

**BOARD OF PUBLIC UTILITIES
CITY OF McPHERSON**

FINANCIAL REPORT

**FOR THE YEARS ENDED
DECEMBER 31, 2012 AND 2011**

Board of Public Utilities - McPherson, Kansas

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INDEPENDENT AUDITOR'S REPORT

Board of Public Utilities
of McPherson, Kansas

We have audited accompanying financial statements of the Board of Public Utilities of McPherson, Kansas (BPU) a part of the primary government of the City of McPherson, Kansas as of and for the years ended December 31, 2012 and 2011, 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 funds and do not purport to, and do not, present fairly the financial position of the City of McPherson, Kansas as of December 31, 2012 and 2011 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, 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, 2012 and 2011, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis 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 the 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 Funding Progress – Postemployment 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 the 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 audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information (unaudited) in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Board of Public Utilities of McPherson, Kansas. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The additional information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 comments and operating statistics have 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

Certified Public Accountants

June 28, 2013

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, 2012. 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, 2012, 2011, and 2010.

Condensed Statements of Net Position

| | 2012 | | | 2011 | 2010 |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Electric | Water | Totals | Totals | Totals |
| Assets | | | | | |
| Capital assets | \$ 38,250,386 | \$ 20,317,217 | \$ 58,567,603 | \$ 58,565,657 | \$ 59,951,069 |
| Other assets | <u>30,869,674</u> | <u>10,430,380</u> | <u>41,300,054</u> | <u>36,453,738</u> | <u>38,745,664</u> |
| Total Assets | <u>\$ 69,120,060</u> | <u>\$ 30,747,597</u> | <u>\$ 99,867,657</u> | <u>\$ 95,019,395</u> | <u>\$ 98,696,733</u> |
| Liabilities | | | | | |
| Long-term debt outstanding | \$ 3,306,281 | \$ 10,538,631 | \$ 13,844,912 | \$ 15,064,142 | \$ 23,803,405 |
| Other liabilities | <u>5,169,633</u> | <u>1,239,618</u> | <u>6,409,251</u> | <u>5,763,323</u> | <u>4,635,592</u> |
| Total Liabilities | <u>8,475,914</u> | <u>11,778,249</u> | <u>20,254,163</u> | <u>20,827,465</u> | <u>28,438,997</u> |
| Net Position | | | | | |
| Invested in capital assets, net of related debt | 34,230,929 | 10,737,800 | 44,968,729 | 44,978,709 | 38,293,189 |
| Restricted | 1,705,909 | 340,797 | 2,046,706 | 1,965,429 | 5,157,282 |
| Unrestricted | <u>24,707,308</u> | <u>7,890,751</u> | <u>32,598,059</u> | <u>27,247,792</u> | <u>26,807,265</u> |
| Total Net Position | <u>60,644,146</u> | <u>18,969,348</u> | <u>79,613,494</u> | <u>74,191,930</u> | <u>70,257,736</u> |
| Total Liabilities and Net Position | <u>\$ 69,120,060</u> | <u>\$ 30,747,597</u> | <u>\$ 99,867,657</u> | <u>\$ 95,019,395</u> | <u>\$ 98,696,733</u> |

Condensed Statement of Revenues, Expenses and Changes in Fund Net Assets

| | 2012 | | | 2011 | 2010 |
|--------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Electric | Water | Totals | Totals | Totals |
| Operating revenues: | | | | | |
| Residential | \$ 5,836,752 | \$ 1,870,530 | \$ 7,707,282 | \$ 8,104,170 | \$ 6,582,919 |
| Commercial and Industrial | 36,888,443 | 1,581,931 | 38,470,374 | 37,473,007 | 30,371,163 |
| Other | 6,118,527 | 127,055 | 6,245,582 | 5,943,085 | 5,555,451 |
| Total operating revenue | <u>48,843,722</u> | <u>3,579,516</u> | <u>52,423,238</u> | <u>51,520,262</u> | <u>42,509,533</u> |
| Operating expenses: | | | | | |
| Fuel | 669,319 | - | 669,319 | 438,228 | 447,920 |
| Purchased power | 33,506,208 | - | 33,506,208 | 32,219,448 | 26,459,806 |
| Production | 2,298,348 | 773,972 | 3,072,320 | 2,836,308 | 3,380,599 |
| Distribution and transmission | 3,577,538 | 859,373 | 4,436,911 | 4,640,802 | 4,193,242 |
| Administrative and general | 1,794,346 | 454,894 | 2,249,240 | 2,321,638 | 1,997,611 |
| Payments to City of McPherson | 1,550,000 | - | 1,550,000 | 1,522,000 | 1,445,000 |
| Depreciation and amortization | 2,028,086 | 585,964 | 2,614,050 | 2,532,471 | 2,360,688 |
| Total operating expenses | <u>45,423,845</u> | <u>2,674,203</u> | <u>48,098,048</u> | <u>46,510,895</u> | <u>40,284,866</u> |
| Operating income | 3,419,877 | 905,313 | 4,325,190 | 5,009,367 | 2,224,667 |
| Nonoperating income (expenses) | 1,156,109 | 16,765 | 1,172,874 | (994,873) | (198,823) |
| Transfers in lieu of taxes | - | (76,500) | (76,500) | (80,300) | (72,500) |
| Increase in net assets | 4,575,986 | 845,578 | 5,421,564 | 3,934,194 | 1,953,344 |
| Net position, beginning | <u>56,068,160</u> | <u>18,123,770</u> | <u>74,191,930</u> | <u>70,257,736</u> | <u>68,304,392</u> |
| Net position, ending | <u>\$ 60,644,146</u> | <u>\$ 18,969,348</u> | <u>\$ 79,613,494</u> | <u>\$ 74,191,930</u> | <u>\$ 70,257,736</u> |

Financial Highlights

2012 Compared to 2011

- Gross water revenue for 2012 was down 4.41%, with the quantity sales lower by 4.65% compared to 2011. For 2011, gross water revenues were up 7.80% and gallons sold were up 12.10% compared to 2010.
- On July 5, 2012, the water department issued Water Revenue Refunding Bonds, Series 2012 for \$11,085,000 for the purpose of calling the remaining outstanding water bonds Series 2007. The bond proceeds were held in escrow with the Kansas State Treasurer until the Series 2007 Revenue Bonds were called on October 1, 2012. The Series 2012 bonds have a final maturity date of October 1, 2027 and have a "true interest cost" of 2.75%
- Total outstanding bond indebtedness for the water department is \$11,085,000 and for the electric department is \$4,890,000 at December 31, 2012.
- The debt service coverage ratios of both the electric and water departments were 7.75 and 1.93 times for 2012, respectively. The ratios are again much higher than the 1.25 times required by the bond covenant agreements. For the year 2011 the ratios for the electric and water departments were 8.45 and 2.02 times, respectively.
- Debt to equity ratio for the water department was 0.61:1 in 2012 compared with 0.69:1 in 2011. For the electric department the ratio changed to 0.14:1 in 2012 from 0.15:1 in 2011.
- Available cash and investments for 2012 increased by 32.0% in the electric department and increased by 5.0% in the water department compared to 2011.
- Interest income decreased by 38% for the electric department and decreased by 29% for the water department in 2012 compared to 2011.

2011 Compared to 2010

- The electric department implemented an average rate increase of 18.2% effective January 1, 2011 based upon a Cost of Service Study performed by Burns & McDonnell Engineering firm in 2010. As a result of this action the electric revenue increased 22.4% with an energy sales increase of 4.9% for 2011 compared to 2010. In 2010 electric revenue increased 4.2% and energy sales increased 1.2% over the previous year.
- Gross water revenue for 2011 was up 7.8% with quantity sales higher by 12.1% compared to 2010. For 2010, gross water revenues were up 14.25% and gallons sold were up 18.90% compared to 2009.
- On September 1, 2011 the electric department called \$6,185,000 of outstanding revenue bonds at par with cash reserves. This was the first date bonds were available for call for cash refunding.
- The electric department refinanced the remaining outstanding revenue bonds at par on October 15, 2011. Bond proceeds of \$5,445,000 along with \$1,750,000 of bond reserve funds were used to redeem \$7,326,927 of the remaining outstanding Series 2004 Electric Revenue Bonds. The new Series 2011 Electric Revenue Bonds have a "true interest rate" of 2.41% and a final maturity date of September 1, 2020.
- The debt service coverage ratios of both the electric and water departments were 8.45 and 2.02 times for 2011, respectively. The ratios continue to be much higher than the 1.25 times required by the bond covenant agreements. For the year 2010 the ratios for the electric and water departments were 2.78 and 1.71 times, respectively.
- Debt to equity ratio for the water department improved in 2011 to 0.69:1 compared with 0.76:1 for 2010. For the electric department the ratio changed to 0.15: 1 in 2011 from 0.29: 1 in 2010.
- Available cash and investments for 2011 increased by 40% in the electric department and increased by 7% in the water department compared to 2010.
- Interest income decreased by 29% for the electric department and decreased by 2% for the water department in 2011 compared to 2010.

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, 401 West Kansas, McPherson, Kansas 67460.

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION

December 31, 2012

(With comparative totals for December 31, 2011)

| | <u>ASSETS</u> | | <u>Totals</u> | |
|--|----------------------|----------------------|----------------------|----------------------|
| | <u>Electric</u> | <u>Water</u> | <u>2012</u> | <u>2011</u> |
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 5,552,947 | \$ 1,789,570 | \$ 7,342,517 | \$ 7,860,399 |
| U.S. treasury securities | - | - | - | 3,095,445 |
| Kansas Municipal Investment Pool- certificates of deposit | 2,200,000 | - | 2,200,000 | 2,200,000 |
| Certificates of deposit | 14,200,000 | 6,390,788 | 20,590,788 | 11,845,000 |
| Accounts receivable, customer and other | 4,539,815 | 479,117 | 5,018,932 | 4,615,303 |
| Inventories | 2,212,889 | 289,394 | 2,502,283 | 2,030,369 |
| Accrued interest on investments | 6,141 | 3,811 | 9,952 | 10,554 |
| Postemployment benefit asset | 25,038 | 6,259 | 31,297 | 57,714 |
| Total current assets | <u>28,736,830</u> | <u>8,958,939</u> | <u>37,695,769</u> | <u>31,714,784</u> |
| Noncurrent assets | | | | |
| Restricted cash and cash equivalents | 470,344 | 71,893 | 542,237 | 492,885 |
| Restricted certificates of deposit | 1,650,000 | 1,399,548 | 3,049,548 | 3,088,136 |
| Capital Assets | | | | |
| Land | 498,990 | 1,339,147 | 1,838,137 | 1,827,875 |
| Buildings and equipment | 92,189,245 | 24,845,740 | 117,034,985 | 116,517,706 |
| Construction in process | 1,170,490 | 375,060 | 1,545,550 | 502,673 |
| Less accumulated depreciation | (56,425,051) | (6,388,272) | (62,813,323) | (60,282,597) |
| Industrial development property, at cost | 713,176 | - | 713,176 | 711,740 |
| Bond issue costs, net | 103,536 | 145,542 | 249,078 | 433,693 |
| Other Assets | 12,500 | - | 12,500 | 12,500 |
| Total noncurrent assets | <u>40,383,230</u> | <u>21,788,658</u> | <u>62,171,888</u> | <u>63,304,611</u> |
| TOTAL ASSETS | <u>\$ 69,120,060</u> | <u>\$ 30,747,597</u> | <u>\$ 99,867,657</u> | <u>\$ 95,019,395</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION
December 31, 2012
(With comparative totals for December 31, 2011)

LIABILITIES AND NET POSITION

| | Electric | Water | Totals | |
|---|---------------|---------------|---------------|---------------|
| | | | 2012 | 2011 |
| LIABILITIES | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 3,606,762 | \$ 45,367 | \$ 3,652,129 | \$ 3,132,109 |
| Current maturities of revenue bonds | 550,000 | 520,000 | 1,070,000 | 1,105,000 |
| Accrued interest on revenue bonds | 53,892 | 171,432 | 225,324 | 165,720 |
| Customer meter and other deposits | 357,268 | - | 357,268 | 402,489 |
| Self-insurance claims payable | 37,406 | 5,344 | 42,750 | 51,750 |
| Accrued payroll | 561,030 | 64,709 | 625,739 | 582,305 |
| Accrued interest on customer meter deposits | 3,275 | - | 3,275 | 3,882 |
| Due to City of McPherson | - | 252,504 | 252,504 | 230,089 |
| Total current liabilities | 5,169,633 | 1,059,356 | 6,228,989 | 5,673,344 |
| Long-term debt - revenue bonds | | | | |
| Principal | 3,306,281 | 10,538,631 | 13,844,912 | 15,064,142 |
| Other liabilities | | | | |
| Water meter advances | - | 180,262 | 180,262 | 89,979 |
| TOTAL LIABILITIES | 8,475,914 | 11,778,249 | 20,254,163 | 20,827,465 |
| NET POSITION | | | | |
| Invested in capital assets, net of related debt | 34,230,929 | 10,737,800 | 44,968,729 | 44,978,709 |
| Restricted for debt service | 1,705,909 | 340,797 | 2,046,706 | 1,965,429 |
| Unrestricted | 24,707,308 | 7,890,751 | 32,598,059 | 27,247,792 |
| TOTAL NET POSITION | 60,644,146 | 18,969,348 | 79,613,494 | 74,191,930 |
| TOTAL LIABILITIES AND NET POSITION | \$ 69,120,060 | \$ 30,747,597 | \$ 99,867,657 | \$ 95,019,395 |

Board of Public Utilities - McPherson, Kansas

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the Year Ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

| | Electric | Water | Totals | |
|---|----------------------|----------------------|----------------------|----------------------|
| | | | 2012 | 2011 |
| OPERATING REVENUE | | | | |
| Electric | | | | |
| Metered sales | \$ 45,017,421 | \$ - | \$ 45,017,421 | \$ 44,123,486 |
| Street lighting | 179,814 | - | 179,814 | 195,163 |
| Sales to interconnection | 3,646,487 | - | 3,646,487 | 3,457,085 |
| Water | | | | |
| Sale of water | - | 3,579,516 | 3,579,516 | 3,744,528 |
| Total operating revenue | <u>48,843,722</u> | <u>3,579,516</u> | <u>52,423,238</u> | <u>51,520,262</u> |
| OPERATING EXPENSE | | | | |
| Fuel | 669,319 | - | 669,319 | 438,228 |
| Purchased power | 33,506,208 | - | 33,506,208 | 32,219,448 |
| Production | 2,298,348 | 773,972 | 3,072,320 | 2,836,308 |
| Distribution and transmission | 3,577,538 | 859,373 | 4,436,911 | 4,640,802 |
| Administrative and general | 1,794,346 | 454,894 | 2,249,240 | 2,321,638 |
| Payment to City of McPherson | 1,550,000 | - | 1,550,000 | 1,522,000 |
| Depreciation and amortization | 2,028,086 | 585,964 | 2,614,050 | 2,532,471 |
| Total operating expense | <u>45,423,845</u> | <u>2,674,203</u> | <u>48,098,048</u> | <u>46,510,895</u> |
| OPERATING INCOME | <u>3,419,877</u> | <u>905,313</u> | <u>4,325,190</u> | <u>5,009,367</u> |
| NONOPERATING INCOME (EXPENSE) | | | | |
| Interest income | 56,432 | 45,281 | 101,713 | 155,046 |
| Revenues from merchandising, jobbing and contract work and miscellaneous income | 348,236 | 71,767 | 420,003 | 182,778 |
| Less cost of merchandising | (83,592) | (20,159) | (103,751) | (47,068) |
| Sale of Kansas historical tax credits | 1,008,454 | 252,113 | 1,260,567 | - |
| Refuse collection and sewer service fees | 59,227 | 14,809 | 74,036 | 79,893 |
| Penalties, earned discounts and other | 61,019 | - | 61,019 | 54,604 |
| Farm rents, net of expense | (3,467) | 58,864 | 55,397 | 56,459 |
| Net increase (decrease) in fair value of investments | (4,508) | - | (4,508) | 4,508 |
| Gain (loss) on disposal of assets | - | - | - | 22,372 |
| Gain (loss) on extinguishment of debt | - | - | - | (452,130) |
| Interest on debt | (285,692) | (405,910) | (691,602) | (1,051,335) |
| Total nonoperating income (expense) | <u>1,156,109</u> | <u>16,765</u> | <u>1,172,874</u> | <u>(994,873)</u> |
| INCOME BEFORE OPERATING TRANSFERS | <u>4,575,986</u> | <u>922,078</u> | <u>5,498,064</u> | <u>4,014,494</u> |
| TRANSFER: PAYMENTS IN LIEU OF TAXES | - | (76,500) | (76,500) | (80,300) |
| CHANGES IN NET POSITION | <u>4,575,986</u> | <u>845,578</u> | <u>5,421,564</u> | <u>3,934,194</u> |
| TOTAL NET POSITION, BEGINNING OF YEAR | <u>56,068,160</u> | <u>18,123,770</u> | <u>74,191,930</u> | <u>70,257,736</u> |
| TOTAL NET POSITION, END OF YEAR | <u>\$ 60,644,146</u> | <u>\$ 18,969,348</u> | <u>\$ 79,613,494</u> | <u>\$ 74,191,930</u> |

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

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

| | Electric | Water | Totals | |
|---|---------------------|---------------------|---------------------|---------------------|
| | | | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipts from customers | \$ 49,923,921 | \$ 3,968,818 | \$ 53,892,739 | \$ 51,107,760 |
| Payments to suppliers | (36,511,426) | (982,744) | (37,494,170) | (35,809,627) |
| Payments to employees | (5,401,591) | (966,162) | (6,367,753) | (6,245,912) |
| Other receipts (payments) | (1,550,000) | (78,608) | (1,628,608) | (1,602,300) |
| Net cash provided from (used in) operating activities | <u>6,460,904</u> | <u>1,941,304</u> | <u>8,402,208</u> | <u>7,449,921</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | | |
| Purchase of property, plant and equipment | (1,085,283) | (540,125) | (1,625,408) | (1,102,268) |
| Proceeds from sale of equipment | - | - | - | 23,095 |
| Purchase of industrial development property | (1,436) | - | (1,436) | - |
| Proceeds from issuance of bonds | - | - | - | 5,445,000 |
| Proceeds from sale of bonds | - | 11,085,000 | 11,085,000 | - |
| Principal payments on bonds | (555,000) | (11,915,000) | (12,470,000) | (14,255,000) |
| Payments to trustee to defease bonds | - | (122,404) | (122,404) | - |
| Payment of bond issue costs | - | (150,476) | (150,476) | (119,291) |
| Proceeds from bond premium | - | 436,806 | 436,806 | - |
| Loss on refunding issue | - | - | - | 675,279 |
| Interest paid on debt | (157,520) | (351,352) | (508,872) | (1,086,849) |
| Net cash provided from (used in) capital and related financing activities | <u>(1,799,239)</u> | <u>(1,557,551)</u> | <u>(3,356,790)</u> | <u>(10,420,034)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Purchase of investments | (17,050,047) | (7,190,336) | (24,240,383) | (25,500,097) |
| Proceeds from sale or maturity of investments | 13,140,984 | 5,483,136 | 18,624,120 | 28,258,071 |
| Interest received | 56,068 | 46,247 | 102,315 | 178,183 |
| Net cash provided from (used in) investing activities | <u>(3,852,995)</u> | <u>(1,660,953)</u> | <u>(5,513,948)</u> | <u>2,936,157</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | | |
| | 808,670 | (1,277,200) | (468,530) | (33,956) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | | | | |
| | <u>5,214,621</u> | <u>3,138,663</u> | <u>8,353,284</u> | <u>8,387,241</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | | | | |
| | <u>\$ 6,023,291</u> | <u>\$ 1,861,463</u> | <u>\$ 7,884,754</u> | <u>\$ 8,353,285</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2012

(With comparative totals for the year ended December 31, 2011)

| | Electric | Water | Totals | |
|---|--------------|--------------|--------------|--------------|
| | | | 2012 | 2011 |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | | | |
| Operating income | \$ 3,419,877 | \$ 826,705 | \$ 4,246,582 | \$ 4,929,067 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 2,028,085 | 585,964 | 2,614,049 | 2,532,472 |
| Other nonoperating income | 1,389,877 | 379,502 | 1,769,379 | (98,585) |
| (Gain) loss on disposal of fixed assets | - | - | - | (22,372) |
| Realized/unrealized (gain) loss on investments | - | - | - | (4,805) |
| Changes in: | | | | |
| Accounts and notes receivable | (393,270) | (10,359) | (403,629) | (785,958) |
| Inventories | (507,842) | 35,928 | (471,914) | (81,635) |
| Accounts payable | 508,619 | 11,402 | 520,021 | 893,658 |
| Accrued expenses | 33,874 | 22,368 | 56,242 | 45,479 |
| Postemployment benefit asset | 26,905 | (488) | 26,417 | 23,994 |
| Water meter advances | - | 90,282 | 90,282 | 15,413 |
| Customer meter deposits | (45,221) | - | (45,221) | 3,193 |
| Net cash provided from operating activities | \$ 6,460,904 | \$ 1,941,304 | \$ 8,402,208 | \$ 7,449,921 |
| NONCASH FINANCING ACTIVITIES | | | | |
| Amortization of defeased bond costs | \$ 119,852 | \$ 3,274 | \$ 123,126 | \$ 119,497 |

BOARD OF PUBLIC UTILITIES - McPHERSON, KANSAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Public Utilities of McPherson, Kansas (the BPU) consists of the municipal electric and water funds that provide services to approximately 8,500 electric and 5,800 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 funds. General management, administrative offices and personnel are common to both the electric and water funds. Administrative overhead expenses are allocated between the two funds 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 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 statement 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 2% late fee on the current month's charges is added for each month the account is delinquent. Other accounts receivable become delinquent after 30 days and interest accrues at an annual rate of 18% until payment is received in full. After one year, 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 (cont.)

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

(e) Allowance for Doubtful Accounts

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

(f) Inventories

Inventories are carried at cost substantially valued on an average cost method. Materials and supplies are essentially repair and replacement items for the maintenance of the two systems. Inventories at December 31st consist of the following:

| | Water | Electric | Totals | |
|------------------------|------------|--------------|--------------|--------------|
| | | | 2012 | 2011 |
| Fuel | \$ - | \$ 937,755 | \$ 937,755 | \$ 429,165 |
| Materials and supplies | 289,394 | 1,275,134 | 1,564,528 | 1,601,204 |
| Total | \$ 289,394 | \$ 2,212,889 | \$ 2,502,283 | \$ 2,030,369 |

(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 and independent engineers. The BPU has a policy to capitalize all purchases over \$5,000. The average annual composite depreciation rates are 1.5% to 15%. Repairs and maintenance are expensed as incurred.

(h) Estimates and Assumptions

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

(i) Deferred Charges

Bond issuance costs are amortized over the life of the bonds using the straight-line method.

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

(j) Vacation and Sick Leave

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(j) *Vacation and Sick Leave (cont.)*

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

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

An employee shall be paid for all accumulated unused vacation leave upon termination. The liability for accumulated vacation at December 31, 2012 for the electric fund and the water fund of \$363,483 and \$50,975, respectively, and at December 31, 2011 for the electric fund and the water fund of \$357,891 and \$50,740, respectively, has been accrued in the accompanying financial statements.

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

(k) *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, 2012, the BPU's total interest expense was \$691,602. Net interest cost of \$0 was capitalized in connection with construction in progress during 2012. For the year ended December 31, 2011, the BPU's total interest expense was \$1,051,335. Net interest cost of \$0 was capitalized in connection with construction in progress during 2011.

(l) *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."

(m) *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 2012 or 2011.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(n) *New Accounting Pronouncements*

In December 2010, GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in the Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB No. 62). GASB No. 62 incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 included in: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA Committee on Accounting Procedure that do not conflict with or contradict GASB pronouncements. The statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, which eliminates the election for business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with GASB pronouncements. This statement became effective in 2012. The BPU does not believe this statement will have a material impact on its financial statements.

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Statement No. 63 was adopted by the BPU for the year ended December 31, 2012, and provides guidance on reporting deferred inflows and outflows of resources which are distinctly different from assets and liabilities. The BPU has changed certain financial statements terminology by primarily replacing the phrase "net assets" with the new term of "net position". The BPU's beginning balances and current year results were not affected by the implementation of this new standard.

2. 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 \$60,000 per individual per year for health care claims. At December 31, 2012, the BPU has established a liability of \$42,750 that is recorded on the balance sheet for claims arising out of the self-insurance program. At December 31, 2011, this liability was \$51,750. Management believes claims incurred, but not reported, are insignificant at December 31, 2012.

3. COMMITMENTS

The BPU has contract commitments for the purchase of engineering studies, equipment, land and land rights, and software consulting and implementation, for a total amount of \$1,349,914. As of December 31, 2012, payments of \$320,395 had been made toward these commitments, with a remaining balance due of \$1,029,520. At December 31, 2011, the BPU had outstanding commitments in the amount of \$833,381 for the purchase of land and water rights, electric breakers, and for financial software replacement.

4. DEPOSITS AND INVESTMENTS

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

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

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. At December 31, 2012 and 2011, the BPU held 100% and 42% of their investments in the Kansas Municipal Investment Pool, respectively.

4. DEPOSITS AND INVESTMENTS (cont.)

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, 2012.

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, 2012 and 2011, the carrying amount of the BPU's deposits, including certificates of deposit, was \$31,524,490 and \$23,285,819, respectively, and the bank balance was \$31,632,008 and \$23,455,328, respectively. The bank balance was held by four banks resulting in a concentration of credit risk. Of the bank balance, \$1,000,000 was secured by federal depository insurance and \$30,632,008 was collateralized with securities held by the pledging financial institutions agents in the BPU's name and deposit surety bonds. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the BPU, the pledging bank, and the independent third-party bank holding the pledged securities.

(b) Investments

At December 31, 2012 and 2011, the BPU had invested in funds in the State's Municipal Investment Pool. The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations that are insured as to principal and interest, by the U.S. government or any agency thereof, with maturities up to four years. No more than ten percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

As of December 31, 2012 and 2011, the BPU had the following investments.

| Investment Type | Fair Value 2012 | Investment Maturities (In Years) | 2011 | Rating |
|----------------------------------|---------------------|--|---------------------|--------------|
| | | Less than 1 year | | |
| Kansas Municipal Investment Pool | \$ 2,200,000 | \$ 2,200,000 | \$ 2,200,000 | S&P AAAF/SLT |
| U.S. Treasury Securities | - | - | 3,095,445 | Not Required |
| Total | <u>\$ 2,200,000</u> | <u>\$ 2,200,000</u> | <u>\$ 5,295,445</u> | |

Deposits and investments are shown on the combined balance sheets at December 31, 2012 and 2011, as follows:

| | 2012 | 2011 |
|---------------------------|----------------------|----------------------|
| Current assets | | |
| Cash and cash equivalents | \$ 7,342,517 | \$ 7,860,399 |
| Investments | 22,790,788 | 17,140,445 |
| Noncurrent assets | | |
| Cash and cash equivalents | 542,237 | 492,885 |
| Investments | <u>3,049,548</u> | <u>3,088,136</u> |
| Total | <u>\$ 33,725,090</u> | <u>\$ 28,581,865</u> |

4. DEPOSITS AND INVESTMENTS (cont.)

(b) Investments (cont.)

A summary of investments, deposits and cash at December 31, 2012 and 2011, is as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------|----------------------|----------------------|
| Total investments | \$ 2,200,000 | \$ 5,295,445 |
| Total deposits | 31,524,490 | 23,285,820 |
| Cash on hand | 600 | 600 |
| Total | <u>\$ 33,725,090</u> | <u>\$ 28,581,865</u> |

(c) Designated Assets

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

| | <u>Electric</u> | <u>Water</u> | <u>Totals</u> | |
|-----------------------------|----------------------|---------------------|----------------------|----------------------|
| | | | <u>2012</u> | <u>2011</u> |
| Long Range Electric Supply | \$ 12,560,496 | \$ - | \$ 12,560,496 | \$ 10,025,177 |
| Long Range Water Supply | - | 4,617,703 | 4,617,703 | 4,367,703 |
| Workers Comp Insurance Fund | 406,576 | 21,399 | 427,975 | 425,223 |
| Total | <u>\$ 12,967,072</u> | <u>\$ 4,639,102</u> | <u>\$ 17,606,174</u> | <u>\$ 14,818,103</u> |

(d) Restricted Assets

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

| | <u>Electric</u> | <u>Water</u> | <u>Totals</u> | |
|------------------------|---------------------|---------------------|---------------------|---------------------|
| | | | <u>2012</u> | <u>2011</u> |
| Bond Reserve Fund | \$ - | \$ 959,213 | \$ 959,213 | \$ 1,043,500 |
| Bond Emergency Fund | 1,000,000 | 100,000 | 1,100,000 | 1,100,000 |
| Bond and Interest Fund | 300,000 | 340,336 | 640,336 | 564,636 |
| Health Insurance Fund | 463,075 | 66,154 | 529,229 | 481,973 |
| Customer Deposit Fund | 357,268 | - | 357,268 | 401,489 |
| Refuse Fund | - | 2,429 | 2,429 | (9,444) |
| Sewer Fund | - | 3,311 | 3,311 | (1,337) |
| Total | <u>\$ 2,120,343</u> | <u>\$ 1,471,443</u> | <u>\$ 3,591,786</u> | <u>\$ 3,580,817</u> |

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

5. RESERVE FUNDS

In September 1983, the Board established a reserve fund in the water department for long-range water supplies. During 2012 and 2011, \$250,000 and \$125,000, respectively, were transferred into this Board-designated fund. The \$4,617,703 and \$4,367,703 fund balances at December 31, 2012 and 2011, 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, 2012 and 2011, were \$12,560,496 and \$10,025,177, respectively,

6. CAPITAL ASSETS

The following is a summary of capital assets at December 31, 2012:

| | Electric Department | | | | Balance December 31, 2012 |
|-------------------------------|---------------------------------|---------------------|-------------|-------------|---------------------------------|
| | Balance December 31, 2011 | Additions | Deletions | Transfers | |
| | Land and improvements | \$ 488,728 | \$ 10,262 | \$ - | |
| Production plants | 48,163,949 | 22,563 | (38,316) | - | 48,148,196 |
| Transmission and distribution | 37,549,178 | 12,066 | (16,674) | - | 37,544,570 |
| General plant | 6,159,543 | 56,898 | - | 280,038 | 6,496,479 |
| Construction in progress | 467,034 | 983,494 | - | (280,038) | 1,170,490 |
| | 92,828,432 | 1,085,283 | (54,990) | - | 93,858,725 |
| Less accumulated depreciation | (54,465,460) | (2,014,581) | 54,990 | - | (56,425,051) |
| Total | \$ 38,362,972 | \$ (929,298) | \$ - | \$ - | \$ 37,433,674 |

| | Water Department | | | | Balance December 31, 2012 |
|-------------------------------|---------------------------------|--------------------|-------------|-------------|---------------------------------|
| | Balance December 31, 2011 | Additions | Deletions | Transfers | |
| | Land and improvements | \$ 1,339,147 | \$ - | \$ - | |
| Production plants | 1,370,006 | - | - | - | 1,370,006 |
| Transmission and distribution | 21,883,929 | 160,407 | - | - | 22,044,336 |
| General plant | 1,391,101 | 4,658 | - | 35,639 | 1,431,398 |
| Construction in progress | 35,639 | 375,060 | - | (35,639) | 375,060 |
| | 26,019,822 | 540,125 | - | - | 26,559,947 |
| Less accumulated depreciation | (5,817,137) | (571,135) | - | - | (6,388,272) |
| Total | \$ 20,202,685 | \$ (31,010) | \$ - | \$ - | \$ 20,171,675 |

The following is a summary of capital assets at December 31, 2011:

| | Electric Department | | | | Balance December 31, 2011 |
|-------------------------------|---------------------------------|-----------------------|--------------------|-------------|---------------------------------|
| | Balance December 31, 2010 | Additions | Deletions | Transfers | |
| | Land and improvements | \$ 488,728 | \$ - | \$ - | |
| Production plants | 48,163,949 | - | - | - | 48,163,949 |
| Transmission and distribution | 37,559,773 | 14,269 | (259,992) | 235,128 | 37,549,178 |
| General plant | 815,090 | - | - | 5,344,453 | 6,159,543 |
| Construction in progress | 5,991,663 | 54,952 | - | (5,579,581) | 467,034 |
| | 93,019,203 | 69,221 | (259,992) | - | 92,828,432 |
| Less accumulated depreciation | (52,749,619) | (1,961,511) | 245,670 | - | (54,465,460) |
| Total | \$ 40,269,584 | \$ (1,892,290) | \$ (14,322) | \$ - | \$ 38,362,972 |

6. CAPITAL ASSETS (cont.)

| | Water Department | | | | Balance December 31, 2011 |
|-------------------------------|---------------------------------|-------------------|-------------|-------------|---------------------------------|
| | Balance December 31, 2010 | Additions | Deletions | Transfers | |
| Land and improvements | \$ 1,339,147 | \$ - | \$ - | \$ - | \$ 1,339,147 |
| Production plants | 1,281,318 | - | - | 88,688 | 1,370,006 |
| Transmission and distribution | 12,680,697 | - | - | 9,203,232 | 21,883,929 |
| General plant | 39,152 | 1,040,552 | (10,869) | 322,266 | 1,391,101 |
| Construction in progress | 9,643,731 | 6,094 | - | (9,614,186) | 35,639 |
| | 24,984,045 | 1,046,646 | (10,869) | - | 26,019,822 |
| Less accumulated depreciation | (5,302,560) | (525,446) | 10,869 | - | (5,817,137) |
| Total | <u>\$ 19,681,485</u> | <u>\$ 521,200</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 20,202,685</u> |

Depreciation expense for the year ended December 31, 2012 for the electric and water departments are \$2,014,581 and \$571,135 respectively, as illustrated in the following table:

| | Electric Department | | | Accumulated Depreciation December 31, 2012 |
|-------------------------------|---|---------------------|-------------------------|---|
| | Accumulated Depreciation December 31, 2011 | Additions | Transfers/ Deletions | |
| Production plants | \$ 29,748,223 | \$ 912,879 | \$ (38,316) | \$ 30,622,786 |
| Transmission and distribution | 24,028,102 | 905,500 | (16,674) | 24,916,928 |
| General plant | 689,135 | 196,202 | - | 885,337 |
| | <u>\$ 54,465,460</u> | <u>\$ 2,014,581</u> | <u>\$ (54,990)</u> | <u>\$ 56,425,051</u> |

| | Water Department | | | Accumulated Depreciation December 31, 2012 |
|-------------------------------|---|-------------------|-------------|---|
| | Accumulated Depreciation December 31, 2011 | Additions | Deletions | |
| Production plants | \$ 1,183,803 | \$ 5,767 | \$ - | \$ 1,189,570 |
| Transmission and distribution | 4,590,434 | 523,098 | - | 5,113,532 |
| General plant | 42,900 | 42,270 | - | 85,170 |
| | <u>\$ 5,817,137</u> | <u>\$ 571,135</u> | <u>\$ -</u> | <u>\$ 6,388,272</u> |

6. CAPITAL ASSETS (cont.)

Depreciation expense for the year ended December 31, 2011 for the electric and water departments are \$1,961,511 and \$525,446, respectively, as illustrated in the following table:

| | Electric Department | | | Accumulated Depreciation December 31, 2011 |
|-------------------------------|---|---------------------|-------------------------|---|
| | Accumulated Depreciation December 31, 2010 | Additions | Transfers/ Deletions | |
| | Production plants | \$ 28,866,402 | \$ 881,821 | |
| Transmission and distribution | 23,190,612 | 977,062 | (139,572) | 24,028,102 |
| General plant | 692,605 | 102,628 | (106,098) | 689,135 |
| | <u>\$ 52,749,619</u> | <u>\$ 1,961,511</u> | <u>\$ (245,670)</u> | <u>\$ 54,465,460</u> |

| | Water Department | | | Accumulated Depreciation December 31, 2011 |
|-------------------------------|---|-------------------|--------------------|---|
| | Accumulated Depreciation December 31, 2010 | Additions | Deletions | |
| | Production plants | \$ 1,157,077 | \$ 26,726 | |
| Transmission and distribution | 4,110,266 | 480,168 | - | 4,590,434 |
| General plant | 35,217 | 18,552 | (10,869) | 42,900 |
| | <u>\$ 5,302,560</u> | <u>\$ 525,446</u> | <u>\$ (10,869)</u> | <u>\$ 5,817,137</u> |

7. INDUSTRIAL DEVELOPMENT PROPERTY

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

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 electric department and 125% for the water department of the maximum annual debt service due on the outstanding bonds. As of December 31, 2012, the BPU exceeded this coverage requirement by \$6,000,000 and \$648,000 for electric and water debt, respectively. As of December 31, 2011, the BPU exceeded this coverage requirement by \$4,600,000 and \$789,000, for electric and water debt, respectively. All of the BPU's utility plant facilities are pledged under the terms of the ordinances. The BPU was in compliance with all other requirements of the revenue bond ordinances at December 31, 2012 and 2011.

On October 1, 2012, the BPU called Series 2007 City of McPherson, Kansas, Water System Refunding Revenue Bonds year 2013 to 2027 maturities totaling \$11,085,000. The bonds were called with current funds, saving approximately \$2,983,516 in future interest payments. This transaction resulted in a bond call gain of \$279,494.

8 REVENUE BONDS (cont.)

In July, 2012, the BPU issued \$11,085,000 of Water System Refunding Revenue Bonds, Series 2012 to current refund the remaining Series 2007 Water Revenue Bonds. The BPU has followed the provisions of Governmental Accounting Standards Board (GASB) Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$27,263. This difference, reported in the accompanying combined financial statements as a deduction from long-term debt is being charged to interest expense over the remaining life of the refunded debt using the straight-line method in accordance with the requirements of GASB No. 23. The refunding decreased the BPU's aggregate debt service payments by approximately \$2,983,516 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$1,677,100. The refunding lowered the annual debt service requirements and thereby reduced the need for a possible rate increase in the near future.

On September 1, 2011, the BPU called Series 2004 City of McPherson, Kansas, Electric Utility System Refunding Revenue Bonds year 2021 to 2024 maturities totaling \$6,185,000. The bonds were called with current funds, saving approximately \$3,208,925 in future interest payments. Electric fund debt was reduced by \$6,185,000 by this transaction. This transaction resulted in a bond call loss of \$452,130.

In October, 2011, the BPU issued \$5,445,000 of Electric Utility System Refunding Revenue Bonds, Series 2011 and contributed \$1,750,000, to current refund the remaining Series 2004 Electric Revenue Bonds. Per Board approval, the cash contributed was taken from the Reserved Retained Earnings of Long Range Electric Supplies. The proceeds were also used to pay the costs of issuance and any required additional deposit to the Bond Reserve Account. The BPU has followed the provisions of Governmental Accounting Standards Board (GASB) Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1,183,534. This difference, reported in the accompanying combined financial statements as a deduction from long-term debt is being charged to interest expense over the remaining life of the refunded debt using the straight-line method in accordance with the requirements of GASB No. 23. The refunding decreased the BPU's aggregate debt service payments by approximately \$937,708 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$566,281. The refunding lowered the annual debt service requirements and thereby reduced the need for a possible rate increase in the near future.

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

| <u>SCHEDULE OF INDEBTEDNESS</u> | | | | | | |
|--|------------------------------|------------------|------------|----------------------|----------------------|----------------------------------|
| | Original Amount Issued | Interest Rate | Maturity | Water 12-31-12 | Electric 12-31-12 | Total Outstanding 12-31-12 |
| Water Utility System | | | | | | |
| Refunding and Improvement Revenue Bonds, Series 2012 | \$ 11,085,000 | 2.00 to 4.00% | 10-01-2027 | \$ 11,085,000 | \$ - | \$ 11,085,000 |
| Electric Utility System | | | | | | |
| Refunding and Improvement Revenue Bonds, Series 2011 | \$ 5,445,000 | 3.00 to 4.00% | 09-20-2020 | - | 4,890,000 | 4,890,000 |
| | | | | 11,085,000 | 4,890,000 | 15,975,000 |
| Less Unamortized Loss on Advance Refunding | | | | (26,369) | (1,033,719) | (1,060,088) |
| | | | | 11,058,631 | 3,856,281 | 14,914,912 |
| Less Current Maturities | | | | (520,000) | (550,000) | (1,070,000) |
| Long-Term Portion of Bonds Payable | | | | <u>\$ 10,538,631</u> | <u>\$ 3,306,281</u> | <u>\$ 13,844,912</u> |

8. REVENUE BONDS (cont.)

SUMMARY OF CHANGES IN LONG-TERM DEBT

| | Outstanding 12-31-11 | Issued | Retired | Refunding | Outstanding 12-31-12 |
|-------------------------------------|-------------------------|----------------------|-------------------|----------------------|-------------------------|
| Water Utility System | | | | | |
| Series 2007 | \$ 11,915,000 | \$ - | \$ 550,000 | \$ 11,365,000 | \$ - |
| Series 2012 | - | 11,085,000 | - | - | 11,085,000 |
| Electric Utility System | | | | | |
| Series 2011 | 5,445,000 | - | 555,000 | - | 4,890,000 |
| | 17,360,000 | 11,085,000 | 1,105,000 | 11,365,000 | 15,975,000 |
| Less unamortized loss on refundings | (1,190,858) | - | (130,770) | - | (1,060,088) |
| Total | \$ 16,169,142 | \$ 11,085,000 | \$ 974,230 | \$ 11,365,000 | \$ 14,914,912 |

| | Outstanding 12-31-10 | Issued | Retired | Refunding | Outstanding 12-31-11 |
|-------------------------------------|-------------------------|---------------------|---------------------|---------------------|-------------------------|
| Water Utility System | | | | | |
| Series 2007 | \$ 12,445,000 | \$ - | \$ 530,000 | \$ - | \$ 11,915,000 |
| Electric Utility System | | | | | |
| Series 2004 | 13,725,000 | - | 6,435,000 | 7,290,000 | - |
| Series 2011 | - | 5,445,000 | - | - | 5,445,000 |
| | 26,170,000 | 5,445,000 | 6,965,000 | 7,290,000 | 17,360,000 |
| Less unamortized loss on refundings | (1,586,595) | - | (395,737) | - | (1,190,858) |
| Total | \$ 24,583,405 | \$ 5,445,000 | \$ 6,569,263 | \$ 7,290,000 | \$ 16,169,142 |

| Years Ending December 31, | 2012 WATER ISSUE | | | 2011 ELECTRIC ISSUE | | |
|---------------------------------|----------------------|---------------------|----------------------|------------------------|-------------------|---------------------|
| | Bonds | Interest | Total | Bonds | Interest | Total |
| 2013 | \$ 520,000 | \$ 431,156 | \$ 951,156 | \$ 550,000 | \$ 161,675 | \$ 711,675 |
| 2014 | 610,000 | 337,618 | 947,618 | 565,000 | 145,175 | 710,175 |
| 2015 | 625,000 | 325,419 | 950,419 | 580,000 | 128,225 | 708,225 |
| 2016 | 640,000 | 312,919 | 952,919 | 600,000 | 110,825 | 710,825 |
| 2017 | 665,000 | 287,319 | 952,319 | 615,000 | 92,825 | 707,825 |
| 2018 - 2022 | 3,660,000 | 1,108,606 | 4,768,606 | 1,980,000 | 153,925 | 2,133,925 |
| 2023 - 2027 | 4,365,000 | 420,863 | 4,785,863 | - | - | - |
| Total | \$ 11,085,000 | \$ 3,223,900 | \$ 14,308,900 | \$ 4,890,000 | \$ 792,650 | \$ 5,682,650 |

9. 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 2011 to 2012 and there were no settlements that exceeded insurance coverage in the past three years.

10. 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 and September 1978, 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 system available to Westar Energy at all times. In April, 2010 the contract was amended to extend the contract 12 years to 2039 and also agreed to begin paying transmission charges based on a Federal Energy Regulatory Commission approved formula tariff.

11. 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 per kilowatt hours sold for the years ended December 31, 2012 and 2011. Payments to the City from the water department are calculated at \$.06 per thousand gallons of water sold for the years ended December 31, 2012 and 2011. The BPU was required to remit \$1,550,000 and \$1,522,000 in 2012 and 2011 from the electric department. The BPU was required to remit \$76,500 and \$80,300 in 2012 and 2011 from the water department. Payments are made quarterly and are deemed to be payments in lieu of taxes.

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

12. 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.

13. EMPLOYEES' RETIREMENT 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. KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available 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.

Funding Policy. K.S.A. 74-4919 and K.S.A 74-49,210 establish the KPERs member-employee contribution rates. Effective July 1, 2009, KPERs has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Kansas law establishes the KPERs member-employer contribution rate at 4% of covered salary for Tier 1 members and 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The BPU employer contributions to KPERs for the years ending December 31, 2012, 2011, and 2010 were \$406,388, \$365,494 and \$329,622, respectively, equal to the required contributions for each year.

14. PRINCIPAL CUSTOMERS

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

| | 2012 | | | |
|--------------------------------------|----------------------|------------------------|----------------|----------------------|
| | Sales | Percent of Total Sales | KWH (000) | Percent of Total KWH |
| National Cooperative Refinery Assoc. | \$ 15,206,907 | 33.7% | 347,585 | 39.2% |
| Johns Manville Corp. | 6,271,993 | 13.9% | 143,136 | 16.1% |
| Hospira | 2,147,503 | 4.8% | 46,715 | 5.3% |
| Certainteed Corp. | 1,568,370 | 3.5% | 32,894 | 3.7% |
| Moundridge City | 1,696,265 | 3.8% | 30,178 | 3.4% |
| Total | <u>\$ 26,891,038</u> | <u>59.5%</u> | <u>600,508</u> | <u>67.7%</u> |

| | 2011 | | | |
|--------------------------------------|----------------------|------------------------|----------------|----------------------|
| | Sales | Percent of Total Sales | KWH (000) | Percent of Total KWH |
| National Cooperative Refinery Assoc. | \$ 14,436,379 | 32.5% | 333,060 | 37.9% |
| Johns Manville Corp. | 6,147,038 | 13.9% | 136,419 | 15.5% |
| Hospira | 2,125,733 | 4.8% | 47,435 | 5.4% |
| Certainteed Corp. | 1,639,676 | 3.7% | 34,560 | 3.9% |
| Moundridge City | 1,583,585 | 3.6% | 30,605 | 3.5% |
| Total | <u>\$ 25,932,411</u> | <u>58.5%</u> | <u>582,079</u> | <u>66.3%</u> |

15. POSTEMPLOYMENT HEALTHCARE BENEFITS

(a) Plan Description

The BPU provides certain postemployment healthcare benefits to eligible retirees and their spouses in accordance with the provisions established by the BPU's Board of Directors. The plan is a single-employer defined benefit healthcare plan self-insured by the City and BPU and administrated by Blue Cross and Blue Shield of Kansas. The plan does not issue separate financial statements. Employees may elect to continue coverage paying 100% of the premium cost the day they retire. To qualify for retirement an employee must be either age 65 with one year of service credit, be age 62 with 10 years of service credit, or at any age when age and years of service equal 85 points. The retiree plan is a comprehensive major medical with a \$200 deductible per person or \$400 per family. The plan pays 80% of the next \$2,500 allowed charges per person or \$5,000 per family with 100% thereafter. The plan has an unlimited lifetime maximum. Benefits cease at the earlier date the retired employee attains age 65 or death. Retirees become ineligible for health insurance coverage when they qualify for coverage under another health insurance group. Spouse benefits end at the earlier of the date the spouse attains age 65, the date the employee attains age 65, or the spouse's death. There were 72 participants eligible to receive benefits under this plan as of the last valuation date, (December 31, 2011).

(b) Funding Policy

The contribution requirements of plan members and the BPU are established and can be amended by the BPU's board of directors. Contributions are made to the plan on a pay-as-you-go basis. For the years ended December 31, 2012 and 2011, the BPU paid \$9,294 and \$12,111, respectively, for retirees.

15. POSTEMPLOYMENT HEALTHCARE BENEFITS (cont.)

(b) Funding Policy (cont.)

The BPU annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation (asset) for 2012 and 2011 are as follows:

| Year Ended: | Annual OPEB Cost | Percentage of Annual OPEB Contributed | Net OPEB Obligation (Asset) |
|-------------------|------------------|---------------------------------------|-----------------------------|
| December 31, 2011 | \$ 36,105 | 34% | \$ (57,714) |
| December 31, 2012 | \$ 35,711 | 26% | \$ (31,297) |

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

| | 2012 | 2011 |
|---|--------------------|--------------------|
| Annual required contribution | \$ 35,711 | \$ 36,105 |
| Contributions made | <u>(9,294)</u> | <u>(12,111)</u> |
| Increase (decrease) in OPEB obligation | 26,417 | 23,994 |
| Net OPEB obligation (asset) - beginning of year | <u>(57,714)</u> | <u>(81,708)</u> |
| Net OPEB obligation (asset) - end of year | <u>\$ (31,297)</u> | <u>\$ (57,714)</u> |

(c) Funding Status and Funding Progress

The funded status of the plan as of the most recent valuation date (January 1, 2011) is as follows:

| | |
|---|--------------|
| Actuarial accrued liability (AAL) | \$ 327,118 |
| Actuarial value of plan assets | \$ - |
| Unfunded actuarial accrued liability (UAAL) | \$ 327,118 |
| Funded ratio | 0% |
| Covered payroll | \$ 4,692,680 |
| UAAL as a percentage of covered payroll | 7.0% |

(d) Actuarial Methods and Assumptions

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

15. POSTEMPLOYMENT HEALTHCARE BENEFITS (cont.)

(d) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include benefits provided at the time of each valuation and the historical pattern of sharing benefits costs between the employer and plan member to that point. The actuarial methods used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the January 1, 2011, actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 4.5% projected investment rate of return and an annual healthcare cost trend of 6.5% initially, reduced by decrements to an ultimate rate of 5.0% after four years. The projected salary increase is 3.0%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percent of payroll.

16. SUBSEQUENT EVENT

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

REQUIRED SUPPLEMENTARY INFORMATION

Board of Public Utilities - McPherson, Kansas

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress - Postemployment

As of the Latest Valuation Date
December 31, 2011
(Unaudited)

| <u>Actuarial Valuation Date, January 1</u> | <u>Actuarial Value of Assets</u> | <u>Actuarial Accrued Liability (AAL)</u> | <u>Funded Ratio</u> | <u>Unfunded (Overfunded) AAL (UAAL)</u> | <u>Covered Payroll</u> | <u>UAAL as a Percentage of Covered Payroll</u> |
|--|----------------------------------|--|---------------------|---|------------------------|--|
| 2011 | \$ - | \$ 327,118 | 0% | \$ 327,118 | \$ 4,692,680 | 7.0% |

ADDITIONAL INFORMATION

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION

December 31, 2012 and 2011

ASSETS

| | <u>Electric</u> | |
|--|----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 5,552,947 | \$ 4,771,406 |
| U.S. treasury securities | - | 3,095,445 |
| Kansas Municipal Investment Pool- certificates of deposit | 2,200,000 | 2,200,000 |
| Certificates of deposit | 14,200,000 | 7,170,000 |
| Accounts receivable, customer and other | 4,539,815 | 4,146,545 |
| Inventories | 2,212,889 | 1,705,047 |
| Accrued interest on investments | 6,141 | 5,777 |
| Postemployment benefit asset | <u>25,038</u> | <u>51,943</u> |
| Total current assets | <u>28,736,830</u> | <u>23,146,163</u> |
| Noncurrent assets | | |
| Restricted cash and cash equivalents | 470,344 | 443,215 |
| Restricted certificates of deposit | 1,650,000 | 1,680,000 |
| Capital Assets | | |
| Land | 498,990 | 488,728 |
| Buildings and equipment | 92,189,245 | 91,872,670 |
| Construction in process | 1,170,490 | 467,034 |
| Less accumulated depreciation | (56,425,051) | (54,465,460) |
| Industrial development property, at cost | 713,176 | 711,740 |
| Bond issue costs, net | 103,536 | 117,040 |
| Other Assets | <u>12,500</u> | <u>12,500</u> |
| Total noncurrent assets | <u>40,383,230</u> | <u>41,327,467</u> |
| TOTAL ASSETS | <u>\$ 69,120,060</u> | <u>\$ 64,473,630</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION
December 31, 2012 and 2011

LIABILITIES AND NET POSITION

| | <u>Electric</u> | |
|---|----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 3,606,762 | \$ 3,098,143 |
| Current maturities of revenue bonds | 550,000 | 555,000 |
| Accrued interest on revenue bonds | 53,892 | 45,572 |
| Customer meter and other deposits | 357,268 | 402,489 |
| Self-insurance claims payable | 37,406 | 45,281 |
| Accrued payroll | 561,030 | 518,674 |
| Accrued interest on customer meter deposits | <u>3,275</u> | <u>3,882</u> |
| Total current liabilities | 5,169,633 | 4,669,041 |
| Long-term debt - revenue bonds | | |
| Principal | <u>3,306,281</u> | <u>3,736,429</u> |
| TOTAL LIABILITIES | <u>8,475,914</u> | <u>8,405,470</u> |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 34,230,929 | 34,743,583 |
| Restricted for debt service | 1,705,909 | 1,671,272 |
| Unrestricted | <u>24,707,308</u> | <u>19,653,305</u> |
| TOTAL NET POSITION | <u>60,644,146</u> | <u>56,068,160</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 69,120,060</u> | <u>\$ 64,473,630</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the Years Ended December 31, 2012 and 2011

| | <u>Electric</u> | |
|---|----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| OPERATING REVENUE | | |
| Electric | | |
| Metered sales | \$ 45,017,421 | \$ 44,123,486 |
| Street lighting | 179,814 | 195,163 |
| Sales to interconnection | <u>3,646,487</u> | <u>3,457,085</u> |
| Total operating revenue | <u>48,843,722</u> | <u>47,775,734</u> |
| OPERATING EXPENSE | | |
| Fuel | 669,319 | 438,228 |
| Purchased power | 33,506,208 | 32,219,448 |
| Production | 2,298,348 | 2,294,854 |
| Distribution and transmission | 3,577,538 | 3,812,590 |
| Administrative and general | 1,794,346 | 1,906,854 |
| Payments to City of McPherson | 1,550,000 | 1,522,000 |
| Depreciation and amortization | <u>2,028,086</u> | <u>1,987,234</u> |
| Total operating expense | <u>45,423,845</u> | <u>44,181,208</u> |
| OPERATING INCOME | <u>3,419,877</u> | <u>3,594,526</u> |
| NONOPERATING INCOME (EXPENSE) | | |
| Interest income | 56,432 | 90,930 |
| Revenues from merchandising, jobbing and contract work and miscellaneous income | 348,236 | 113,669 |
| Less cost of merchandising | (83,592) | (37,430) |
| Sale of Kansas historical tax credits | 1,008,454 | - |
| Refuse collection and sewer service fees | 59,227 | 65,141 |
| Penalties, earned discounts and other | 61,019 | 54,604 |
| Farm rents, net of expense | (3,467) | (2,815) |
| Net increase (decrease) in fair value of investments | (4,508) | 4,508 |
| Gain (loss) on disposal of assets | - | 22,372 |
| Gain (loss) on extinguishment of debt | - | (452,130) |
| Interest on debt | <u>(285,692)</u> | <u>(552,467)</u> |
| Total nonoperating income (expense) | <u>1,156,109</u> | <u>(693,618)</u> |
| CHANGES IN NET POSITION | 4,575,986 | 2,900,908 |
| TOTAL NET POSITION, BEGINNING OF YEAR | <u>56,068,160</u> | <u>53,167,252</u> |
| TOTAL NET POSITION, END OF YEAR | <u>\$ 60,644,146</u> | <u>\$ 56,068,160</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

| | <u>Electric</u> | |
|---|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 49,923,921 | \$ 47,231,818 |
| Payments to suppliers | (36,511,426) | (35,105,962) |
| Payments to employees | (5,401,591) | (5,140,794) |
| Other receipts (payments) | <u>(1,550,000)</u> | <u>(1,522,000)</u> |
| Net cash provided from (used in) operating activities | <u>6,460,904</u> | <u>5,463,062</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of property, plant and equipment | (1,085,283) | (55,622) |
| Proceeds from sale of equipment | - | 23,095 |
| Purchase of industrial development property | (1,436) | - |
| Proceeds from issuance of bonds | - | 5,445,000 |
| Principal payments on bonds | (555,000) | (13,725,000) |
| Payment of bond issue costs | - | (119,291) |
| Loss on refunding issue | - | 675,278 |
| Interest paid on debt | <u>(157,520)</u> | <u>(588,237)</u> |
| Net cash provided from (used in) capital and related financing activities | <u>(1,799,239)</u> | <u>(8,344,777)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (17,050,047) | (19,592,253) |
| Proceeds from sale or maturity of investments | 13,140,984 | 22,351,613 |
| Interest received | <u>56,068</u> | <u>111,029</u> |
| Net cash provided from (used in) investing activities | <u>(3,852,995)</u> | <u>2,870,389</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 808,670 | (11,326) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>5,214,621</u> | <u>5,225,947</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 6,023,291</u> | <u>\$ 5,214,621</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2012 and 2011

| | <u>Electric</u> | |
|---|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income | \$ 3,419,877 | \$ 3,594,526 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,028,085 | 1,987,235 |
| Other nonoperating income | 1,389,877 | (232,081) |
| (Gain) loss on disposal of fixed assets | - | (22,372) |
| Realized/unrealized (gain) loss on investments | - | (4,805) |
| Changes in: | | |
| Accounts and notes receivable | (393,270) | (774,238) |
| Inventories | (507,842) | (28,703) |
| Accounts payable | 508,619 | 900,276 |
| Accrued expenses | 33,874 | 18,437 |
| Postemployment benefit asset | 26,905 | 21,594 |
| Customer meter deposits | (45,221) | 3,193 |
| Net cash provided from operating activities | <u>\$ 6,460,904</u> | <u>\$ 5,463,062</u> |
| NONCASH FINANCING ACTIVITIES | | |
| Bond cost write-off on defeased debt | \$ - | \$ 399,038 |
| Amortization of defeased bond costs | 119,852 | 114,737 |
| Loss on extinguishment of debt | - | 452,130 |
| Loss on advance refunding of debt | - | 675,278 |
| Total noncash financing activities | <u>\$ 119,852</u> | <u>\$ 1,641,183</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION

December 31, 2012 and 2011

ASSETS

| | <u>Water</u> | |
|---|----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,789,570 | \$ 3,088,993 |
| Certificates of deposit | 6,390,788 | 4,675,000 |
| Accounts receivable, customer and other | 479,117 | 468,758 |
| Inventories | 289,394 | 325,322 |
| Accrued interest on investments | 3,811 | 4,777 |
| Postemployment benefit asset | <u>6,259</u> | <u>5,771</u> |
| Total current assets | <u>8,958,939</u> | <u>8,568,621</u> |
| Noncurrent assets | | |
| Restricted cash and cash equivalents | 71,893 | 49,670 |
| Restricted certificates of deposit | 1,399,548 | 1,408,136 |
| Capital Assets | | |
| Land | 1,339,147 | 1,339,147 |
| Buildings and equipment | 24,845,740 | 24,645,036 |
| Construction in process | 375,060 | 35,639 |
| Less accumulated depreciation | (6,388,272) | (5,817,137) |
| Bond issue costs, net | <u>145,542</u> | <u>316,653</u> |
| Total noncurrent assets | <u>21,788,658</u> | <u>21,977,144</u> |
| TOTAL ASSETS | <u>\$ 30,747,597</u> | <u>\$ 30,545,765</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF NET POSITION
December 31, 2012 and 2011

LIABILITIES AND NET POSITION

| | <u>Water</u> | |
|--|----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable | \$ 45,367 | \$ 33,966 |
| Current maturities of revenue bonds | 520,000 | 550,000 |
| Accrued interest on revenue bonds | 171,432 | 120,148 |
| Self-insurance claims payable | 5,344 | 6,469 |
| Accrued payroll | 64,709 | 63,631 |
| Due to City of McPherson | <u>252,504</u> | <u>230,089</u> |
| Total current liabilities | 1,059,356 | 1,004,303 |
| Long-term debt - revenue bonds | | |
| Principal | 10,538,631 | 11,327,713 |
| Other liabilities | | |
| Water meter advances | <u>180,262</u> | <u>89,979</u> |
| TOTAL LIABILITIES | <u>11,778,249</u> | <u>12,421,995</u> |
| NET POSITION | | |
| Invested in capital assets, net of related debt | 10,737,800 | 10,235,126 |
| Restricted for debt service | 340,797 | 294,157 |
| Unrestricted | <u>7,890,751</u> | <u>7,594,487</u> |
| TOTAL NET POSITION | <u>18,969,348</u> | <u>18,123,770</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 30,747,597</u> | <u>\$ 30,545,765</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION

For the Years Ended December 31, 2012 and 2011

| | <u>Water</u> | |
|--|----------------------|----------------------|
| | <u>2012</u> | <u>2011</u> |
| OPERATING REVENUE | | |
| Water | | |
| Sale of water | \$ 3,579,516 | \$ 3,744,528 |
| Total operating revenue | <u>3,579,516</u> | <u>3,744,528</u> |
| OPERATING EXPENSE | | |
| Production | 773,972 | 541,454 |
| Distribution and transmission | 859,373 | 828,212 |
| Administrative and general | 454,894 | 414,784 |
| Depreciation and amortization | <u>585,964</u> | <u>545,237</u> |
| Total operating expense | <u>2,674,203</u> | <u>2,329,687</u> |
| OPERATING INCOME | <u>905,313</u> | <u>1,414,841</u> |
| NONOPERATING INCOME (EXPENSE) | | |
| Interest income | 45,281 | 64,116 |
| Revenues from merchandising, jobbing and contract work and miscellaneous income | 71,767 | 69,109 |
| Less cost of merchandising | (20,159) | (9,638) |
| Sale of Kansas historical tax credits | 252,113 | - |
| Refuse collection and sewer service fees | 14,809 | 14,752 |
| Farm rents, net of expense | 58,864 | 59,274 |
| Interest on debt | <u>(405,910)</u> | <u>(498,868)</u> |
| Total nonoperating income (expense) | <u>16,765</u> | <u>(301,255)</u> |
| INCOME BEFORE OPERATING TRANSFER | 922,078 | 1,113,586 |
| TRANSFER: PAYMENTS IN LIEU OF TAXES | <u>(76,500)</u> | <u>(80,300)</u> |
| CHANGES IN NET POSITION | 845,578 | 1,033,286 |
| TOTAL NET POSITION, BEGINNING OF YEAR | <u>18,123,770</u> | <u>17,090,484</u> |
| TOTAL NET POSITION, END OF YEAR | <u>\$ 18,969,348</u> | <u>\$ 18,123,770</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

| | Water | |
|---|---------------------|---------------------|
| | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from customers | \$ 3,968,818 | \$ 3,875,942 |
| Payments to suppliers | (982,744) | (703,665) |
| Payments to employees | (966,162) | (1,105,118) |
| Other receipts (payments) | (78,608) | (80,300) |
| | <u>1,941,304</u> | <u>1,986,859</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchase of property, plant and equipment | (540,125) | (1,046,646) |
| Proceeds from sale of bonds | 11,085,000 | - |
| Principal payments on bonds | (11,915,000) | (530,000) |
| Payments to trustee to defease bonds | (122,404) | - |
| Payment of bond issue costs | (150,476) | - |
| Proceeds from bond premium | 436,806 | - |
| Interest paid on debt | (351,352) | (498,612) |
| | <u>(1,557,551)</u> | <u>(2,075,258)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (7,190,336) | (5,907,844) |
| Proceeds from sale or maturity of investments | 5,483,136 | 5,906,458 |
| Interest received | 46,247 | 67,154 |
| | <u>(1,660,953)</u> | <u>65,768</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | <u>(1,277,200)</u> | <u>(22,631)</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>3,138,663</u> | <u>3,161,294</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 1,861,463</u> | <u>\$ 3,138,663</u> |

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

| | <u>Water</u> | |
|---|---------------------|---------------------|
| | <u>2012</u> | <u>2011</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating income less payments in lieu of taxes | \$ 826,705 | \$ 1,334,541 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 585,964 | 545,237 |
| Other nonoperating income | 379,502 | 133,496 |
| Changes in: | | |
| Accounts and notes receivable | (10,359) | (11,720) |
| Inventories | 35,928 | (52,932) |
| Accounts payable | 11,402 | (6,618) |
| Accrued expenses | 22,368 | 27,042 |
| Postemployment benefit asset | (488) | 2,400 |
| Water meter advances | <u>90,282</u> | <u>15,413</u> |
| Net cash provided from operating activities | <u>\$ 1,941,304</u> | <u>\$ 1,986,859</u> |
| NONCASH FINANCING ACTIVITIES | | |
| Amortization of defeased bond costs | <u>\$ 3,274</u> | <u>\$ 4,760</u> |

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

| Fiscal Year | Operating Revenues | Operating Expenses | Operating Income | Nonoperating Income (Expense) | Change in Net Assets |
|----------------|-----------------------|-----------------------|---------------------|-------------------------------------|----------------------------|
| 2008 | \$ 38,582,080 | \$ 37,042,465 | \$ 1,539,615 | \$ 577,281 | \$ 2,116,896 |
| 2009 | 37,450,488 | 36,009,938 | 1,440,550 | 31,711 | 1,472,261 |
| 2010 | 39,037,181 | 38,592,700 | 444,481 | (286,564) | 157,917 |
| 2011 | 47,775,734 | 44,181,208 | 3,594,526 | (693,618) | 2,900,908 |
| 2012 | 48,843,722 | 45,423,845 | 3,419,877 | 1,156,109 | 4,575,986 |

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

| <u>Fiscal Year</u> | <u>Fuel</u> | <u>Purchased Power</u> | <u>Production</u> | <u>Distribution and Transmission</u> | <u>Administrative and General</u> | <u>Payment to City of McPherson</u> | <u>Depreciation and Amortization</u> | <u>Total Operating Expense</u> |
|--------------------|--------------|------------------------|-------------------|--------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------|--------------------------------|
| 2008 | \$ 1,660,246 | \$ 25,323,931 | \$ 1,860,585 | \$ 3,120,392 | \$ 1,771,489 | \$ 1,325,000 | \$ 1,980,822 | \$ 37,042,465 |
| 2009 | 838,736 | 24,740,416 | 1,838,668 | 3,358,130 | 1,898,398 | 1,325,000 | 2,010,590 | 36,009,938 |
| 2010 | 447,920 | 26,459,806 | 2,981,164 | 3,431,329 | 1,789,860 | 1,445,000 | 2,037,621 | 38,592,700 |
| 2011 | 438,228 | 32,219,448 | 2,294,854 | 3,812,590 | 1,906,854 | 1,522,000 | 1,987,234 | 44,181,208 |
| 2012 | 669,319 | 33,506,208 | 2,298,348 | 3,577,538 | 1,794,346 | 1,550,000 | 2,028,086 | 45,423,845 |

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

| <u>Fiscal Year</u> | <u>Operating Revenues</u> | <u>Operating Expenses</u> | <u>Operating Income</u> | <u>Nonoperating Income (Expense)</u> | <u>Income Before Operating transfers</u> | <u>Transfers</u> | <u>Change in Fund Net Position</u> |
|--------------------|---------------------------|---------------------------|-------------------------|--------------------------------------|--|------------------|------------------------------------|
| 2008 | \$ 3,179,923 | \$ 1,458,203 | \$ 1,721,720 | \$ 353,816 | \$ 2,075,536 | \$ (32,000) | \$ 2,043,536 |
| 2009 | 3,039,357 | 1,479,091 | 1,560,266 | 135,271 | 1,695,537 | (46,000) | 1,649,537 |
| 2010 | 3,472,352 | 1,692,166 | 1,780,186 | 87,741 | 1,867,927 | (72,500) | 1,795,427 |
| 2011 | 3,744,528 | 2,329,687 | 1,414,841 | (301,255) | 1,113,586 | (80,300) | 1,033,286 |
| 2012 | 3,579,516 | 2,674,203 | 905,313 | 16,765 | 922,078 | (76,500) | 845,578 |

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

| <u>Fiscal Year</u> | <u>Production</u> | <u>Distribution and Transmission</u> | <u>Administrative and General</u> | <u>Depreciation and Amortization</u> | <u>Total Operating Expense</u> |
|------------------------|-------------------|--|---|--|--|
| 2008 | \$ 274,545 | \$ 635,649 | \$ 250,471 | \$ 297,538 | \$ 1,458,203 |
| 2009 | 261,764 | 678,228 | 227,885 | 311,214 | 1,479,091 |
| 2010 | 399,435 | 761,913 | 207,751 | 323,067 | 1,692,166 |
| 2011 | 541,454 | 828,212 | 414,784 | 545,237 | 2,329,687 |
| 2012 | 773,972 | 859,373 | 454,894 | 585,964 | 2,674,203 |

**ADDITIONAL INFORMATION
(UNAUDITED)**

Board of Public Utilities - McPherson, Kansas

**COMMENTS AND OPERATING STATISTICS
(UNAUDITED)**

| <u>Electric Utility:</u> | <u>2012</u> | <u>2011</u> | <u>Difference Inc. (Dec.)</u> | <u>Percent Inc. (Dec.)</u> |
|--|----------------------|----------------------|-----------------------------------|--------------------------------|
| Kilowatt hours (in thousands) - | | | | |
| Gross generation KWH | 7,710 | 5,057 | 2,653 | 52.46% |
| Purchased from KPL | <u>903,910</u> | <u>896,496</u> | <u>7,414</u> | 0.83% |
| Total generated and purchased | <u>911,620</u> | <u>901,553</u> | <u>10,067</u> | 1.12% |
| Station power generated | 46 | 29 | 17 | 58.62% |
| Sales KWH (000) - | | | | |
| Residential | 67,332 | 71,542 | (4,210) | -5.88% |
| Commercial | 92,060 | 95,666 | (3,606) | -3.77% |
| Industrial | 661,511 | 642,553 | 18,958 | 2.95% |
| Rural | 22,904 | 25,215 | (2,311) | -9.17% |
| Wholesale | 36,540 | 37,147 | (607) | -1.63% |
| Street lighting | 3,017 | 3,033 | (16) | -0.53% |
| Water utility | 3,226 | 3,103 | 123 | 3.96% |
| KPL sales | <u>7,664</u> | <u>5,029</u> | <u>2,635</u> | 52.40% |
| Total sales and station power | <u>894,300</u> | <u>883,317</u> | <u>10,983</u> | 1.24% |
| System losses | <u>17,320</u> | <u>18,236</u> | <u>(916)</u> | -5.02% |
| Total customers served (2012 - 8547; 2011 - 8,526) | | | | |
| Operating revenue - | | | | |
| Residential | \$ 4,551,975 | \$ 4,652,972 | | |
| Commercial | 6,544,208 | 6,460,137 | | |
| Industrial | 30,116,930 | 29,242,291 | | |
| Rural | 1,437,344 | 1,523,127 | | |
| Wholesale | 2,090,614 | 1,978,014 | | |
| Street lighting | 185,094 | 200,471 | | |
| Water utility | 201,610 | 190,220 | | |
| KPL interconnection | 3,646,487 | 3,457,085 | | |
| Light rental | <u>69,460</u> | <u>71,417</u> | | |
| Total | <u>\$ 48,843,722</u> | <u>\$ 47,775,734</u> | | |

The electric department's operations may be separated into two segments. In accordance with a contract entered into with Kansas Power and Light in 1972, the department purchases all of its energy requirements from KPL for resale to its retail and wholesale customers. In return, the BPU is obligated to sell all of the System's energy production to KPL. 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 KPL, are segregated between customers inside and outside a three mile limit from the City. Those sales outside the three mile limit are reported to the Kansas Corporation Commission and such sales approximated 7.80% of total sales in 2012. Expenses attributable to such sales are allocated on the same percentage as sales.

Water Utility:

The water department serves 5,069 residential, 644 commercial and various other city and wholesale customers. Water pumped in 2012 was 1,382,331,800 gallons which was approximately 3.35% less than 2011. Gross revenue decreased 4% from the prior year.

INFORMATION CONCERNING THE ELECTRIC UTILITY SYSTEM

THE SYSTEM

Description of the Existing Facilities of the System

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

The System's total generating capacity is 235.4 MW, and its firm generating capability is 207.2 MW, allowing for reserves to match the current requirements by the Southwest Power Pool.

Distribution System

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

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

Customers, Sales and Revenues

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

Customers, Sales and Revenue by Customer Classification

| Year | Residential | | | Commercial | | |
|------|------------------|-------------|---------------|------------------|-------------|--------------|
| | Customers Served | Sales (kWh) | Revenue | Customers Served | Sales (kWh) | Revenue |
| 2007 | 7,137 | 89,865,477 | \$ 4,337,665 | 1,314 | 94,713,221 | \$ 4,739,268 |
| 2008 | 7,132 | 87,565,241 | 4,431,673 | 1,321 | 94,011,067 | 4,934,507 |
| 2009 | 7,135 | 87,391,341 | 4,414,856 | 1,326 | 91,776,704 | 4,862,605 |
| 2010 | 7,162 | 95,391,812 | 4,948,541 | 1,324 | 97,067,152 | 5,255,302 |
| 2011 | 7,115 | 96,757,647 | 6,216,564 | 1,391 | 95,665,783 | 6,460,137 |
| 2012 | 7,125 | 90,236,476 | 5,836,752 | 1,402 | 92,059,587 | 6,771,513 |
| | | | | | | |
| Year | Industrial | | | Wholesale | | |
| | Customers Served | Sales (kWh) | Revenue | Customers Served | Sales (kWh) | Revenue |
| 2007 | 17 | 610,988,240 | \$ 20,963,464 | 2 | 35,078,100 | \$ 1,489,429 |
| 2008 | 18 | 613,102,200 | 22,503,243 | 2 | 35,250,900 | 1,587,640 |
| 2009 | 17 | 610,536,708 | 22,384,586 | 2 | 32,986,800 | 1,486,380 |
| 2010 | 17 | 603,196,240 | 23,316,311 | 2 | 36,261,000 | 1,641,590 |
| 2011 | 18 | 642,553,360 | 29,242,291 | 2 | 37,147,200 | 1,978,014 |
| 2012 | 18 | 661,511,420 | 30,116,930 | 2 | 36,539,700 | 2,090,614 |

Customers, Sales and Revenues (Cont.)

| Total (Residential, Commercial, Industrial & Wholesale) | | | |
|---|--------|-------------|---------------|
| Customers | | | |
| Year | Served | Sales (kWh) | Revenue |
| 2007 | 8,470 | 803,645,038 | \$ 31,529,826 |
| 2008 | 8,473 | 829,929,408 | 33,457,063 |
| 2009 | 8,480 | 822,688,553 | 33,148,427 |
| 2010 | 8,505 | 831,916,204 | 35,161,744 |
| 2011 | 8,526 | 872,123,990 | 43,897,006 |
| 2012 | 8,547 | 880,347,183 | 44,815,809 |

| Ten Largest Electric Utility Customers in Recent Years | | | | |
|--|--------------------|----------------------|--------------------|----------------------|
| Customer | kWh | 2012 | kWh | 2011 |
| NCRA | 347,585,000 | \$ 15,138,244 | 333,060,000 | \$ 14,436,379 |
| Johns Manville | 143,136,000 | 6,271,993 | 136,419,500 | 6,147,038 |
| Hospira | 46,714,500 | 2,147,503 | 47,435,500 | 2,125,732 |
| CertainTeed | 32,894,400 | 1,568,370 | 34,560,000 | 1,639,541 |
| City of Moundridge | 30,177,600 | 1,696,265 | 30,604,800 | 1,583,585 |
| Kaneb Pipeline | 16,982,400 | 970,806 | 17,695,200 | 954,950 |
| Viega | 9,460,500 | 508,402 | 9,835,000 | 538,186 |
| Nation Pizza | 8,853,600 | 513,098 | 8,821,200 | 487,862 |
| Ferguson Production | 9,104,400 | 447,434 | 8,160,000 | 427,392 |
| Cereal Food Processors | 7,710,720 | 400,714 | 7,606,560 | 376,477 |
| Total | <u>652,619,120</u> | <u>\$ 29,662,829</u> | <u>634,197,760</u> | <u>\$ 28,717,142</u> |

System Growth

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

| Year | Customers Served | Peak Demand (MW) ¹ | Sales (MWh) | Annual Revenue from Energy Sales |
|------|------------------|-------------------------------|-------------|----------------------------------|
| 2007 | 8,470 | 137 | 830,645 | \$ 31,529,826 |
| 2008 | 8,473 | 130 | 829,929 | 33,457,063 |
| 2009 | 8,480 | 133 | 822,689 | 33,148,427 |
| 2010 | 8,505 | 141 | 831,916 | 35,161,744 |
| 2011 | 8,526 | 142 | 872,124 | 43,897,006 |
| 2012 | 8,546 | 143 | 886,590 | 45,197,234 |

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

Rates

The rates charged by the Board to customers of the System were modified, effective January 1, 2011, as an adjustment due to the increased transmission charges from Westar. Current electric rates as of May 1, 2013, for the System are as follows:

| | <i>Residential Electric Service</i> | <i>Residential All Electric</i> | <i>General Service Small</i> | <i>General Service Medium</i> | <i>General Service Large</i> |
|--------------------------------------|-------------------------------------|--|---|--|---|
| Service Charge | \$10.00/month | \$10.00/month | \$15.00/month | \$15.00/month | N/A |
| Energy Rate | \$0.0310/kWh | May-Oct: \$0.310/kWh, Nov-Apr; \$0.0310/kWh for first 400 kWh, \$0.0260/kWh for over 400 kWh | \$0.0415/kWh for first 1,500 kWh, \$0.0375/kWh for over 1,500 kWh | \$0.0265/kWh for first 10,000 kWh, \$0.0235/kWh for over 10,000 kWh. | \$0.0265/kWh for first 240 kWh/kVA of billing capacity, \$0.0235/kWh for over 240 kWh/kVA of billing capacity |
| Capacity Charge | \$0.01070/kWh | \$0.01070/kWh | \$0.01070/kWh | \$3.07/kWh | \$2.92/kVA for all kVA of billing capacity |
| Transmission Charge | \$0.01342/kWh | \$0.01342/kWh | \$0.01342/kWh | \$3.85/kWh | \$2.85/kVA for all kVA of billing capacity |
| City Transfer Charge | \$0.00175/kWh | \$0.00175/kWh | \$0.00175/kWh | \$0.00175/kWh | \$0.00175/kWh |
| Demand Rate | N/A | N/A | N/A | \$4.00/kWh | \$2.75/kVA for all kVA of billing capacity |
| Interruptible Rate Demand Multiplier | N/A | N/A | N/A | \$0.80 | N/A |

Financial Reporting

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

System Indebtedness

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

| Description of Indebtedness | Date of Indebtedness | Final Maturity | Original Principal Amount | Amount Outstanding |
|---|----------------------|----------------|---------------------------|--------------------|
| Electric Utility System Refunding Bonds Series 2011 | 10/13/2011 | 9/1/2020 | \$5,445,000 | \$4,890,000 |

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 City. No assurance can be given that operating results for future years will be comparable to operating results for the prior years listed below:

| | 2009 | 2010 | 2011 | 2012 |
|--|---------------------|--------------------|---------------------|---------------------|
| Operating Revenue | | | | |
| Electric | | | | |
| Metered Sales | \$ 33,296,546 | \$ 35,376,672 | \$ 44,123,486 | \$ 45,017,421 |
| Street Lighting | 215,311 | 176,808 | 195,163 | 179,814 |
| Sales to Interconnection | 3,938,631 | 3,483,701 | 3,457,085 | 3,646,487 |
| Total Operating Revenues | <u>37,450,488</u> | <u>39,037,181</u> | <u>47,775,734</u> | <u>48,843,722</u> |
| Operating Expenses | | | | |
| Fuel | 838,736 | 447,920 | 438,228 | 669,319 |
| Purchased Power | 24,740,416 | 26,459,806 | 32,219,448 | 33,506,208 |
| Production | 1,838,668 | 2,981,164 | 2,294,854 | 2,298,348 |
| Distribution and Transmission | 3,358,130 | 3,431,329 | 3,812,590 | 3,577,538 |
| Administrative and General | 1,898,398 | 1,789,860 | 1,906,854 | 1,794,346 |
| Depreciation and Amortization | 2,010,590 | 2,037,621 | 1,987,234 | 2,028,086 |
| Transfer In Lieu of Taxes | - | - | 1,522,000 | 1,550,000 |
| Total Operating Expense | <u>34,684,938</u> | <u>37,147,700</u> | <u>44,181,208</u> | <u>45,423,845</u> |
| Operating Income | <u>2,765,550</u> | <u>1,889,481</u> | <u>3,594,526</u> | <u>3,419,877</u> |
| Nonoperating Income (Expense) | | | | |
| Interest Income | 432,646 | 133,736 | 90,930 | 56,432 |
| Revenues from Merchandising | 451,056 | 274,052 | 113,669 | 348,236 |
| Less Cost from Merchandising | (212,171) | (93,559) | (37,430) | (83,592) |
| Sale of Kansas Historical Tax Credits | - | - | - | 1,008,454 |
| Refuse Collection | 65,768 | 66,169 | 65,141 | 59,227 |
| Penalties | 49,633 | 49,886 | 54,604 | 61,019 |
| Farm Rents | (6,954) | (1,979) | (2,815) | (3,467) |
| Net Increase (Decrease) in Fair Value | - | - | 4,508 | (4,508) |
| Gain (Loss) on Disposal of Assets | (11,961) | 4,800 | 22,372 | - |
| Gain (Loss) on Bonds Called | - | - | (452,130) | - |
| Interest on Debt | (736,306) | (719,669) | (552,467) | (285,692) |
| Total Nonoperating Income (Expense) | <u>31,711</u> | <u>(286,564)</u> | <u>(693,618)</u> | <u>1,156,109</u> |
| Net Income Prior to Transfers ¹ | 2,797,261 | 1,602,917 | 2,900,908 | 4,575,986 |
| Transfer: Payments in Lieu of Taxes ¹ | <u>(1,325,000)</u> | <u>(1,445,000)</u> | <u>-</u> | <u>-</u> |
| Net Income | <u>\$ 1,472,261</u> | <u>\$ 157,917</u> | <u>\$ 2,900,908</u> | <u>\$ 4,575,986</u> |
| Income Available for Debt Service | 5,544,157 | 4,360,208 | 5,440,609 | 6,889,528 |
| Debt Service Requirements | 1,161,306 | 1,639,669 | 644,163 | 889,594 |
| Debt Service Coverage Ratio | 477.41% | 265.92% | 844.60% | 774.50% |

¹ Pursuant to Addendum No. 5 to the Westar Agreement, effective January 1, 2011, transfers from the Board to the Issuer for Payments in Lieu of Taxes will be treated as an Expense of the System and will no longer be available to pay debt service requirements on Bonds.

Projected Debt Service Coverage

The following table contains a projection of the debt service required for all System Indebtedness, including the Series 2011 Bonds, the Net Revenues available for debt service and the Debt Service Coverage Ratio for the years listed. The Gross Revenues, Operating & Maintenance Expenses, and Net Revenues Available for Debt Service used for the projection are based on the Cost of Service Study performed by Burns & McDonnell, which projected such amounts for the years listed and which were used to determine the rate adjustment implemented on January 1, 2011. The Series 2011 Bonds Debt Service is the annual debt service due on the Series 2011 Bonds for the years listed. The projections contained in the table are based on estimates that the Issuer believes to be reasonable; however, there are no assurances that such estimates will be accurate in future years.

| Year | Gross Revenues | Operating & Maintenance Expenses ¹ | Net Revenues Available for Debt Service | Existing System Indebtedness Debt Service | Series 2011 Bonds Debt Service | Projected Deb Service Coverage Ratio |
|------|----------------|---|---|---|--------------------------------|--------------------------------------|
| 2013 | \$ 51,295,100 | \$ 45,901,400 | \$ 5,393,700 | \$ - | \$ 711,675 | 757.89% |
| 2014 | 53,303,000 | 47,819,400 | 5,483,600 | - | 710,175 | 772.15% |
| 2015 | 59,422,800 | 53,838,200 | 5,584,600 | - | 708,225 | 788.53% |

¹Pursuant to addendum No. 5 to the Westar Agreement, effective January 1, 2011, transfers from the Board to the Issuer for Payments in Lieu of Taxes will be treated as an Expense of the System and (as reflected) will not be available to pay debt service requirements on Bonds.

Previous Defaults

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

Management's Discussion on Financial Operations

On April 19, 2010, the Board signed Addendum No. 5 to the Westar Agreement, which extended the current power supply until 2039. This action should continue to provide the City with attractive electric rates for several years.

As a result of Addendum No. 5, the Board implemented a rate adjustment, designed by Burns & McDonnell, effective January 1, 2011. These rates are projected to generate revenues to fully fund the bond reserve, emergency accounts, meet all debt service requirements, fund normal annual capital expenditures, and depreciation accounts through 2015. Even with this average increase of approximately 18%, the rates are among the lowest in the state and should allow the System to continue to attract and retain all types of customers.

The present Westar power plants that are stipulated in the Westar Agreement to provide the base load energy requirements for the System consist of four coal fired units. Three of these units are at the Jeffrey Energy Center where the first of these entered commercial service in the spring of 1978. In 1983 the newest unit, number three, began commercial operation. The fourth unit is located at Lawrence, Kansas. Westar has installed significant equipment to reduce emissions at Jeffrey Energy Center which will reduce the rate impact of new regulations being imposed by the EPA and ensure the plants are kept up to date.

The deregulation of the electric industry, retail wheeling, and environmental compliance bring uncertainty to the entire industry. The City has taken a pro-active approach doing all it can to enhance customer relations, assure high reliability factors, 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 2012

The Board of Public Utilities (BPU) operates a vertically integrated electric utility consisting of generation, transmission, and distribution. The utility serves approximately 8550 retail customers and two wholesale customers, the Cities of Moundridge and Galva. Sales in 2012 were 886,590,359 kWh which was up .95% over the previous year.

BPU's generation resources consist of four General Electric gas turbines with a total summer capacity of approximately 235 MW. The three units located at Power Plant 2 were installed from 1973 to 1979 and operate as peaking units typically running less than 200 hours per year. The newest turbine went commercial in 1998 and is located at Power Plant 3. This turbine also operates as a peaking unit with limited hours of operation, but typically operates more than the others due to its larger size and ability to be load controlled by Westar. All have received scheduled maintenance, such as periodic borescope, in an effort to ensure reliable operation. In an attempt to improve system operation, in 2011 Gas Turbine 1 at Plant 2 was retrofitted with new exciter controls and Turbine 2 and 3 received the same upgrade in 2012. The new exciter allows the units to respond quicker to system disturbances, which will aid in maintaining a reliable electric grid.

Looking forward, staff will continue to perform the typical maintenance activities and begin considering a few significant system upgrades. All turbines have General Electric Mark V turbine controls. GE ceased production of the Mark V in 2004 and is scheduled to discontinue parts support and technical support in 2014, which will necessitate replacement of the controls with an estimated cost of approximately \$400,000 per machine. GE has also ceased production of the EX2000 Excitation Controls effective March, 2004 with a planned end of renewal parts and technical support in 2014. The generator at Plant 3 has an EX2000 excitation control and plans are to replace it around the 2014 time frame. One other item being considered is replacement of the exhaust stack on Gas Turbine #3 at Plant 2. The stack is original and is reaching the end of its useful life. Spot repairs will continue to be made as long as this approach makes sense, but at some point within the next 10 years a new stack will likely be necessary. One other material item being considered is repair of the generator rotor on Gas Turbine #2 at Plant 2. The vibration level of the rotor is higher than ideal, but given the units limited hours of operation repair of the rotor is not warranted. If the hours of operation or vibration level increase, an evaluation will be made to determine if rotor repair is warranted.

The utility owns roughly 20 miles of 115 kV transmission and four 115 kV ring bus style substations. The transmission poles are inspected by Osmose on a regular schedule and poles found to be structurally deficient are replaced. The utility performs substation equipment and relay testing as stipulated in the utilities' operating procedures and tests transformer oil annually. All equipment appears to be in good working order with no planned replacements other than the possible replacement of older 115 kV circuit breakers at Plant 2.

BPU's distribution system consists of approximately 30 miles of 35 kV overhead line, 520 miles of 12.5 kV overhead line, and 30 miles of 12.5 kV underground line. Poles located on main feeder lines are inspected by Osmose for structural integrity on a set schedule. In recent years, several of the arterial lines located in the rural area have been rebuilt using ACSR T-2 conductor and stronger poles. Both of these steps are intended to make the lines less vulnerable to ice and wind loading, with the ultimate goal being increased reliability. In general, most rural 12.5 kV lines are in good condition with no significant planned replacements being considered in the near future. For several years utility crews have been replacing poles on the 35 kV line serving Moundridge with this effort being substantially completed in 2012. Again, as with other replacements, the new poles are stronger, which should result in improved reliability.

By the end of 2012 the line crews also completed replacement of a significant portion of the 35 kV JMP line located along Northview. The circuit was installed in the 1970's and is one of the utilities main 35 kV circuits feeding both industrial and residential load. Line construction included stronger poles and ACSR T-2 conductor and the new line will be located further from the road which should allow for the road width to increase without interference. In the last few years the underground crew has been focusing efforts on replacement of single phase underground primary that was installed over 40 years ago. This work not only replaced the cable but provided an opportunity to catch potential outages before they occurred. Moving forward, consideration is being given to converting sections of primary overhead to underground. Prime spots for this effort will be locations with limited access and significant tree population. The conversion should reduce long term maintenance cost and improve system reliability.

Overall, BPU has a reliable well-maintained electric system with plans to continue to make the improvements necessary to continue a high level of service.

INFORMATION CONCERNING THE WATER UTILITY SYSTEM
THE SYSTEM

Description of the Existing Facilities of the System

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

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

| | |
|-----------------------------|---|
| Production | 2 |
| Transmission & Distribution | 5 |
| Administration & Office | 3 |

History of the Area Served

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

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

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

Number of Customers

| <u>Year</u> | <u>Number of Customers</u> |
|-------------|----------------------------|
| 2012 | 5,775 |
| 2011 | 5,756 |
| 2010 | 5,741 |
| 2009 | 5,710 |
| 2008 | 5,706 |

History of Water Usage

| <u>Year</u> | <u>Gallons Pumped Purchased</u> | <u>Gallons Sold</u> | <u>Bearing Water</u> | <u>Gallons Unaccounted</u> | <u>Percentage Water Loss</u> |
|-------------|---------------------------------|---------------------|----------------------|----------------------------|------------------------------|
| 2012 | 1,382,331,800 | 1,281,330,000 | 10,424,150 | 90,577,650 | 6.55% |
| 2011 | 1,430,230,000 | 1,343,820,000 | 10,657,300 | 75,752,700 | 5.30% |
| 2010 | 1,287,120,000 | 1,198,527,000 | 9,946,550 | 78,646,450 | 6.11% |
| 2009 | 1,097,089,000 | 1,008,018,000 | 11,906,630 | 77,164,370 | 7.03% |
| 2008 | 1,150,518,000 | 1,070,682,000 | 12,163,530 | 67,672,470 | 5.88% |

Wholesale Water Sales

| <u>Year</u> | <u>Gallons</u> | <u>Revenue</u> |
|-------------|----------------|----------------|
| 2012 | 54,719,000 | \$ 161,507 |
| 2011 | 52,351,000 | 154,830 |
| 2010 | 41,615,000 | 124,554 |
| 2009 | 38,560,000 | 115,939 |
| 2008 | 40,162,000 | 120,457 |

Ten Largest Customers

| <u>Customer</u> | <u>Gallons</u> | <u>Total Revenue</u> |
|---------------------|----------------|----------------------|
| NCRA | 146,665,000 | \$572,312 |
| Hospira, Inc. | 88,522,000 | 257,236 |
| Johns Manville | 42,543,000 | 124,435 |
| Viega | 22,966,000 | 69,222 |
| Nation Pizza | 16,337,000 | 33,690 |
| CertainTeed | 12,745,000 | 27,657 |
| Chemstar | 9,724,000 | 19,961 |
| Holiday Manor Hotel | 4,210,000 | 10,157 |
| Walmart | 3,563,000 | 7,418 |
| Ferguson Production | 3,228,000 | 10,183 |

Rates

Current water rates for the System are listed below:

Base Charge: Based on size of meter.

| <u>Meter Size</u> | <u>Inside City Limits</u> | <u>Outside City Limits</u> |
|-------------------|---------------------------|----------------------------|
| 3/4" | \$ 8.00 | \$ 12.00 |
| 1" | 16.00 | 24.00 |
| 1 1/2" | 34.00 | 51.00 |
| 2" | 60.00 | 90.00 |
| 3" | 140.00 | 210.00 |
| 4" | 248.00 | 372.00 |
| 6" | 500.00 | 750.00 |
| 8" | 720.00 | 1,080.00 |

Unit Charge: (Meters with gallon readings)

| | <u>Inside City Limits</u> | <u>Outside City Limits</u> |
|---------------|---------------------------|----------------------------|
| 0-20 units | \$ 1.60 /unit | \$ 2.40 /unit |
| 21-40units | 1.88 /unit | 2.82 /unit |
| 41-60 units | 2.14 /unit | 3.22 /unit |
| Over 60 units | 2.60 /unit | 3.90 /unit |

Connection Charge: Effective October, 1, 2012

| | <u>Inside City Limits</u> | <u>Outside City Limits</u> |
|----------------|---------------------------|----------------------------|
| 3/4" | \$ 600.00 | \$ 900.00 |
| 1" | 675.00 | 1,012.50 |
| 1 1/2" | 1,050.00 plus drill cost | 1,575.00 plus drill cost |
| 2" | 1,200.00 plus drill cost | 1,800.00 plus drill cost |
| Larger than 2" | Actual Cost | Costs x 1 1/2 |

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

Commercial Customers

| | <u>Inside City Limits</u> | <u>Outside City Limits</u> |
|-----------|---------------------------|----------------------------|
| Base Rate | \$ 1.88/unit | \$ 2.82/unit |

1 unit – 1,000 gallons

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 as a reconnection charge, the sum of such minimum bills as would have accrued during the period of disconnection.

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

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

Financial Reporting

The financial records of the Board are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. In recent years, the Board's annual audit has been performed by Swindoll, Janzen, Hawk & Loyd, LLC, Certified Public Accountants, McPherson, Kansas. Copies of the audit reports for the past five years are on file in the Secretary – 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:

| | 2009 | 2010 | 2011 | 2012 |
|--|----------------------|----------------------|----------------------|----------------------|
| Operating Revenue | | | | |
| Sale of Water | \$ 3,039,357 | \$ 3,472,352 | \$ 3,744,528 | \$ 3,579,516 |
| Total Operating Revenue | <u>3,039,357</u> | <u>3,472,352</u> | <u>3,744,528</u> | <u>3,579,516</u> |
| Operating Expense | | | | |
| Production | 261,764 | 399,435 | 541,454 | 773,972 |
| Distribution & Transmission | 678,228 | 761,913 | 828,212 | 859,373 |
| Administrative & General | 227,885 | 207,751 | 414,784 | 454,894 |
| Depreciation & Amortization | 311,214 | 323,067 | 545,237 | 585,964 |
| Total Operating Expense | <u>1,479,091</u> | <u>1,692,166</u> | <u>2,329,687</u> | <u>2,674,203</u> |
| Operating Income | <u>1,560,266</u> | <u>1,780,186</u> | <u>1,414,841</u> | <u>905,313</u> |
| Nonoperating Income | | | | |
| Interest Income | 134,740 | 65,707 | 64,116 | 45,281 |
| Revenues from Merchandising, Jobbing & Contract Work & Misc. Income | 46,475 | 45,580 | 69,109 | 71,767 |
| Less Cost of Merchandising | (9,301) | (9,030) | (9,638) | (20,159) |
| Sale of Kansas Historical Tax Credits | - | - | - | 252,113 |
| Refuse Collection & Sewer Service Fees | 7,312 | 7,357 | 14,752 | 14,809 |
| Farm Rents, Net of Expense | 53,020 | 52,567 | 59,274 | 58,864 |
| Gain (loss) on Sale of Investments | - | - | - | - |
| Interest on Debt | (96,975) | (74,440) | (498,868) | (405,910) |
| Total Nonoperating Income | <u>135,271</u> | <u>87,741</u> | <u>(301,255)</u> | <u>16,765</u> |
| Income Before Operating Transfers | 1,695,537 | 1,867,927 | 1,113,586 | 922,078 |
| Transfer: Payment in Lieu of Taxes | (46,000) | (72,500) | (80,300) | (76,500) |
| Change in Net Position | 1,649,537 | 1,795,427 | 1,033,286 | 845,578 |
| Total Net Position, Beginning of Year | <u>13,645,520</u> | <u>15,295,057</u> | <u>17,090,484</u> | <u>18,123,770</u> |
| Total Net Position, End of Year | <u>\$ 15,295,057</u> | <u>\$ 17,090,484</u> | <u>\$ 18,123,770</u> | <u>\$ 18,969,348</u> |
| Income Available for Debt Service | | | | |
| Change in Net Fund Position | \$ 1,649,537 | \$ 1,795,427 | \$ 1,033,286 | \$ 845,578 |
| Depreciation and Amortization | 311,214 | 323,067 | 545,237 | 585,964 |
| Gain (loss) on Sale of Investments | - | - | - | - |
| Interest on Debt | 96,975 | 74,440 | 498,868 | 405,910 |
| Income Available for Debt Service | <u>\$ 2,057,726</u> | <u>\$ 2,192,934</u> | <u>\$ 2,077,391</u> | <u>\$ 1,837,452</u> |
| Debt Service | 1,027,576 | 1,030,994 | 1,028,612 | 951,157 |
| Debt Service Coverage Ratio | 200.25% | 212.70% | 201.96% | 193.18% |

Management's Discussion of Financial Operations

The Board of Public Utilities (BPU) last rate increase became effective on April 2, 2007, and has provided the department with sufficient revenue to maintain the production and distribution systems.

The main driver for the last rate increase was the installation of the blending plant. The facility has worked as intended without placing significant pressure on operations and maintenance costs, but the department has experienced an increase in electric pumping costs. Looking forward, production costs should be stable, with no significant projects being planned at this time.

Due to the declining aquifer in and around McPherson, the staff has focused extra time on development of an additional water supply outside the immediate McPherson area. Two potential sources being considered are Kanopolis Reservoir and the development of a ground water well field several miles south of town. A site investigation in and around this potential well field was completed in 2012 and the area should be modeled in 2013 to determine if additional pumping would affect existing salt water contamination in the area. Hopefully, by the end of 2013, the utility will know if development of this resource is prudent.

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 current budget contains a line item setting aside \$250,000 for this type of replacement.

Report on Water System Condition for the Year 2012

The Board of Public Utilities (BPU) water system consists of 12 ground water wells, two treatment facilities, and a distribution system. The utility sold close to 1.38 billion gallons of water to 5770 retail and four wholesale customers in 2012.

All of the utility's ground water wells are located in and around the McPherson area, which is part of the McPherson Intensive Ground Water 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 continued decline in the water table. Staff has evaluated supply options, both surface and ground water, and current efforts are focused on developing additional ground water supplies south of McPherson in a location outside the IGUCA. A site investigation around this potential well field was completed in 2012 and a ground water model of the area should be performed sometime in 2013. Consideration would also be given to the purchase of existing water rights within the IGUCA if the location would be beneficial to the long term health of existing BPU rights, realizing this action would not be the only step required to improving the long term supply for the community. If development of sufficient additional ground water supplies is unattainable, surface water development would still be an option.

The BPU operates two treatment facilities, one for removal of volatile organic compounds (VOC) and one for blending of water sources to reduce nitrate levels. The VOC plant was built in the early 1990's to primarily remove a dry cleaning solvent, and is performing as designed. The facility is in great shape, with minor maintenance, and no capital expenditures planned. The blending plant was completed in 2010 lowering the nitrate levels at the point of entry 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 of a full treatment facility if the utility chooses or is required to install additional treatment in the future.

The water distribution system contains over 100 miles of pipe ranging in size from 2" to 24" and age from new to over 100 years old. The water main material consists of cast iron, ductile iron, asbestos cement, and PVC, with the majority of the line being cast iron and PVC. Cast iron was the material of choice prior to 1960 and is predominant in the older sections of town, while PVC is almost exclusively installed today. When water line breaks occur, they are typically on older cast iron pipes or PVC lines that were installed when PVC was just beginning to be used in the water industry. The first PVC pipe installed by the utility utilized a thin wall which has not over time held up to the stress imposed on the pipe. When repeated breaks have occurred in locations where this pipe was used, a replacement program was initiated utilizing new PVC pipe with a substantially thicker wall. There are still locations with the thin walled pipe and as warranted plans will be made to replace these sections. The other area of concern is older sections of pipe that experience high failure rates and are located on main arterial streets. Not only do these types of breaks cause water service interruption, they also cause significant roadway damage and traffic disruption. Over the last few years effort has been given to replacing sections of older cast iron pipe and looking forward this effort should continue.

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 failed frequently.