.
BPU's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	67.33%	73.09%	76.89%	83.89%	71.19%	71.29%	88.33% P	88.33% For 2010 to 2012, this data is not yet available.	, this data is not	yet available.
Plan fiduciary net position as a percentage of the total pension liability	%88.69	%88.89	67.12%	65.10%	64.95%	%09.99	59.94%	59.94% For 2010 to 2012, this data is not yet available.	, this data is not	yet available.

### SCHEDULE OF CONTRIBUTIONS For the Year Ended December 31, 2019

Kansas Public Employees Retirement System

							Ľä	Last 10 Fiscal Years	/ears									
		2019		2018		2017		2016	2015		2014		2013		2012	2011		2010
Contractually required contribution	↔	663,059	↔	663,059 \$ 573,476	↔	507,015	↔	531,672	\$ 519,427	↔	\$ 531,672 \$ 519,427 \$ 459,642	↔	413,780	€	413,780 \$ 370,167 \$	330,394 \$	€	294,108
Contributions in relation to the contractually required contribution		(663,059)		(663,059) (573,476)		(507,015)		(531,672)	(519,427)		(459,642)		(413,780)		(370,167)	(330,394)		(294,108)
Contribution deficiency (excess)	↔	1	↔	1	↔	1	s	1	٠ ج	<b>છ</b> ∥		s		S	٠	1	↔	1
BPU's covered-employee payroll	\$	5,687,361	€	\$ 6,687,361 \$ 6,098,876	\$	5,808,272	↔	5,739,489	\$ 5,592,263	€	\$ 5,739,489 \$ 5,592,263 \$ 5,199,578 \$ 5,211,338 \$ 5,043,146 \$ 4,901,988 \$ 4,790,050	<b>⇔</b>	5,211,338	S 5	,043,146 \$	4,901,988	& 4	,790,050
Contributions as a percentage of covered-employee payroll		9.95%		9.40%		8.73%		9.26%	9.29%	<b>\0</b>	8.84%		7.94%		7.34%	6.74%		6.14%

### REQUIRED SUPPLEMENTARY INFORMATION Notes to Required Supplementary Information For the Year Ended December 31, 2019

### Other Post Employment Benefits - Healthcare

### Changes in benefit terms:

There are no changes in benefits.

### Changes in assumptions:

Changes of assumptions and other inputs reflect a change in the discount rate from 4.10% in 2018 to 2.74% in

Changes from the beginning to the end of year measurement for FY 2019 are noted below:

• The assumed mortality was changed to the RP-2014 annuitant distinct mortality table adjusted to 2006 with MP-2019 generational projection of future mortality improvement.

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

### Changes in benefit terms:

There are no changes in benefits.

### Changes in assumptions:

Changes of assumptions and other inputs reflect a change in the discount rate from 3.87% in 2018 to 3.50% in 2019.

### **Defined Benefit Pension Plan**

### 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



### <u>Summary Statement of Revenues and Expenses - Electric</u> Last Five Fiscal Years

Fiscal Year	Operating Revenues	Operating Expenses	_	Operating Income	noperating Income Expense)	 Change in Net Position
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	55,733,378		4,214,810	353,581	4,568,391
2018	65,585,841	59,400,616		6,185,225	896,103	7,081,328
2019	62,515,079	60,412,879		2,102,200	1,504,390	3,606,590

### Operating Expenses - Electric Last Five Fiscal Years

Fiscal Year	 Fuel	Purchased Power	<u> P</u>	roduction	istribution and ansmission	lministrative and General	ayment to City of IcPherson	epreciation and mortization	Total Operating Expense
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	2,158,644	1,759,776	2,146,702	55,733,378
2018	2,416,132	45,264,278		2,035,144	3,530,688	2,192,819	1,798,072	2,163,483	59,400,616
2019	2,438,382	43,343,403		3,837,927	3,998,941	2,615,601	1,682,523	2,496,102	60,412,879

### <u>Summary Statement of Revenues and Expenses - Water</u> Last Five Fiscal Years

Fiscal Year	Operating Revenues	•	erating penses	_	Operating Income	 noperating Income Expense)	Income Before Operating transfers	Change in Net Position
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,	665,595		986,368	107,859	1,094,227	1,094,227
2018	3,930,502	2,	940,113		990,389	158,436	1,148,825	1,148,825
2019	4,068,284	3,	256,400		811,884	229,339	1,041,223	1,041,223

### Operating Expenses - Water Last Five Fiscal Years

Fisc Yea		<u>Pr</u>	oduction	istribution and ansmission	Ad	ministrative and General	Ċ	yment to City of Pherson	preciation and nortization	Total Operating Expense
201	5	\$	576,555	\$ 958,797	\$	462,494	\$	59,457	\$ 603,460	\$ 2,660,763
201	6		598,192	1,107,682		395,351		50,690	600,352	2,752,267
201	7		566,451	1,067,109		371,559		53,258	607,218	2,665,595
201	8		644,482	1,255,324		370,612		54,871	614,824	2,940,113
201	9		567,204	1,555,804		438,450		52,439	642,503	3,256,400

### ADDITIONAL INFORMATION (UNAUDITED)

### COMMENTS AND OPERATING STATISTICS (UNAUDITED)

Electric Utility:	_	2019		2018	Difference Inc. (Dec.)	Percent Inc. (Dec.)
Kilowatt hours (in thousands) -						
Gross generation KWH		31,359		30,047	1,312	4.37%
Purchased from Westar		996,610	_	1,047,431	(50,821)	-4.85%
Total generated and purchased		1,027,969		1,077,478	(49,509)	-4.59%
Station power generated		44		44	-	0.00%
Sales KWH (000) -						
Residential		67,024		69,390	(2,366)	-3.41%
Commercial		95,165		95,151	14	0.01%
Industrial		749,707		800,972	(51,265)	-6.40%
Rural		24,442		25,094	(652)	-2.60%
Wholesale		37,157		38,034	(877)	-2.31%
Street lighting		2,718		2,773	(55)	-1.98%
Water utility		2,417		2,460	(43)	-1.75%
Westar sales		31,192	_	29,882	1,310	4.38%
Total sales and station power		1,009,866		1,063,800	(53,934)	-5.07%
System losses	_	18,103		13,678	4,425	32.35%
Total customers served (2019 - 8740, 2018 - 8726)						
Operating revenue -						
Residential	\$	4,831,968	\$	5,436,645		
Commercial		7,739,762		8,112,572		
Industrial		39,472,208		41,643,382		
Rural		1,740,157		1,842,512		
Wholesale		2,369,396		2,511,877		
Street lighting		480,346		446,061		
Water utility		167,174		180,800		
Westar interconnection		5,621,874		5,338,274		
Light rental		92,194		73,718		
Total	\$	62,515,079	\$	65,585,841		

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. These sales approximated 8.80% of total sales in 2019. Expenses attributable to such sales are allocated on the same percentage as sales.

### Water Utility:

The water department serves 5,165 residental, 756 commercial, 16 industrial, and various other city and wholesale customers. Water pumped in 2019 was 961,174,700 gallons which was approximately 3.80% less than 2018. Gross revenue increased 3.87% from the prior year.

### INFORMATION CONCERNING THE ELECTRIC UTILITY SYSTEM

(UNAUDITED)

### **Description of the Existing Facilities of the System**

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

The System's total generating capacity is 233.8 MW, and its firm generating capability is 205.7 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.

	C	Customers, Sales	and Revenue b	y Customer Clas	sification	
	F	Residential			Commercial	
	Customers			Customers		
Year	Served	Sales (kWh)	Revenue	Served	Sales (kWh)	 Revenue
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
2018	7,256	94,601,610	7,332,509	1,451	95,031,065	8,129,879
2019	7,302	91,718,014	6,925,984	1,417	100,048,674	8,389,282
		Industrial			Wholesale	
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
2018	19	800,973,868	41,643,937	2	38,033,700	2,511,877
2019	19	749,707,360	39,472,208	2	37,157,400	2,369,396

### **Customers, Sales and Revenues (Cont.)**

2019

Totals Customers Year Served Sales (kWh) Revenue 2015 8,646 842,963,174 \$ 48,882,145 2016 955,354,123 8,727 53,325,451 2017 8,664 1,000,598,777 55,887,646 1,028,640,243 59,618,201 2018 8,728

Ten Largest Electric Utility Customers in Recent Years

973,495,741

56,507,349

8,740

Customer	kwh	2019	kwh	2018	kWh	2017
CHS	406,665,000	\$ 20,919,697	465,360,000	\$ 23,133,058	457,940,293	\$21,758,322
Johns Manville	150,209,500	7,487,284	148,078,000	7,487,369	151,679,500	7,258,058
Pfizer	56,539,000	2,881,332	54,502,000	2,851,461	53,690,000	2,721,493
CertainTeed	13,905,600	824,534	13,744,800	866,380	13,484,400	845,361
City of Moundridge	31,185,600	1,958,428	31,617,600	2,064,861	30,415,216	1,981,666
Nustar	18,835,200	1,038,269	18,064,800	1,026,430	16,022,254	941,665
Viega	25,298,000	1,534,758	22,053,500	1,399,387	18,660,837	1,160,679
North American Pipe	19,771,200	1,038,545	20,088,000	1,082,320	19,764,716	1,041,067
Ferguson Production	7,270,800	423,522	6,835,200	416,464	7,836,000	431,907
Grain Craft	8,055,360	512,264	8,760,960	540,645	8,518,187	511,153
Total	737,735,260	\$ 38,618,632	789,104,860	\$40,868,375	778,011,403	\$38,651,371

### **System Growth**

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

	Customers	Peak		Annual Revenue
Year	Served	Demand (MW) (1)	Sales (MWh)	from Energy Sales
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
2018	8,728	158	1,033,644	60,247,777
2019	8,740	163	978,631	57,156,870

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

**Rates** 

Current electric rates as of August 1, 2019, for the System are as follows:

			General		
	Residential	Residential	Service	General Service	General Service
	Electric Service	All Electric	Small	Medium	Large
Service					
Charge	\$10.00/month	\$10.00/month	\$15.00/month	\$15.00/month	N/A
		May-Oct: \$0.310/kWH, Nov-Apr; \$0.0310/kWH for first 400 kWH, \$0.0260/kWH for over 400	\$0.0415/kWH for first 1,500 kWH, \$0.0375/kWH for over 1,500	\$0.0265/kWH for first 10,000 kWH, \$0.0235/kWH for over 10,000	\$0.0265/kWH for first 240 kWH/kVa of billing capacity, \$0.0235/kWH for over 240 kWH/kVa
Energy Rate	\$0.0310/Kwh	kWH	kWH	kWH	of billing capacity
Capacity Charge	\$0.01009/kWH	\$0.01009/kWH	\$0.01009/kWH	\$2.79/kVA	\$2.79/kVA for all kVa of billing capacity
Transmission Charge	\$0.0147/kWH	\$0.0147/kWH	\$0.0147/kWH	\$4.06/kVA	\$4.06/kVa
City Transfer Charge	\$0.00175/kWH	\$0.00175/kWH	\$0.00175/kWH	\$0.00175/kWH	\$0.00175/kWH
Demand Rate	NA	NA	NA	\$3.80/kVA	\$2.75/kVa
Interruptible Rate Demand multiplier	N/A	N/A	N/A	\$0.80	N/A

### **Financial Reporting**

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

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

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

		2016		2017		2	018		2019
Operating Revenue									
Electric Metered Sales	\$	53,499,384	\$	56,045,689	a	¢ 50.9	301,506	Ф	56,417,616
Street Lighting	φ	242,045	φ	249,31			146,061	φ	475,589
Sales to Interconnection		4,109,101	_	3,653,18			338,274		5,621,874
Total Operating Revenues		57,850,530	_	59,948,18	8	65,5	585,841		62,515,079
Operating Expenses									
Fuel		1,076,493		699,69	5	2,4	116,132		2,438,382
Purchased Power		39,637,092		42,806,14			264,278		43,343,403
Production		3,496,177		2,407,35			035,144		3,837,927
Distribution and Transmission		4,433,309		3,755,06			530,688		3,998,941
Administrative and General		2,113,925		2,158,64			192,819		2,615,601
Depreciation and Amortization		1,948,431		2,146,70			163,483		2,496,102
Payment to City of McPherson		1,684,097	_	1,759,77	6	1,	798,072		1,682,523
Total Operating Expense		54,389,524	_	55,733,37	8	59,4	100,616		60,412,879
Operating Income		3,461,006	_	4,214,81	0	6,	185,225		2,102,200
Nonoperating Income (Expense)									
Interest Income		149,527		276,14	2		588,329		1,006,128
Revenues from Merchandising		520,704		304,54	2	2	253,330		481,436
Less Cost from Merchandising		(413,189)		(170,80	2)	(1	155,470)		(136, 335)
Refuse Collection		60,766		85,05	6		85,006		85,620
Penalties		83,591		97,99	1		86,363		64,272
Farm Rents		(8,822)		(2,40			(476)		3,309
Gain (Loss) on Disposal of Assets		(15,088)		10,67			39,021		(40)
Interest on Debt		(162,606)		(247,61	8)			_	-
Total Nonoperating Income (Expense)		214,883	_	353,58	<u>1</u>	8	396,103		1,504,390
Change in Net Position	\$	3,675,889	\$	4,568,39	1	\$ 7,0	081,328	\$	3,606,590
Income Available for Debt Service	\$	5,729,146	\$	6,962,71	1	\$ 9,2	244,811	\$	6,102,692
Debt Service Requirements	\$	884,781	\$		-	\$	-	\$	-
Debt Service Coverage Ratio		647.52%		0.00	%		0.00%		0.00%
				2016		2017	_20	18	2019
Operating Revenue									
Electric									
				\$	\$		\$		\$
Matara d Calar						,045,68	_	1,50	_
Metered Sales			4	•	9		6		6
Street Lighting			2	242,045	24	9,316	446,0	61	475,589
Sales to Interconnection			4	<u>1,109,101</u>	3,6	553,183	<u>5,338</u>	,274	
									- 47 -

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

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

As a result of Addendum No. 5, the Board implemented a rate adjustment, designed by Burns & McDonnell, effective January 1, 2011. The rates contained a variable energy 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. The rates continue to be among the lowest in the state and region, allowing the System to continue to attract and retain all types of customers.

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

The present Westar power plants stipulated in the Agreement to provide base load energy requirements for the System, consist of four coal fired units. Three of these units are at the Jeffrey Energy Center, where the first of these entered commercial service in the spring of 1978. In 1983, the newest unit, number three, began commercial operation. The fourth unit is located at Lawrence, Kansas. Westar has installed significant equipment to reduce emissions, such as SO2 and NOx, at these facilities which should limit exposure to additional revenue requirements to meet emission regulations.

In November 2015, the utility sent out a request for proposals (RFP) for renewable resources. With the 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, approximately 15% of the energy supply is from carbon-free wind and the coal portion has been reduced to 71%. Wind energy was also the lowest cost source in 2019.

On September 5, 2018, the utility signed another Renewable Energy Agreement with Westar Energy. The new agreement is for 50 MW of capacity with a commercial operation date of December 31, 2020. This energy supply will most likely be the utility's cheapest, and will increase the amount of carbon-free energy to approximately 30%. Given the positives of this source, the utility is also pursuing increasing the capacity from this agreement to 75 MW.

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

### Report On Electric System Conditions For The Year 2019

The Board of Public Utilities (BPU) operates a vertically integrated electric utility consisting of generation, transmission, and distribution. The utility has approximately 8,700 total customers, which includes two wholesale customers, the cities of Moundridge and Galva. Sales in 2019 were down 5.32% primarily due to the largest industrial customer's maintenance shutdown.

BPU's generation resources consist of four General Electric (GE) gas turbines with a total summer capacity of approximately 234 MW. The three units located at Power Plant 2 were installed from 1973 to 1979 and operate as peaking units, typically running less than 200 hours and 15 starts per year. The newest turbine went commercial in 1998 and is located at Power Plant 3 and typically operates around 200 hours and has less than 35 starts per year. With the new Southwest Power Pool (SPP) Integrated Market, which began in March 2014, the utility's gas fueled turbines saw significant increased operations over previous years. In 2019 operations were higher than average with gas fired units starting between 45 and 75 times, which is a significant 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 operate at least 5 to 10 years before requiring another inspection. Gas turbine #1 at Plant 2 had a major inspection in the spring of 2016 and should be set for several years of operation as well. The gas turbine at Plant 3 underwent a major inspection in the spring 2019 and should require no major work for several years. Also, in 2015, due to the discontinuation of support for the current system, all gas turbine controls were upgraded to GE Mark VIe. Going forward, the utility will continue to perform periodic borescope inspections so small problems can be found and addressed before they become major issues.

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 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 2019, this source of energy provided 15.6% of the utility's needs and cost the least of all sources.

In September 2018, the utility signed another Renewable Energy Agreement with Westar Energy. The new agreement provides 50 MWs of capacity with a commercial date of December 2020. The agreement, again reduces the utility's carbon footprint, provides stable long-term energy cost, and favorable pricing.

The BPU owns roughly 20 miles of 115 kV transmission line and four 115 kV ring bus style substations. Poles are inspected on a regular schedule and poles found to be structurally deficient are replaced. Recently, with the use of a drone, some of the poles were inspected and degradation was observed in the top section. Because of this, the utility has started replacing 115 kV multi-pole structures that were installed in the 1970's and hopes to complete this program in 2020. Money has also been set aside in recent budgets to replace all electromechanical relays at the Plant 2 115 kV substation. This project was completed in the spring of 2020.

Electric load continues to grow in the northeast part of town, and consequently, plans are to build a new 115 kV ring bus style substation with both 35 and 12.5 kV capacity. Construction will start in the spring of 2020 and should be complete by the end of 2021. This substation should enhance the utility's ability to provide reliable service to existing customers as well as serve future residential and industrial growth for several years into the future.

BPU's distribution system consists of approximately 30 miles of 35 kV overhead line, 520 miles of 12.5 kV overhead line, 30 miles of 12.5 kV underground line, and some 5 kV overhead lines. Poles located on main feeder lines are inspected for structural integrity on a set schedule. In recent years, several of the arterial lines located in the rural areas have been rebuilt using ACSR T-2 conductor and stronger poles. Both of these steps are intended to make the lines less vulnerable to ice and wind loading, with the ultimate goal being increased reliability. In general, most rural 12.5 kV lines are in sound condition with no significant planned replacements being considered in the near future, other than a pole replacement program on single phase lines. The utility is continuing a program to convert sections of overhead to underground inside the City. Areas converted have no alley access for servicing the equipment and significant tree issues. These conversions improve system reliability, enhance worker safety, and reduce operation expense, and the intent is to continue these types of projects as time permits. For the past several years, the distribution system has continued to utilize the last two 5 kV circuits. In 2019, the load on one of these circuits was moved to 12.5 kV, and the goal is to complete this transfer on the other circuit by the end of 2021. This project is taking several years and will involve removal of two unit substations and converting significant overhead in blind alleys to underground, but again, will update the system.

Due to the continual investment in the system, BPU's generation, transmission, and distribution system are well maintained and able to deliver the level of reliable service required by today's customers. Plans are to continue to invest in the system as we move to 2020 and beyond.

### INFORMATION CONCERNING THE WATER UTILITY SYSTEM (UNAUDITED)

### **Description of the Existing Facilities of the System**

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

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

Production	2
Transmission & Distribution	6
Administration & Office	3

### **History of the Area Served**

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

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

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

### **Number of Customers**

	Number of
Year	Customers
2019	5,941
2018	5,902
2017	5,905
2016	5,909
2015	5,822

### **History of Water Usage**

Year	Gallons Pumped	Gallons Sold	Bearing Water	Gallons Unaccounted	Percentage Water Loss
2019	961,174,700	879,477,000	11,371,050	70,326,650	7.32%
2018	999,133,500	908,506,000	11,382,910	79,244,590	7.93%
2017	988,380,100	904,296,000	11,281,410	72,802,690	7.37%
2016	943,024,900	849,290,000	10,601,270	83,133,630	8.82%
2015	1,056,379,500	948,126,000	11,099,380	97,154,120	9.20%

### **Wholesale Water Sales**

Year	Gallons	Revenue
2019	39,370,000	\$ 167,290
2018	43,641,000	173,652
2017	40,296,000	154,016
2016	38,526,000	145,814
2015	40,789,000	141,468

### **Ten Largest Customers**

Customer	Gallons	Total Revenue
Pfizer	98,218	\$ 407,862
Johns Manville	35,694	148,631
CHS	34,035	170,984
Viega	29,597	124,365
Rural Water District #4	26,918	110,843
North American Speciality	16,436	48,863
Cedars	15,354	69,753
Wm Pendlay	13,816	37,772
McPherson College	11,843	53,503
Recreation Commission	11,805	41,549

### Rates

2019 water rates for the System are listed below:

Base Charge: Based on size of meter.

Meter Size	Inside City Limits	Outside City Limits
5/8"	\$11.68	\$17.53
1"	\$23.60	\$35.39
1 1/2"	\$50.00	\$75.00
2"	\$88.32	\$132.48
3"	\$206.06	\$309.09
4"	\$364.95	\$547.43
6"	\$735.84	\$1,103.76
8"	\$1,059.67	\$1,589.51

Residential Unit Charge: (Meters with gallon readings)

	Inside City Limits	Outside City Limits
0-20 units	\$2.42/unit	\$3.63/unit
21-40 units	\$2.89/unit	\$4.34/unit
41-60 units	\$3.49/unit	\$5.24/unit
Over 60 units	\$4.18/unit	\$6.27/unit

### **Commercial Customers**

	Inside City Limits	Outside City Limits
Base Rate	\$2.61/unit	\$3.92/unit

### **Wholesale Customers**

### **Outside City Limits**

All Units

\$3.92/unit

Connection Charge: Effective January 1, 2019

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

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

### **General Note:**

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

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

### **Financial Reporting**

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

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

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

	 2016	 2017	 2018	 2019
Operating Revenue				
Sale Of Water	\$ 3,523,186	\$ 3,651,963	\$ 3,930,502	\$ 4,068,284
Operating Expenses				
Production	598,192	566,451	644,482	567,204
Distribution and Transmission	1,107,682	1,067,109	1,255,324	1,555,804
Administrative and General	395,351	356,122	370,612	438,450
Depreciation and Amortization	600,352	607,218	614,824	642,503
Transfer: Payments in Lieu of Taxes	 50,690	 53,258	 54,871	 52,439
Total Operating Expense	 2,752,267	 2,650,158	 2,940,113	 3,256,400
Operating Income	 770,919	 1,001,805	 990,389	 811,884
Nonoperating Income (Expense)				
Interest Income	37,412	71,215	115,572	174,209
Revenues from Merchandising	137,492	297,301	137,164	180,784
Less Cost from Merchandising	(36,958)	(10,163)	(67,280)	(5,466)
Refuse Collection & Sewer Service Fee	12,241	15,006	15,008	15,114
Farm Rents	201,385	38,994	228,586	110,825
Gain (Loss) on Disposal of Assets		(2,153)	-	923
Interest on Debt	 (337,789)	 (302,341)	 (270,614)	 (247,050)
Total Nonoperating Income (Expense)	 13,783	 107,859	 158,436	 229,339
Change in Net Position	\$ 784,702	\$ 1,109,664	\$ 1,148,825	\$ 1,041,223
Income Available for Debt Service	\$ 1,665,219	\$ 1,972,859	\$ 1,999,522	\$ 1,897,139
Debt Service Requirements	\$ 952,319	\$ 952,919	\$ 947,231	\$ 953,619
Debt Service Coverage Ratio	174.86%	207.03%	211.09%	198.94%

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

The Board of Public Utilities (BPU) most recent rate increase occurred on January 1, 2020, which was 15%, with the previous three adjustments taking place on January 1, 2016, January 1, 2018, and January 1, 2019. Combined, these have resulted in an overall increase of 42%, but the utility's water rates still compare favorably with other communities in the area. When the cost of service study was performed by Burns & McDonnell in 2014, they recommended four increases totaling 41%. The increase at the beginning of 2019 was the last proposed, and it was implemented one year late due to sufficient revenue in 2016. The 2020 increase was implemented so work could begin on the development of a new water supply source, the South Well Field. The main reason 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, the South Well Field. 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 late 2017, three water right applications were approved by the Division of Water Resources Chief Engineer for this site. During 2018, Burns & McDonnell developed an estimated cost and looked at rate impact for the project. The estimated cost is \$27.6 million and will require total rate adjustment in the neighborhood of 48%, which could happen in phases. The average residential customer's bill would increase approximately \$17 per month. While the increase is material, there are still several growing communities in the region with higher rates, so the increase should have limited impact on the community. In December 2019, the Board made the decision to move forward with the project and began adjusting rates in January 2020.

For the past several years, the utility has made an effort to replace older water mains that have experienced frequent failures. Plans are to continue this approach in an effort to keep the system from having to perform a mass replacement program in the future. The average spent on water main replacement over the last three years was \$375,000. The 2020 budget allocated \$325,000 for replacement and, depending on new development, up to an additional \$250,000 would be available.

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

### Report on Water System Condition For the Year 2019

The Board of Public Utilities (BPU) water system consists of 12 groundwater wells, two treatment facilities, and a distribution system with approximately 130 miles of main. The utility sold 879 million gallons of water to 5,941 retail and four wholesale customers in 2019.

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 -9.17 feet since 2000. Staff has evaluated supply options, both surface and groundwater, and current efforts are focusing 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.

Burns & McDonnell completed a study in early 2019 that estimated project costs and rate impact for installing the wells, pipeline, and treatment necessary to develop the new well field (South Well Field). The estimated project cost is \$27.62 million and rates will need to increase close to 50% to support the debt service and increased operation expense. While this is material, current rates compare favorably with other water utilities in the area. The average residential monthly bill in 2019 was \$32.78, so the expected increase will be around \$17 per month. This amount seems worthwhile considering it will provide a water supply for more than 50 years. Consequently, the Board made the decision in December 2019 to proceed with the project. Plans are to procure the pipeline right of way in 2020 and proceed with other preliminary items prior to start of construction in 2022. In an effort to gradually increase revenue required, the Board also implemented a 15% rate increase effective January 1, 2020. The additional revenue will be used for procurement of the right of way.

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

The water distribution system contains close to 130 miles of pipe ranging in size from 2" to 24" and age from new to over 100 years old. Water main material consists of cast iron, ductile iron, asbestos cement, and PVC, with the majority of the line being cast iron and PVC. Cast iron was the material of choice prior to 1960 and is predominant in the older sections of town, while PVC is almost exclusively installed today. When water line breaks occur, they are typically on older cast iron pipes or PVC lines that were installed when PVC was just beginning to be used in the water industry. The first PVC pipe installed by the utility was thin walled, which has not held up over time due to stresses imposed. When repeated breaks have occurred in locations where this pipe was used, a replacement program has been 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. 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. This has proven to be a valuable tool in determining where water line replacement dollars should be invested. In 2019, the main break rate was 16 breaks per 100 miles per year. By comparison, about 300 utilities throughout North America saw an average of 14 breaks per 100 miles per year, according to a study by Utah State University. In 2019, approximately \$366,000 was spent on main replacement, and going forward, \$325,000 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.