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***WATER DISTRICT NO. 1 OF  
JOHNSON COUNTY, KANSAS  
FINANCIAL STATEMENTS  
DECEMBER 31, 2012***

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## Independent Auditor's Report

To the Water District Board  
Water District No. 1 of Johnson County, Kansas  
Lenexa, Kansas

We have audited the accompanying statements of net position of Water District No. 1 of Johnson County, Kansas (WaterOne) as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position, cash flows and the related notes to the financial statements for the years then ended.

### 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; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of WaterOne as of December 31, 2012 and 2011, and the respective changes in financial position and its cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 and the schedules of funding progress of the employee retirement system and other postemployment benefit plan on pages 43 through 44 to 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 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.

## **Other Information**

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information on pages 45 through 51, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*RubinBrown LLP*

March 8, 2013

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# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

This section of Water District No. 1 of Johnson County, Kansas' (WaterOne's) comprehensive annual financial report presents an analysis of WaterOne's financial performance during the fiscal years ended December 31, 2012 and 2011. This information is presented in conjunction with the audited financial statements, which follow this section.

### **Financial Highlights**

WaterOne's capital assets increased \$15.01 million in 2012 (1.79 percent) and \$17.80 million in 2011 (2.16 percent).

During 2012 and 2011, WaterOne received \$10.31 million and \$6.53 million, respectively, in capital contributions.

Operating revenues in 2012 were \$116.04 million. Operating revenues in 2011 were \$93.28 million.

Operating expenses in 2012 were \$48.87 million. Operating expenses in 2011 were \$43.61 million.

Investment income before unrealized gains and losses for 2012 was approximately \$235,000 compared to \$312,000 in 2011. The 2012 average funds invested of \$81.35 million was more than the 2011 balance of \$80.47 million. In addition, the 2012 rate of return of 0.29 percent was lower than the 2011 rate of 0.39 percent.

The debt service coverage ratio for Senior Parity and Second Lien Debt (excluding System Development Charges) was 3.58 for 2012, compared to 2.26 for 2011.

### **Overview Of The Financial Statements**

The annual Financial Report is presented in the following sections: The Independent Auditor's Report, Management's Discussion and Analysis, Financial Statements with Notes, Required Supplementary Information and Supplementary Information.

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

## Management's Discussion and Analysis (Continued)

### Required Financial Statements

The financial statements of WaterOne utilize the full accrual basis of accounting. The financial statements conform to accounting principles that are generally accepted in the United States of America. The Statement of Net Position includes information on WaterOne's assets, deferred outflows, liabilities, and deferred inflows and provides information about the nature and amounts of investments in resources (assets) and the obligations to WaterOne's creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Position identifies WaterOne's revenues, expenses and capital contributions for the years ended 2012 and 2011. The other required financial statement is the Statement of Cash Flows. From the Statement of Cash Flows, the reader can obtain comparative information on the sources and uses of cash and the change in the cash balance for each of the last two fiscal years. This statement provides information on WaterOne's cash receipts, cash payments and changes in cash resulting from operations, investments, and financing activities.

### Financial Analysis Of WaterOne

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of WaterOne's financial condition and also indicate if the financial condition has improved over the previous year. WaterOne's total net position increased \$46.87 million (6.81 percent) in 2012 and \$26.03 million (3.93 percent) in 2011.

Table 1  
Net Position  
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2012	2011	Dollars	Percentage	2010	Dollars	Percentage	
				Increase (decrease)			Increase (decrease)	
Capital assets	\$ 855,673	\$ 840,667	\$ 15,006	1.79%	\$ 822,870	\$ 17,797	2.16%	
Total specific funds	37,092	37,124	(32)	(0.09)%	47,686	(10,562)	(22.15)%	
Total current assets	94,586	70,868	23,718	33.47%	70,142	726	1.04%	
Deferred outflows of resources	172	225	(53)	(23.56)%	394	(169)	(42.89)%	
<b>Total Assets And Deferred Outflows</b>	<b>\$ 987,523</b>	<b>\$ 948,884</b>	<b>\$ 38,639</b>	<b>4.07%</b>	<b>\$ 941,092</b>	<b>\$ 7,792</b>	<b>0.83%</b>	
Long-term liabilities	\$ 230,582	\$ 240,530	\$ (9,948)	(4.14)%	\$ 256,864	\$ (16,334)	(6.36)%	
Current and other liabilities	21,937	20,222	1,715	8.48%	22,129	(1,907)	(8.62)%	
<b>Total Liabilities And Deferred Inflows Of Resources</b>	<b>252,519</b>	<b>260,752</b>	<b>(8,233)</b>	<b>(3.16)%</b>	<b>278,993</b>	<b>(18,241)</b>	<b>(6.54)%</b>	
Net investment in capital assets	622,132	596,548	25,584	4.29%	567,711	28,837	5.08%	
Restricted	28,326	28,371	(45)	(0.16)%	29,237	(866)	(2.96)%	
Unrestricted	84,546	63,213	21,333	33.75%	65,151	(1,938)	(2.97)%	
<b>Total Net Position</b>	<b>735,004</b>	<b>688,132</b>	<b>46,872</b>	<b>6.81%</b>	<b>662,099</b>	<b>26,033</b>	<b>3.93%</b>	
<b>Total Liabilities, Deferred Inflows Of Resources, And Net Position</b>	<b>\$ 987,523</b>	<b>\$ 948,884</b>	<b>\$ 38,639</b>	<b>4.07%</b>	<b>\$ 941,092</b>	<b>\$ 7,792</b>	<b>0.83%</b>	

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

## Management's Discussion and Analysis *(Continued)*

**Table 2**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2012	2011	Dollars	Percentage	2010	Dollars	Percentage	
			Increase (decrease)			Increase (decrease)		
Operating revenues	\$ 116,042	\$ 93,281	\$ 22,761	24.40%	\$ 82,229	\$ 11,052	13.44%	
Operating expenses	48,870	43,613	5,257	12.05%	41,411	2,202	5.32%	
<b>Net Operating Income (Before Depreciation)</b>	<b>67,172</b>	49,668	17,504	35.24%	40,818	8,850	21.68%	
Depreciation	21,015	20,378	637	3.13%	18,225	2,153	11.81%	
<b>Net Operating Income</b>	<b>46,157</b>	29,290	16,867	57.59%	22,593	6,697	29.64%	
Total other income	576	726	(150)	(20.66)%	582	144	24.74%	
Total other expenses	10,171	10,508	(337)	(3.21)%	12,999	(2,491)	(19.16)%	
<b>Net Income Before Capital Contributions</b>	<b>36,562</b>	19,508	17,054	87.42%	10,176	9,332	91.71%	
Capital contributions	10,310	6,525	3,785	58.01%	6,843	(318)	(4.65)%	
<b>Change In Net Position</b>	<b>46,872</b>	26,033	20,839	80.05%	17,019	9,014	52.96%	
<b>Beginning Net Position As Previously Reported</b>	<b>688,132</b>	662,825	25,307	3.82%	645,868	16,957	2.63%	
<b>Adjustment For Provisions Of GASB Statements 63 &amp; 65</b>	<b>—</b>	(726)	726	(100.00)%	(788)	62	(7.87)%	
<b>Beginning Net Position - As Restated</b>	<b>688,132</b>	662,099	26,033	3.93%	645,080	17,019	2.64%	
<b>Ending Net Position</b>	<b>\$ 735,004</b>	\$ 688,132	\$ 46,872	6.81%	\$ 662,099	\$ 26,033	3.93%	
<b>Total Revenues</b>	<b>\$ 126,928</b>	\$ 100,532			\$ 89,654			
<b>Total Expenses</b>	<b>\$ 80,056</b>	\$ 74,499			\$ 72,635			

In June 2011, GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement renames the “statement of net assets” to the “statement of net position” and provides guidance for reporting deferred inflows of resources, deferred outflows of resources, and net position. GASB No. 63 was effective for WaterOne in 2012.

In March 2012, GASB issued Statement No. 65 *Items Previously Recorded as Assets and Liabilities*. This statement is effective for periods beginning after December 15, 2012 and reclassifies certain items currently reported as assets and liabilities to deferred outflows/inflows of resources and some items as current expense. WaterOne elected to early adopt GASB No. 65 in fiscal 2012 and it was implemented retroactively, resulting in certain reclassifications and presentation changes to the statement of net position. The “Adjustments for provisions of GASB statements 63 & 65” as seen above, reflect the immediate expense treatment of accumulated debt issuance costs.

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

### Management's Discussion and Analysis (*Continued*)

The largest source of WaterOne's operating revenue has historically been water sales. Additional sources of operating revenue include income received from delinquent service charges, administrative service charges, and miscellaneous income. WaterOne's other income is derived from interest income earned on WaterOne investments and gains and losses from investments.

Operating expenses are the expenses necessary to keep the water system in good repair and working order and include (but are not limited to) salaries, benefits, costs of materials, supplies, insurance, power and chemicals, and depreciation. Other expenses primarily include the payment of interest on WaterOne's outstanding Senior Parity Bonds and Second Lien Bonds.

Variances in water sales from year to year are generally the product of three major factors: water rate changes, changes in customer consumption patterns due to weather influences, and changes in the number of customers.

1. **Water rate changes** - Effective January 1, 2012, WaterOne's retail water rates increased 4.9 percent. Effective January 1, 2011, WaterOne's retail water rates increased 4.4 percent.
2. **Changes in customer consumption due to weather influences** - A dry 2012 resulted in 2012 water sales of \$114.67 million. Sales for 2012 were \$21.57 million more than projected and \$22.63 million more than those in 2011. A slightly dry 2011 resulted in sales of \$92.04 million, which were \$2.37 million more than projected and \$11.15 million more than those in 2010. Approximately 65 percent of the water sales revenue is from sales to single-family residences. The remaining 35 percent represent sales to multifamily and commercial customers.

Gallons sold in 2012 were 23.56 billion which was 4.06 billion more than gallons sold in 2011. The 19.50 billion gallons sold in 2011 was 1.79 billion more than the 17.71 billion sold in 2010.

3. **Changes in the number of customers** - Excluding temporary fire hydrant meters and wholesale customers, 1,077 new retail customers were added in 2012, which were 429 (66.20 percent) more than the 648 new customers added in 2011. The new 2011 customers were 50 (8.36 percent) more than the 598 new customers added in 2010.

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

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### Management's Discussion and Analysis (*Continued*)

Investment income (before unrealized gain/loss on investments) decreased from \$312,000 in 2011 to \$235,000 in 2012. Investment income (before unrealized gain/loss on investments) decreased from \$347,000 in 2010 to \$312,000 in 2011.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Average funds invested	\$ 81.35 Million	\$ 80.47 Million	\$ 73.80 Million
Average rate of return	0.29%	0.39%	0.47%

As reflected on the Statement of Revenues, Expenses and Changes in Net Position, the operating expenses for WaterOne are divided into the following five functional categories: Water Source, Treatment, and Pumping; Transmission and Distribution; Customer Service; Administrative and General; and Depreciation.

1. Total operating expenses (before depreciation) were \$5.26 million (12.05 percent) more in 2012 than in 2011. The increase in operating costs during 2012 is primarily due to increased chemical, power and other production costs. In addition, the dry ground conditions in 2012 caused more main breaks and higher maintenance of main expenses.
  - Water Source, Treatment, and Pumping expenses were \$4.00 million (18.27 percent) more in 2012 than 2011, primarily due to:
    - A \$2.06 million (32.82 percent) increase in power cost.
    - A \$1.06 million (22.14 percent) increase in chemical cost.
    - Production's net labor expense was \$547,000 higher in 2012 than 2011.
  - Transmission and Distribution expenses were \$943,000 (9.47 percent) more in 2012 when compared to 2011, primarily due to:
    - An increase in maintenance of mains expense of \$807,000.
    - An increase in maintenance of construction fleet of nearly \$76,000.
  - Customer Service expenses were \$25,000 (0.76 percent) higher in 2012 than in 2011, primarily due to:
    - An increase in net labor expense of \$36,000.
    - A \$13,000 decrease in materials and supplies.
  - Administrative and General expenses were \$281,000 (3.34 percent) higher in 2012 than in 2011, primarily due to:
    - An increase in the net Clean Drinking Water fee of \$144,000.
    - Contracted Services increased \$111,000 primarily due to increased IT expenses.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Management's Discussion and Analysis (*Continued*)

2. Total operating expenses (before depreciation) were \$2.20 million (5.32 percent) more in 2011 than in 2010. The increase in operating costs during 2011 is primarily due to increased chemical, power and other production costs.
- Water Source, Treatment, and Pumping expenses were nearly \$2.35 million (11.99 percent) more in 2011 than 2010, primarily due to:
    - A \$1.28 million (25.73 percent) increase in power cost.
    - A \$506,000 (11.79 percent) increase in chemical cost.
    - Production's net labor costs were \$147,000 higher in 2011 than 2010.
  - Transmission and Distribution expenses were \$176,000 (1.74 percent) less in 2011 when compared to 2010, primarily due to:
    - A decrease in net labor costs of \$216,000.
    - A decrease of allocated indirect fleet costs of nearly \$73,000.
    - An offsetting increase in maintenance of mains cost, primarily materials, pavement repair and contractor costs.
  - Customer Service expenses were \$116,000 (3.40 percent) lower in 2011 than in 2010, primarily due to:
    - A decrease in net labor of \$49,000.
    - A \$77,000 decrease in the cost of bad debts.
  - Administrative and General expenses were \$146,000 (1.77 percent) higher in 2011 than in 2010, primarily due to:
    - An increase in the net Clean Drinking Water expense of \$56,000.
    - An increase in training expense of \$64,000.

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

## Management's Discussion and Analysis (*Continued*)

### Capital Contributions

Capital contributions are recognized as "Contributions" on the Statements of Revenues, Expenses and Changes in Net Position. Capital contributions for the years 2012, 2011 and 2010 consisted of the following:

Table 3  
Capital Contributions  
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2012	2011	Dollars	Percentage	2010	Dollars	Percentage	
			Increase (decrease)			Increase (decrease)		
Main extensions	\$ 2,921	\$ 1,954	\$ 967	49.49%	\$ 1,211	\$ 743	61.35%	
System development charges	6,560	4,130	2,430	58.84%	5,050	(920)	(18.22)%	
Kansas Water Co.	—	(29)	29	100.00%	—	(29)	n/a	
Benefit areas	6	—	6	n/a	4	(4)	(100.00)%	
New services	823	470	353	75.11%	578	(108)	(18.69)%	
<b>Total Capital Contributions</b>	<b>\$ 10,310</b>	<b>\$ 6,525</b>	<b>\$ 3,785</b>	<b>58.01%</b>	<b>\$ 6,843</b>	<b>\$ (318)</b>	<b>(4.65)%</b>	

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

### Management's Discussion and Analysis (*Continued*)

#### Capital Assets

As of December 31, 2012, WaterOne's investment in capital assets totaled \$855.67 million, which is an increase of \$15.01 million (1.79 percent) over the 2011 balance of \$840.67 million. Capital assets in 2011 were \$17.80 million (2.16 percent) more than the \$822.87 million balance at the end of 2010. Capital assets include all of WaterOne's major capital assets, including land, infrastructure assets, water treatment facilities, water mains, services, hydrants, pump stations, reservoirs, administrative/service center facilities, fleet, and other general assets. A comparison of WaterOne's capital assets over the past three years is presented in Table 4 below.

Table 4  
Capital Assets  
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2012	2011	Dollars	Percentage	2010	Dollars	Percentage	
			Increase (decrease)			Increase (decrease)		
Land	\$ 23,484	\$ 23,190	\$ 294	1.27%	\$ 22,891	\$ 299	1.31%	
Intake, purification and pumping system	346,235	340,567	5,668	1.66%	332,987	7,580	2.28%	
Transmission and distribution distribution system	677,254	638,089	39,165	6.14%	624,353	13,736	2.20%	
Buildings, improvements, furniture and equipment	47,849	47,146	703	1.49%	45,556	1,590	3.49%	
Construction work in progress	32,600	44,721	(12,121)	(27.10)%	32,406	12,315	38.00%	
<b>Capital Assets Before Depreciation</b>	<b>\$ 1,127,422</b>	<b>\$ 1,093,713</b>	<b>\$ 33,709</b>	<b>3.08%</b>	<b>\$ 1,058,193</b>	<b>\$ 35,520</b>	<b>2.09%</b>	
Less accumulated depreciation	(271,749)	(253,046)	(18,703)	7.39%	(235,323)	(17,723)	7.53%	
<b>Net Capital Assets</b>	<b>\$ 855,673</b>	<b>\$ 840,667</b>	<b>\$ 15,006</b>	<b>1.79%</b>	<b>\$ 822,870</b>	<b>\$ 17,797</b>	<b>2.16%</b>	

Additions to WaterOne's capital assets reflect a capital plan to replace and maintain existing facilities and equipment, adopt more efficient technologies, ensure compliance with applicable water quality rules and regulations and provide for the expansion of supply, treatment and distribution facilities per WaterOne's long-term capital expansion program. Since the mid-1980s, WaterOne has been consistently adding facilities in response to a history of increasing customer base.

#### Long-Term Debt

WaterOne finances its capital assets through a combination of water rates, investment income, System Development Charges and revenue bonds. As indicated in the Notes to Financial Statements, WaterOne's General Fund makes a monthly prorated deposit to the Principal and Interest Fund for the purpose of funding the semi-annual principal and interest payments on the outstanding debt.

All Senior Parity bonds are rated Aaa by Moody's and AAA by Standard and Poor's. Second Lien bonds are rated Aa1 by Moody's and AAA by Standard and Poor's.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Management's Discussion and Analysis (*Continued*)

At the end of 2012, WaterOne had \$229.84 million of outstanding bonds, compared to \$239.40 million at the end of 2011. The decrease is the result of principal payments of \$8.97 million, the issuance of \$6.61 million in Second Lien Refunding bonds and the current refunding of \$7.20 million of Senior Lien 2002 bonds.

At the end of 2011, WaterOne had \$239.40 million of outstanding bonds, compared to \$259.70 million at the end of 2010. The decrease is the result of principal payments of \$12.65 million and the call of the remaining \$7.65 million of Series 2001 Senior Parity bonds.

As discussed in Note 4 of the Notes to Financial Statements, the current debt service schedule extends to 2032 and includes bonds with interest rates ranging from 1.50 percent to 5.00 percent. Bond covenants require that WaterOne maintain a debt service coverage ratio on its Senior Parity Debt of 1.25; however, current Board policy stipulates that the budgeted debt service coverage ratio be maintained at a minimum of 2.00 (before inclusion of System Development Charges). For 2012, the actual debt service coverage ratio for WaterOne's Senior Parity Bonds and Second Lien Bonds (excluding System Development Charges) was 3.58, which was higher than the comparable ratio of 2.26 for 2011 and higher than the 2010 ratio of 1.94.

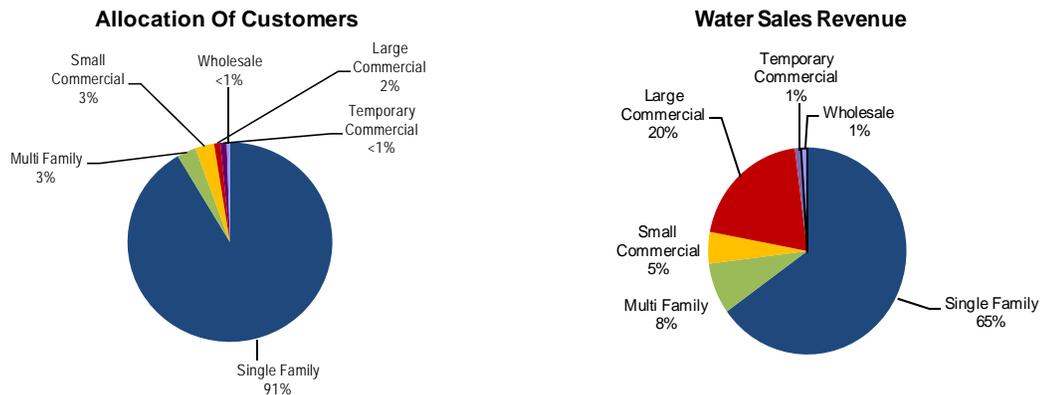
The actual Debt Service Coverage Ratio (excluding System Development Charges) for 2012 of 3.58 was higher than the budget amount of 2.56 due to drier and warmer conditions during 2012.

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

## Management's Discussion and Analysis (*Continued*)

### Economic Factors And Next Year's Projections And Rates

WaterOne's service territory includes approximately 272 square miles, located primarily in Johnson County, Kansas. In addition, WaterOne has the exclusive right to provide potable water to all or a portion of 17 municipalities as well as unincorporated areas. As of December 31, 2012, WaterOne served 139,558 customers, of which 91 percent were single-family residential homes.



Customer growth in the Johnson County area has begun to accelerate after three years of slowing growth. Economic factors that contributed to the customer slow down were similar to those factors affecting economic growth across the nation. WaterOne, however, is somewhat insulated from the worst of economic downturns. Sixty-five percent of our annual water sales are to single family residential homes and the remaining 35 percent is scattered among many relatively small commercial users. As of the end of 2012, WaterOne's top 15 commercial customers contributed to only 3.02 percent of total 2012 annual water sales revenue.

WaterOne budgets revenues and expenses based on anticipated water consumption for a "normal" weather year. Revenues for a given budget year need to be sufficient to provide funds for operation and maintenance expenses, debt service funding and annual capital expenditures. In addition, Net Revenues for a given year may be budgeted to provide funds for contributions to the Master Plan capital program, the Transmission & Distribution capital program and/or the Negative Cash Flow Reserve. Finally, Board policy #16 stipulates that rates must be at such a level that budgeted net operating income (before depreciation) combined with budgeted investment income must be at least two times the combined annual debt service for Senior Parity and Second Lien bonds in a normal year.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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Management's Discussion and Analysis (*Continued*)

### **WaterOne Contact Information**

This financial report is designed to provide our customers and creditors with a general overview of WaterOne's finances and to demonstrate accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact:

Ron Appletoft, Director of Finance  
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Lenexa, Kansas 66219  
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# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

## STATEMENT OF NET POSITION

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	December 31,	
	2012	2011
<b>Assets And Deferred Outflows Of Resources</b>		
<b>Current Assets</b>		
Cash and short-term investments:		
Water system general fund	\$ 68,490,834	\$ 45,696,106
System development account	9,624,992	12,295,778
Accounts receivable and accrued water sales	8,589,241	8,796,147
Interest receivable	150,175	104,924
Materials and supplies	2,970,628	2,899,929
Contractor extension receivables	766,518	266,348
Net pension asset	3,000,000	8,000
Prepayments and deposits	993,631	801,335
<b>Total Current Assets</b>	<b>94,586,019</b>	<b>70,868,567</b>
<b>Noncurrent Assets</b>		
<b>Capital Assets, Net Of Accumulated Depreciation:</b>		
Nondepreciable capital assets:		
Land	23,484,205	23,189,761
Construction in progress	32,599,941	44,720,671
<b>Total nondepreciable capital assets</b>	<b>56,084,146</b>	<b>67,910,432</b>
Depreciable capital assets:		
Intake, purification, and pumping system	224,375,968	227,415,293
Transmission and distribution system	551,467,853	520,592,658
Building, improvements, furniture, and equipment	23,745,515	24,748,230
<b>Total depreciable capital assets, net of accumulated depreciation</b>	<b>799,589,336</b>	<b>772,756,181</b>
<b>Net Capital Assets</b>	<b>855,673,482</b>	<b>840,666,613</b>
<b>Restricted Cash And Investments</b>		
Special funds created by bond resolutions:		
Principal and interest	1,332,385	1,884,818
Senior bond reserve fund	15,169,769	15,892,036
Second Lien bond reserve fund	3,152,688	2,809,572
Water system general fund	17,437,351	16,537,693
<b>Total Special Funds Created By Bond Resolutions</b>	<b>37,092,193</b>	<b>37,124,119</b>
<b>Total Noncurrent Assets</b>	<b>892,765,675</b>	<b>877,790,732</b>
<b>Total Assets</b>	<b>987,351,694</b>	<b>948,659,299</b>
<b>Deferred Outflows Of Resources</b>	<b>171,737</b>	<b>225,107</b>
<b>Total Assets And Deferred Outflows Of Resources</b>	<b>\$ 987,523,431</b>	<b>\$ 948,884,406</b>

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

## STATEMENT OF NET POSITION

Page 2 Of 2

	December 31,	
	2012	2011
<b>Liabilities And Net Position</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 5,246,245	\$ 5,478,053
Customer advances for system development charges	954,100	640,875
Retainages on construction contracts	407,275	1,570,512
Current maturities of revenue bonds payable	11,820,000	9,380,000
Accrued interest on revenue bonds payable	665,153	700,870
Compensated employee absences	1,284,764	1,257,900
Other current liabilities	1,558,997	1,193,782
<b>Total Current Liabilities</b>	<b>21,936,534</b>	<b>20,221,992</b>
<b>Noncurrent And Other Liabilities</b>		
Revenue bonds payable	218,015,000	230,015,000
Premium on revenue bonds payable	3,878,383	3,888,717
Customer advances for construction	2,745,481	1,512,561
Other post-employment	5,943,672	4,670,356
Other	—	443,610
<b>Total Noncurrent And Other Liabilities</b>	<b>230,582,536</b>	<b>240,530,244</b>
<b>Total Liabilities</b>	<b>252,519,070</b>	<b>260,752,236</b>
<b>Net Position</b>		
Net investment in capital assets	622,131,836	596,548,308
Restricted by bond resolution	28,326,792	28,370,953
Unrestricted	84,545,733	63,212,909
<b>Total Net Position</b>	<b>735,004,361</b>	<b>688,132,170</b>
<b>Total Liabilities And Net Position</b>	<b>\$ 987,523,431</b>	<b>\$ 948,884,406</b>

**WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	For The Years	
	Ended December 31,	
	2012	2011
<b>Operating Revenues</b>		
Water sales	\$ 114,672,701	\$ 92,044,865
Other operating revenues	1,369,535	1,235,783
<b>Total Operating Revenues</b>	<b>116,042,236</b>	<b>93,280,648</b>
<b>Operating Expense</b>		
Water source, treatment and pumping	25,948,038	21,940,400
Transmission and distribution	10,907,962	9,964,532
Customer service	3,320,353	3,295,362
Administrative and general	8,693,549	8,412,358
Depreciation of utility plant	21,015,594	20,377,735
<b>Total Operating Expense</b>	<b>69,885,496</b>	<b>63,990,387</b>
<b>Operating Income</b>	<b>46,156,740</b>	<b>29,290,261</b>
<b>Nonoperating Revenues (Expense)</b>		
Investment income	131,004	392,734
Miscellaneous, net	191,668	45,910
Bond interest expense	(9,818,797)	(10,286,421)
Bond issuance expense	(65,836)	—
Amortization expense - refunded bonds	(53,370)	(130,893)
Amortization of premiums and other interest charges	253,325	286,664
Loss on disposal of capital assets	(232,921)	(90,888)
<b>Net Nonoperating Expense</b>	<b>(9,594,927)</b>	<b>(9,782,894)</b>
<b>Income Before Capital Contributions</b>	<b>36,561,813</b>	<b>19,507,367</b>
<b>Capital Contributions</b>	<b>10,310,378</b>	<b>6,525,438</b>
<b>Change In Net Position</b>	<b>46,872,191</b>	<b>26,032,805</b>
<b>Net Position - Beginning Of Year - As Previously Reported</b>	<b>688,132,170</b>	<b>662,825,416</b>
<b>Adjustment For The Provisions Of GASB Statements 63 &amp; 65</b>	<b>—</b>	<b>(726,051)</b>
<b>Net Position - Beginning Of Year - As Restated</b>	<b>688,132,170</b>	<b>662,099,365</b>
<b>Net Position - End Of Year</b>	<b>\$ 735,004,361</b>	<b>\$ 688,132,170</b>

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

## STATEMENT OF CASH FLOWS

Page 1 Of 2

	For The Years	
	Ended December 31,	
	2012	2011
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	\$ 115,694,621	\$ 92,645,963
Payments to suppliers	(34,380,750)	(24,421,404)
Payments to employees	(16,189,421)	(21,821,074)
<b>Net Cash Provided By Operating Activities</b>	<b>65,124,450</b>	<b>46,403,485</b>
<b>Cash Flows From Noncapital Financing Activities, Miscellaneous</b>	<b>191,668</b>	<b>9,095</b>
<b>Cash Flows From Capital And Related Financing Activities</b>		
Proceeds from sale of capital assets	175,726	327,954
System development charges	6,874,177	4,085,025
Acquisition and construction of capital assets	(32,634,816)	(30,956,275)
Principal payments on revenue bonds	(8,970,000)	(20,300,000)
Retirement of long-term debt	(7,195,000)	—
Interest payments on revenue bonds	(10,027,741)	(10,860,035)
Debt issuance costs	(137,200)	—
Issuance of long-term debt, net of premium	6,605,000	—
<b>Net Cash Used In Capital And Related Financing Activities</b>	<b>(45,309,854)</b>	<b>(57,703,331)</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of short-term investments	(95,690,250)	(59,860,745)
Interest received on investments	190,058	461,247
Maturities of short-term investments	77,507,467	70,804,072
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>(17,992,725)</b>	<b>11,404,574</b>
<b>Net Increase In Cash</b>	<b>2,013,539</b>	<b>113,823</b>
<b>Cash - Beginning Of Year</b>	<b>14,061,901</b>	<b>13,948,078</b>
<b>Cash - End Of Year</b>	<b>\$ 16,075,440</b>	<b>\$ 14,061,901</b>
<b>Investments</b>	<b>\$ 99,132,579</b>	<b>\$ 81,054,102</b>
<b>Cash</b>	<b>16,075,440</b>	<b>14,061,901</b>
<b>Total Cash And Investments</b>	<b>\$ 115,208,019</b>	<b>\$ 95,116,003</b>
Principal and interest fund - restricted	\$ 1,332,385	\$ 1,884,818
Water system general fund	68,490,834	45,696,106
Water system general fund - restricted	17,437,351	16,537,693
Construction fund - restricted	—	—
Cash bond reserve fund - restricted	18,322,457	18,701,608
System development account	9,624,992	12,295,778
	<b>\$ 115,208,019</b>	<b>\$ 95,116,003</b>

See the accompanying notes to the basic financial statements.

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# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

## STATEMENT OF CASH FLOWS

Page 2 Of 2

	For The Years	
	Ended December 31,	
	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 46,156,740	\$ 29,290,261
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	21,015,594	20,377,735
Changes in assets and liabilities:		
Increase in receivables and accrued water sales	(347,615)	(634,685)
Increase in materials and supplies	(90,619)	(275,182)
Increase in contractor extension receivables	—	(89,832)
Increase in prepayments and deposits and net pension asset	(3,182,633)	(16,085)
Decrease in other liabilities	(370,142)	(189,840)
Increase (decrease) in accounts payable	275,252	(3,013,740)
Increase in other liabilities and compensation	1,667,873	954,853
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 65,124,450</b>	<b>\$ 46,403,485</b>
Noncash capital and related financing activities:		
Property contributed to WaterOne	\$ 3,749,425	\$ 2,395,230
Acquisition of capital assets through retainage payable	(1,165,713)	1,189,952
Acquisition of capital assets through accounts payable	(507,060)	3,467,132
Noncash retirement of capital assets	232,921	—
Noncash investing activities,		
Appreciation (depreciation) of fair value	(104,306)	80,302

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# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

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## NOTES TO FINANCIAL STATEMENTS For The Year Ended December 31, 2012

### **Note 1. Summary Of Significant Accounting Policies**

Water District No. 1 of Johnson County, Kansas (WaterOne) is a water utility that provides service to 139,558 and 138,456 customers as of December 31, 2012 and 2011, respectively. WaterOne was organized on November 2, 1953 as a quasi-municipal body corporate with the power of eminent domain. WaterOne is governed by a seven-member Water District Board. Election is for overlapping terms voted on by the qualified electors residing in the WaterOne service area.

#### **Basis Of Accounting**

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. WaterOne has authority to issue bonded debt without the approval of another government. It has the right to sue and be sued and has the right to buy, sell, lease or mortgage property in its own name. Based on these criteria, WaterOne is considered a primary government and there are no other organizations or agencies whose financial statements should be combined and presented with these financial statements.

WaterOne accounts for the water utility as a governmental enterprise fund. The accrual basis and economic measurement focus of accounting is utilized, under which revenues are recognized when earned, and expenses are recorded when liabilities are incurred or deferred charges are amortized. Under this basis of accounting, all assets and all liabilities associated with the operation of WaterOne are included in the statement of net position.

WaterOne follows accounting principles and financial reporting requirements as established by the Governmental Accounting Standards Board (GASB).

WaterOne prepares its financial statements in conformity with accounting principles generally accepted in the United States of America as applied to regulated utilities. The accounting and rates of WaterOne are established by the Water District Board.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Notes To Financial Statements *(Continued)*

Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with principal ongoing operations. Non-operating revenues and expenses include those derived from capital and related financing activities, non-capital financing activities, and investing activities.

When both restricted and unrestricted resources are available for use, it is WaterOne's policy to use restricted resources first and then unrestricted resources, as they are needed.

#### **Capital Assets**

Utility plant is stated at cost, or cost of construction, including overhead costs. Included in capital assets is the interest capitalized during construction in accordance with accounting principles generally accepted in the United States of America. Interest of \$173,000 and \$506,000 was capitalized in fiscal year 2012 and 2011, respectively. Fully depreciated plant and equipment are included in the accounts until their disposal. WaterOne's capitalization threshold is \$5,000.

Depreciation is provided on the straight-line method using the following useful lives:

Intake, purification and pumping system	20 - 100 years
Transmission and distribution systems	10 - 100 years
Buildings, improvements, furniture and equipment	3 - 50 years

#### **Accounts Receivable And Unbilled Revenue**

WaterOne utilizes cycle billing and accrues an estimated amount of revenues for sales unbilled at the end of each reporting period. The unbilled amount plus any amounts billed to customers but not yet received by WaterOne is recorded as accounts receivable and accrued water sales, net of an allowance for uncollectable accounts of \$55,000 as of December 31, 2012 and 2011.

#### **Investments**

Investments consist of U.S. Treasury obligations. Treasury obligations are reported at fair value, based on quoted market prices.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Notes To Financial Statements *(Continued)*

#### **Special Funds Created By Bond Resolutions**

Special funds created by bond resolutions consist of cash and investments restricted for debt service on WaterOne's outstanding bonds (P & I Fund), bond reserve funds, construction funds, funding of contingencies, and reserves in the general fund.

#### **Materials And Supplies**

Materials and supplies inventories are reported at average cost.

#### **Unamortized Refunding Charges**

Deferred amounts related to losses from refunding debt are classified as Deferred Outflows of Resources and are amortized over the life of the related issue.

#### **Bond Premium**

Bond premiums are amortized over the life of the related issue using a method which approximates the interest method.

#### **Vacation And Sick Leave**

Under the terms of WaterOne's personnel policy, employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation if proper notice is given by the employee. WaterOne accrues the costs related to earned employee vacation, which includes the employer portion of payroll-related taxes.

Upon retirement or termination, employees are not paid for unused sick leave. The costs of sick leave are recorded when paid and are not accrued.

#### **Cash And Cash Equivalents**

For purposes of the Statements of Cash Flows, WaterOne considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **Reclassifications**

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net position.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Notes To Financial Statements (*Continued*)

#### **Use Of Estimates**

The preparation of the 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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows in the financial statements. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used for acquisition, construction, or improvement of those assets. Net investment in capital assets excludes unspent bond proceeds. As of December 31, 2012, and 2011, WaterOne has no unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Any remaining net position is considered unrestricted.

#### **New Accounting Standards**

In June 2011, GASB issued Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement renames the “statement of net assets” to the “statement of net position” and provides guidance for reporting deferred inflows of resources, deferred outflows of resources, and net position. GASB No. 63 was effective for WaterOne in 2012.

In March 2012, GASB issued Statement No. 65 *Items Previously Recorded as Assets and Liabilities*. This statement is effective for periods beginning after December 15, 2012 and reclassifies certain items currently reported as assets and liabilities to deferred inflows/outflows of resources. WaterOne elected to early adopt GASB No. 65 in fiscal 2012 resulting in certain reclassifications and presentation changes to the statement of net position. The adjustments to the 2011 beginning net position as seen in the statement of revenues, expenses and changes in net position reflect the retroactive treatment of accumulated debt issuance costs and resulted in a decrease in net position of \$726,051.

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

## Notes To Financial Statements (Continued)

### Note 2. Capital Assets

Capital asset activity for the year ended December 31, 2012 is as follows:

	Balance -			Balance -
	December 31,	Increases	Decreases	December 31,
	2011			2012
Capital assets not being depreciated:				
Land	\$ 23,189,761	\$ 294,444	\$ —	\$ 23,484,205
Construction work in progress	44,720,671	36,446,276	48,567,006	32,599,941
Total capital assets not being depreciated	67,910,432	36,740,720	48,567,006	56,084,146
Capital assets being depreciated:				
Intake, purification and pumping system	340,567,433	5,875,447	207,822	346,235,058
Transmission and distribution systems	638,088,655	40,308,279	1,142,699	677,254,235
Building, improvements, furniture and equipment	47,145,705	2,088,836	1,385,292	47,849,249
Total capital assets being depreciated	1,025,801,793	48,272,562	2,735,813	1,071,338,542
Less accumulated depreciation for:				
Intake, purification, and pumping system	113,152,140	8,908,264	201,314	121,859,090
Transmission and distribution systems	117,495,997	9,032,199	741,814	125,786,382
Building, improvements, furniture and equipment	22,397,475	3,090,333	1,384,074	24,103,734
Total accumulated depreciation	253,045,612	21,030,796	2,327,202	271,749,206
Total capital assets being depreciated, net	772,756,181	27,241,766	408,611	799,589,336
<b>Net Capital Assets</b>	<b>\$ 840,666,613</b>	<b>\$ 63,982,486</b>	<b>\$ 48,975,617</b>	<b>\$ 855,673,482</b>

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

### Notes To Financial Statements (Continued)

Capital asset activity for the year ended December 31, 2011 is as follows:

	Balance - December 31, 2010	Increases	Decreases	Balance - December 31, 2011
Capital assets not being depreciated:				
Land	\$ 22,891,474	\$ 308,407	\$ 10,120	\$ 23,189,761
Construction work in progress	32,405,298	38,356,771	26,041,398	44,720,671
Total capital assets not being depreciated	55,296,772	38,665,178	26,051,518	67,910,432
Capital assets being depreciated:				
Intake, purification, and pumping system	332,987,417	7,850,085	270,069	340,567,433
Transmission and distribution systems	624,352,682	14,990,106	1,254,133	638,088,655
Building, improvements, furniture and equipment	45,555,972	3,201,207	1,611,474	47,145,705
Total capital assets being depreciated	1,002,896,071	26,041,398	3,135,676	1,025,801,793
Less accumulated depreciation for:				
Intake, purification, and pumping system	104,528,131	8,810,758	186,749	113,152,140
Transmission and distribution systems	109,371,014	8,531,896	406,913	117,495,997
Building, improvements, furniture and equipment	21,424,195	3,035,081	2,061,801	22,397,475
Total accumulated depreciation	235,323,340	20,377,735	2,655,463	253,045,612
Total capital assets being depreciated, net	767,572,731	5,663,663	480,213	772,756,181
<b>Net Capital Assets</b>	<b>\$ 822,869,503</b>	<b>\$ 44,328,841</b>	<b>\$ 26,531,731</b>	<b>\$ 840,666,613</b>

### Note 3. Deposits And Investments

Kansas statutes authorize WaterOne, with certain restrictions, to deposit or invest in various accounts and instruments. Pursuant to WaterOne's bond resolutions, operating funds and bond funds are to be invested in direct obligations of the United States of America or any agency thereof, or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, including debt obligations of the Government National Mortgage Association.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Notes To Financial Statements (*Continued*)

Bond funds may also be invested in debt obligations of the Federal Home Loan Mortgage Company, the Federal National Mortgage Association and/or the Federal Home Loan Bank. Bond funds may also be invested in collateralized repurchase agreements which are collateralized at 100 percent of fair market value by direct obligations of the United States of America or any agency thereof or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, or by debt obligations of the Federal Home Loan Mortgage Company, the Federal National Mortgage Association, the Federal Home Loan Bank and/or the Government National Mortgage Association.

Bond funds may also be invested in guaranteed investment contracts (GICs) with any bank, non-bank financial institution, or insurance company that has long-term debt (or claims paying ability for insurance companies) rated at least "A" or "A2" by Standard & Poor's or Moody's, respectively. In the case of a guaranteed corporation, the long-term debt (or claims-paying ability for insurance companies) of the guarantor must be rated at least "A" or "A2" by Standard & Poor's or Moody's, respectively. Upon downgrade below these ratings, the GIC provider must either post collateral or assign the agreement to a provider meeting the rating qualifications above. Acceptable collateral and margin requirements, if any, are to be specified in the GIC agreement.

Investment of operating funds or bond funds in Mortgage Backed Securities (MBS) is prohibited.

Statutes also require that collateral pledged for deposits must have a fair market value equal to 100 percent, less insured amounts, and must be assigned for the benefit of WaterOne. Acceptable collateral is limited to securities that are direct obligations of the United States of America or any agency thereof, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America including U.S. Treasuries and debt obligations of the Government National Mortgage Association, the Federal Home Loan Mortgage Company, the Federal National Mortgage Association or the Federal Home Loan Bank. Use of Mortgage Backed Securities (MBS) as collateral is prohibited.

### **Deposits**

As of December 31, 2012 and 2011, the bank balance of WaterOne's deposits were \$16,422,574 and \$14,165,865, respectively, which were covered by federal depository insurance or by collateral held by the Federal Reserve Bank in WaterOne's name under a joint custody arrangement with WaterOne's bank.

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

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### Notes To Financial Statements (Continued)

#### Investments

WaterOne's U.S. Treasury investments are held in safekeeping with the Federal Reserve Bank in WaterOne's treasury direct account in which proper receipts are maintained. All of WaterOne's investments are registered and held by WaterOne or its agent in WaterOne's name. A summary of investments and deposits as of December 31, 2012 and 2011 is as follows:

	Fair Value	
	2012	2011
U.S. Treasury securities	\$ 99,132,579	\$ 81,054,102
Deposits	16,073,490	14,060,051
Petty cash	1,950	1,850
	<u>\$ 115,208,019</u>	<u>\$ 95,116,003</u>

The investments and deposits at December 31, 2012 and 2011 are shown on the statement of net position as follows:

	2012	2011
Cash and temporary investments:		
General account	\$ 68,490,834	\$ 45,696,106
System development account	9,624,992	12,295,778
Special funds created by bond resolutions	37,092,193	37,124,119
	<u>\$ 115,208,019</u>	<u>\$ 95,116,003</u>

Credit risk and concentration of credit risk: Credit risk is the risk that the counterparty will not fulfill its obligations. WaterOne limits credit risk and concentration of credit risk by investing only in obligations explicitly guaranteed by the U.S. government, which are not considered to have credit risk.

Interest rate risk: Interest rate risk is the risk that the fair value of WaterOne's investments will decrease as a result of an increase in interest rates. In accordance with Kansas Statute 12-1675(4), WaterOne manages its exposure to declines in fair values by limiting the total remaining maturity of any single investment to less than two years and by structuring the portfolio so that securities mature to meet cash requirements, thereby avoiding the need to sell securities on the open market prior to maturity.

The weighted average maturity in years of U.S. Treasury securities is 0.85 and 0.70 as of December 31, 2012 and 2011, respectively.

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

## Notes To Financial Statements (Continued)

Custodial credit risk: Custodial credit risk is the risk that WaterOne will not recover its investments due to the inability of the counterparty to fulfill its obligation. WaterOne's deposits up to \$250,000 are guaranteed by depository insurance and balances above this threshold are collateralized with U.S. government securities held by the Federal Reserve in WaterOne's name.

### Note 4. Bonded Indebtedness

Details of revenue bonds outstanding at December 31, 2012 and 2011 are as follows:

<u>Outstanding Bonds</u>	<u>Original Principal</u>	<u>Principal 2012</u>	<u>Principal 2011</u>
Water revenue refunding bonds:			
Series 2002 (4.0% to 5.0%), due 2002 - 2019	\$ 13,960,000	\$ —	\$ 7,600,000
Series 2003 (2.0% to 4.0%), due 2004 - 2015	29,295,000	6,770,000	8,830,000
Series 2009 (2.0% to 5.0%), due 2010 - 2020	26,190,000	17,830,000	19,870,000
Series 2012 (1.5% to 2.0%), due 2013 - 2020	6,605,000	6,605,000	—
Water revenue improvement bonds:			
Series 2007 (3.57% to 4.36%), due 2010 - 2032	180,245,000	170,025,000	174,205,000
Series 2010 (2.0% to 4.0%), due 2013 - 2030	28,890,000	28,605,000	28,890,000
	<u>\$ 285,185,000</u>	229,835,000	239,395,000
Less principal amount of bonds payable within one year		<u>11,820,000</u>	<u>9,380,000</u>
		<u>\$ 218,015,000</u>	<u>\$ 230,015,000</u>

The annual requirement to retire the revenue bonds outstanding as of December 31, 2012 is as follows:

<u>Year Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 11,820,000	\$ 9,435,488	\$ 21,255,488
2014	17,090,000	8,878,085	25,968,085
2015	16,655,000	8,236,948	24,891,948
2016	13,570,000	7,648,838	21,218,838
2017	13,910,000	7,104,766	21,014,766
2018 - 2022	78,280,000	25,180,125	103,460,125
2023 - 2027	42,435,000	10,965,789	53,400,789
2028 - 2032	36,075,000	3,385,825	39,460,825
	<u>\$ 229,835,000</u>	<u>\$ 80,835,864</u>	<u>\$ 310,670,864</u>

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

## Notes To Financial Statements *(Continued)*

Following is a schedule of bond activity in 2012:

	Balance - January 1, 2012	Bonds Issued	Principal Payments	Bonds Retired	Balance - December 31, 2012	Debt Due Within One Year	Interest Paid
Water revenue							
refunding bonds:							
Series 2002	\$ 7,600,000	\$ —	\$ 405,000	\$ 7,195,000	\$ —	\$ —	\$ 349,650
Series 2003	8,830,000	—	2,060,000	—	6,770,000	2,155,000	326,231
Series 2009	19,870,000	—	2,040,000	—	17,830,000	2,950,000	581,225
Series 2012	—	6,605,000	—	—	6,605,000	870,000	—
Water revenue							
improvement bonds:							
Series 2007	174,205,000	—	4,180,000	—	170,025,000	5,275,000	7,655,198
Series 2010	28,890,000	—	285,000	—	28,605,000	570,000	1,115,437
	<b>\$ 239,395,000</b>	<b>\$ 6,605,000</b>	<b>\$ 8,970,000</b>	<b>\$ 7,195,000</b>	<b>\$ 229,835,000</b>	<b>\$ 11,820,000</b>	<b>\$ 10,027,741</b>

Following is a schedule of bond activity in 2011:

	Balance - January 1, 2011	Bonds Issued	Principal Payments	Bonds Retired	Balance - December 31, 2011	Debt Due Within One Year	Interest Paid
Water revenue							
refunding bonds:							
Series 2001	\$ 11,230,000	\$ —	\$ 3,580,000	\$ 7,650,000	\$ —	\$ —	\$ 517,250
Series 2002	8,385,000	—	785,000	—	7,600,000	815,000	383,331
Series 2003	10,805,000	—	1,975,000	—	8,830,000	2,060,000	397,419
Series 2009	22,690,000	—	2,820,000	—	19,870,000	2,040,000	632,575
Water revenue							
improvement bonds:							
Series 2007	177,695,000	—	3,490,000	—	174,205,000	4,180,000	7,814,023
Series 2010	28,890,000	—	—	—	28,890,000	285,000	1,115,438
	<b>\$ 259,695,000</b>	<b>\$ —</b>	<b>\$ 12,650,000</b>	<b>\$ 7,650,000</b>	<b>\$ 239,395,000</b>	<b>\$ 9,380,000</b>	<b>\$ 10,860,035</b>

The 2003, 2007, 2009 and 2010 Series Bonds have early redemption provisions at the option of WaterOne. The 2007, 2009 and 2010 Series Bonds have certain mandatory sinking fund provisions beginning in 2028, 2020 and 2022, respectively. The 2003 Series Bonds do not have a mandatory sinking provision as they do not include term bonds. All outstanding Water Revenue Refunding and Water Revenue Improvement Bond Series constitute a lien on the water supply and distribution system and on the revenue produced by the system.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Notes To Financial Statements (*Continued*)

Under terms of the Senior Parity Bond resolutions and the Second Lien Bond resolution, WaterOne must maintain debt service coverage of at least 1.25 times the annual debt service requirement. Under the formula for computing debt service coverage in the Bond resolutions, 2012 net revenues designated as available to meet debt service requirements (operating income before depreciation, plus system development charges and interest income) equaled 3.93 times the annual Senior Parity and Second Lien debt service requirement.

The revenue bond resolutions also require that, after all amounts due for operation and maintenance expenses are paid, certain monies be segregated or restricted in special reserves and accounts, as follows:

WaterOne shall deposit on the first day of each month, into the principal and interest account, such amount equal to not less than the pro rata amount of interest and principal that will become due on the bonds on the next succeeding payment date plus amounts that may be required for fiscal agent fees and expenses.

WaterOne shall maintain bond reserve funds for the Senior Parity and Second Lien Bonds, respectively. The funds shall consist of either cash or equivalent security irrevocably available as long as the bonds remain outstanding. The reserve requirement for each fund is equal to the lesser of the maximum annual debt service or 125 percent of the average annual debt service for the respective group of Senior Parity and Second Lien bonds. As of December 31, 2012, there was a balance of \$15,169,769 in the Senior Bond Reserve, \$1,309,449 in the 2009 Second Lien Bond Reserve, \$1,499,840 in the 2010 Second Lien Bond Reserve, and \$343,399 in the 2012 Second Lien Bond Reserve.

After all requirements in the preceding provisions have been met, the remaining monies may be expended for any lawful purpose, provided WaterOne maintains a balance sufficient to provide for (1) operating and extraordinary renewal and replacement cost contingencies of not less than \$2,000,000, (2) the payment of operation and maintenance expenses for the ensuing 60 days, (3) the necessary material purchase requirements for the ensuing 60 days, and (4) reasonable amounts for unfunded contracts and commitments.

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

### Notes To Financial Statements *(Continued)*

As of December 31, 2012, WaterOne had committed cash and short-term investments as provided by bond resolutions or Board actions as follows:

General Fund cash and short-term investments	\$ 85,928,185
Less funds reserved by bond resolution (Section 703):	
Contingencies	(2,000,000)
Operation and maintenance	(7,199,238)
Material purchases	(137,865)
Unfunded contracts and commitments	(8,100,248)
<hr/>	
General Fund after bond resolutions reserves (Section 703)	<u>\$ 68,490,834</u>

WaterOne, by Board action, reserves remaining general funds to cover negative cash flows, to fund a Rate Stabilization Reserve, and to provide a reserve for current and future Master Plan construction projects as well as Transmission and Distribution projects. The reserving of these Master Plan and Transmission and Distribution funds reduces the necessity or size of future bond issues, thus reducing future debt service expense, and provides funding for the obligations of construction and other related contracts that have been awarded.

Additionally, WaterOne, by Board resolution, has established an account consisting of revenues collected from system development charges for the purpose of funding major improvements to the supply and distribution system. As of December 31, 2012 and 2011, the account totaled \$9,624,992 and \$12,295,778, respectively.

In November 2012, WaterOne issued \$6,605,000 of Second Lien Water Revenue Refunding Bonds, Series 2012 with an average interest rate of 1.88 percent. The issuance resulted in bond proceeds of \$6,785,000 after deducting \$62,991 in debt issuance costs and including the net bond premium of \$242,991. These funds, combined with \$924,157 of WaterOne funds, were used for the purpose of funding the 2012 Bond Reserve Account and to call the remaining outstanding amount of the Series 2002 Bonds. The difference between the cash flows required to service the old debt and the new debt was \$993,328. The economic gain resulting from the transaction was \$936,455.

On December 1, 2011, WaterOne cash defeased the remaining \$7,650,000 principal portion of the Series 2001 bonds. The interest savings on the defeased 2012 and 2013 principal amounts will be over \$480,000.

**Note 5. Customer Advances For Construction**

Customer advances for construction are primarily for construction of water main extensions. These are valued at fair value at the time of contribution. Some advances are contingently refundable in accordance with WaterOne's rules and regulations. However, substantially all main extension contracts executed provide for no refunds. The nonrefundable advances are recognized as contributed capital after construction is completed.

**Note 6. Customer Advances For New Services, System Development Charges, And Capital Contributions**

Customer advances for new services and system development charges are collected at the time the applicant requests a tapping permit. If the tap related to the permit is completed, the new service and system development charges are recognized as contributed capital. If the permit lapses, the new service amount and the system development amount are refunded to the applicant.

New services contributions consist of a nonrefundable charge assessed on completed new service connections. The new service charge is designed to compensate for the applicable cost of service materials and WaterOne labor and overhead costs related to the permitting, tapping and inspection process.

Intergovernmental contributed capital resulted from historical acquisitions of former rural water districts and municipal service areas.

Contributed capital from WaterOne-owned Benefit Areas (BA) consists of nonrefundable charges to those entities that request a hook-up to specifically designated water mains. These pre-designated mains are usually installed in "leap frog" development areas and the BA charges are designed to recuperate only the actual cost of the specific main that is being hooked on to.

**Note 7. Retirement Plan**

**Plan Description**

WaterOne contributed to the Water District No. 1 of Johnson County, Kansas Fifth Revised Retirement Plan as a single-employer defined benefit public employee retirement system (the System) established by WaterOne to provide pension benefits for its employees.

All full-time employees of WaterOne are eligible for participation on January 1 or July 1 following the attainment of age 21 and completion of one year of service. All benefits vest after five years of service. Employees who retire at or after age 65 are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to the greater of (a) the sum of 1.91 percent of final average monthly pay plus 0.48 percent of the excess of final average monthly pay over covered compensation times years of credited service up to 25 years plus 0.5 percent of final average monthly pay times years of credited service in excess of 25 years, or (b) 1.5 percent times monthly earnings for each year of credited service. Ad hoc cost-of-living increases were granted for retirees and beneficiaries as of January 1, 1991; January 1, 1994; January 1, 1997; January 1, 2000; January 1, 2001; January 1, 2002; January 1, 2003; and January 1, 2004. The plan was amended to allow for a partial lump sum option at retirement for participants in the pension plan hired prior to January 1, 2005. Participants hired on or after January 1, 2005 are not eligible for a lump sum option at retirement. As of January 1, 2012, the System had 413 participants. This was made up of 291 active participants, 81 participants eligible for a deferred benefit, and 41 retirees and beneficiaries.

Final average monthly pay is the employee's average basic monthly rate of pay as of each January 1 over the highest five consecutive years. Covered Compensation is defined as the average of the Social Security taxable wages in effect under Section 230 of the Social Security Act for the 35 calendar years ending with the earlier of the calendar year in which the member terminates employment, or the calendar year in which the member attains Normal Retirement Age. Employees with ten years of service may retire at or after age 55 with a reduced benefit. Benefit and contribution provisions are established by WaterOne.

Funding policy: WaterOne's System funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as a percentage of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. WaterOne makes all contributions to fund the System on an actuarial basis; employees do not contribute to the pension plan.

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

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### Notes To Financial Statements (Continued)

Annual pension cost and net pension obligation: WaterOne's annual pension cost (APC) and net pension obligation (NPO) as of December 31, 2012, 2011 and 2010 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Annual Required Contribution (ARC)	\$ 3,469,000	\$ 3,348,000	\$ 3,133,000
Interest on NPO	—	—	2,000
<u>Adjustments to ARC</u>	<u>—</u>	<u>—</u>	<u>—</u>
APC	3,469,000	3,348,000	3,135,000
<u>Contributions</u>	<u>(6,461,000)</u>	<u>(3,356,000)</u>	<u>(3,181,000)</u>
Increase (decrease) in NPO	(2,992,000)	(8,000)	(46,000)
<u>NPO (asset), January 1</u>	<u>(8,000)</u>	<u>—</u>	<u>46,000</u>
<u>NPO, December 31</u>	<u>\$ (3,000,000)</u>	<u>\$ (8,000)</u>	<u>\$ —</u>
Percentage of APC contributed	186.2%	100.2%	101.5%

Actuarial methods and assumptions: The annual required contribution for the current year was determined as part of the January 1, 2012 actuarial valuation using the Projected Unit Credit method. Under this method, the benefits expected to be paid to each participant are projected based on the applicable actuarial assumptions. The projected benefits are then divided on a pro-rata basis over the applicable years of service. For purposes of this cost method, the applicable years of service commence at the age at which benefit service is first credited. The applicable years of service extend to the date each particular projected benefit is expected to be incurred, or, if earlier, the date at which the credited service requirements for each participant benefit are satisfied. The normal cost for the year is equal to the actuarial present value of the benefits allocated to the current year in accordance with the cost method. The actuarial accrued liability is set equal to the actuarial present value of all benefits allocated to years prior to the valuation date. The unfunded actuarial accrued liability is equal to the excess, if any, of the actuarial accrued liability over the actuarial value of assets.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Notes To Financial Statements *(Continued)*

The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations. The actuarial value of assets was determined using techniques that spread the effects of short-term volatility in the market value of investments. Each year the unfunded actuarial accrued liability is expected to be equal to the sum of the unfunded actuarial accrued liability and normal cost from the prior year, plus interest, less the accumulated value of employer contributions made to the fund. The extent to which this expected value differs from the actual value of the unfunded actuarial accrued liability reflects the actuarial experience for the plan year. If the expected value exceeds the actual value, a gain has occurred. Conversely, if the actual value exceeds the expected value, a loss has occurred. The unfunded actuarial accrued liability is further modified for changes in plan provisions, actuarial assumptions or methods. Actuarial gains or losses are amortized over 10 years. Changes in the unfunded actuarial liability due to changes in plan provisions, actuarial assumptions or methods are amortized over 25 years.

The actuarial value of assets is a calculated value determined by starting with the market value of assets as of January 1, 2001. For subsequent years, the calculated value is determined by adjusting the market value of assets to reflect the unrecognized investment actuarial gains and losses (the difference between the actual investment return and the expected investment rate) during each of the last five years or, if fewer, the completed years since January 1, 2001, at the rate of 20 percent per year.

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

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### Notes To Financial Statements (*Continued*)

The following summarizes the actuarial assumptions and cost method employed for the January 1, 2012 annual actuarial valuation:

Investment Return	8.5% per year, pre-lump sum, participants in pay status and annuity payments
Salary Scale	5.0% per year
Mortality	1994 Group Annuity Tables for males and females pre-lump sum, participants in pay status and annuity payments
Withdrawal	Crocker Sarason T-3 Table
Retirement	Of those ineligible for enhanced early retirement - 10% will retire at age 55 10% at age 58, 15% at age 60, 25% at age 62, 10% at age 63, 10% at age 64, and the remainder at age 65  Of those eligible for enhanced early retirement - 12.5% will retire at age 55 12.5% at age 58, 18.75% at age 60, 31.25% at age 62, 12.5% at age 63, 12.5% at age 64, and the remainder at age 65
Disability	None
Social Security Wage Base	Increase of 4.5% per year
Form of Payment	25% of benefits are taken as an annuity and 75% as a lump sum
Marital Characteristics	80% married with males assumed to be 3 years older than female spouses
Expenses	None
Valuation Earnings	2012 Base Rate of Pay
Benefits Not Valued	Disability was assumed to have an insignificant cost
Changes since prior valuation	Lump sum basis updated from 40% of 1984 Unisex Mortality Table set forward one year at 5% and 60% of PPA Small Plan Combined Unisex Mortality Table

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Notes To Financial Statements (*Continued*)

Funding status and funding progress as of December 31, 2012: As of January 1, 2012, the most recent valuation date, the plan was 81.64 percent funded. The actuarial accrued liability for benefits was \$36,747,193, and the actuarial value of assets was \$30,001,573, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,745,620, and the ratio of the UAAL to the covered payroll was 38.40 percent. The funding status and funding progress includes a \$3,000,000 additional contribution made to the plan in December 2012. WaterOne's covered payroll for employees covered by the System as of January 1, 2012 was \$17,567,680. Covered payroll is defined as the pay, limited by Internal Revenue Code 401(a)(17), for all participants under Normal Retirement Age.

Funding status and funding progress as of December 31, 2011: As of January 1, 2011, the plan was 74.09 percent funded. The actuarial accrued liability for benefits was \$35,335,274, and the actuarial value of assets was \$26,179,096, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,156,178, and the ratio of the UAAL to the covered payroll was 49.54 percent. WaterOne's covered payroll for employees covered by the System as of January 1, 2011 was \$18,483,587.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

### **Note 8. Other Postemployment Benefits (OPEB)**

#### **Plan Description**

WaterOne provides a single-employer health care plan that provides medical, prescription drugs and life insurance benefits to all employees, hired before January 1, 2008, who retire under the provisions of the Water District No. 1 of Johnson County, Kansas, Revised Retirement Plan. Employees who have attained age 55 and retire from active employment with 10 consecutive years of service are eligible for retiree benefits. Eligible retirees and their dependents receive medical, drug, and life insurance coverage through a fully-insured plan. These are the same plans that are available for active employees.

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

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### Notes To Financial Statements (Continued)

#### Funding Policy

WaterOne establishes and amends contribution requirements. WaterOne pays a portion of the health insurance premiums for the District's group medical insurance plan and/or an AARP (medicare supplement plan) plan and/or a COBRA plan. The portion of the premiums paid by WaterOne is determined based on the age of the retiree and of the spouse at retirement. The current funding policy of WaterOne is to pay premiums as they occur on a pay-as-you-go basis. This arrangement does not qualify as other post employment benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 45 for current GASB reporting.

#### Annual OPEB Cost And Net OPEB Obligation

WaterOne's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to 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 the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of WaterOne's annual OPEB cost for the year ended December 31, 2012 and 2011, the amount actuarially contributed to the plan, and changes in WaterOne's annual OPEB obligation:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 1,675,706	\$ 1,675,706
Interest on net OPEB obligation	152,867	152,867
<u>Adjustment to annual required contribution</u>	<u>(219,855)</u>	<u>(219,855)</u>
Annual OPEB cost (expense)	1,608,718	1,608,718
<u>Contributions and payments made</u>	<u>(335,402)</u>	<u>(335,402)</u>
Increase in net OPEB obligation	1,273,316	1,273,316
Net OPEB Obligation - Beginning Of Year	4,670,356	3,397,040
<u>Net OPEB Obligation - End Of Year</u>	<u>\$ 5,943,672</u>	<u>\$ 4,670,356</u>

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

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### Notes To Financial Statements (Continued)

WaterOne's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2012 is as follows:

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage Of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
December 31, 2010	\$ 1,388,435	17.17%	\$ 3,397,040
December 31, 2011	1,608,718	20.85%	4,670,356
December 31, 2012	1,608,718	20.85%	5,943,672

Funded status and funding progress as of December 31, 2012 and 2011: As of January 1, 2011, the most recent actuarial valuation date, the plan was not funded. WaterOne's actuarial accrued liability for benefits was \$14,457,815 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$14,457,815. The covered payroll as of January 1, 2011 (annual payroll of active employees covered by the plan) was \$18,838,987, and the ratio of the UAAL to the covered payroll was 76.7 percent.

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

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 included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

## **WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS**

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### Notes To Financial Statements *(Continued)*

In the January 1, 2011 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.5 percent discount rate, a 5.0 percent salary rate increase and 5.0-9.0 percent healthcare cost trend rates. The UAAL is being amortized as level dollar closed. The amortization of UAAL is done over a period of no more than 30 years.

## **Note 9. Employee Benefits**

### **Deferred Compensation**

WaterOne offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time and part-time WaterOne employees, permits them 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.

### **Defined Contribution**

WaterOne offers its employees a defined contribution plan created in accordance with Internal Revenue Code Section 401(a). The defined contribution plan has two parts, consisting of the following:

WaterOne offers its employees a defined contribution plan, available to all full-time and part-time WaterOne employees, which provides for a WaterOne contribution matching 50 percent of an employee's contribution to the 457 plan, up to 4 percent of the employee's eligible annual compensation. The maximum WaterOne contribution is 2 percent of the employee's eligible compensation.

WaterOne offers its employees a defined contribution plan, available to all full-time WaterOne employees with at least six months of service, which provides for a contribution of 2.5 percent of the employee's eligible annual compensation.

## WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

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### Notes To Financial Statements (Continued)

Assets of both portions of the 401(a) plan are not available to employees until termination, retirement, death or unforeseen emergency. New employees are subject to a five-year vesting schedule consisting of 20 percent vested at the end of each year until the employee has five years of service. After five years of service is obtained, all subsequent employer contributions are 100 percent vested. WaterOne had deposited assets for the matching portion of the 401(a) plan in the amount of \$323,500 and \$306,320 during 2012 and 2011, respectively. As of December 31, 2012 and 2011, a liability had been recorded by WaterOne for the annual 2.5 percent base contribution in the amount of \$472,969 and \$459,183, respectively. These amounts were subsequently deposited to the defined contribution plan in January 2013 and 2012. The defined contribution plan assets are held in trust for the exclusive benefit of employees and their beneficiaries.

### Compensated Absences

Under the terms of WaterOne's personnel policy, employees are granted vacation leave in varying amounts based on length of service and full-time or part-time status. In the event of termination, an employee is paid for accumulated vacation.

<b>Vacation Liability At 12/31/2011</b>	<b>2012 Earned Vacation</b>	<b>2012 Taken Vacation</b>	<b>Vacation Liability At 12/31/2012</b>	<b>Due Within One Year</b>
\$ 1,257,900	\$ 1,307,657	\$ 1,280,793	\$ 1,284,764	\$ 1,284,764

<b>Vacation Liability At 12/31/2010</b>	<b>2011 Earned Vacation</b>	<b>2011 Taken Vacation</b>	<b>Vacation Liability At 12/31/2011</b>	<b>Due Within One Year</b>
\$ 1,269,642	\$ 1,322,580	\$ 1,334,322	\$ 1,257,900	\$ 1,257,900

**Note 10. Commitments And Contingencies**

Master Plan projects are part of a comprehensive plan developed by WaterOne's consulting engineers to meet WaterOne's long-term water system needs. As of December 31, 2012, WaterOne had total contractor commitments of \$19.28 million related to various Master Plan projects, including those under Phase V. Approximately \$16.01 million of the Master Plan commitments have been charged to the projects as of December 31, 2012. WaterOne has sufficient monies designated in the system development account and the general account to fund any unpaid Phase V outstanding costs and retainages. Also included in the December 31, 2012 balance of the system development account and the general account are monies for anticipated engineering, legal services and contingencies that may be required to bring these projects to completion.

WaterOne has various lawsuits and claims pending which arise through the normal course of operations. Management believes the ultimate liabilities, if any, of these lawsuits would not be material to the financial position or results of operations of WaterOne.

**Note 11. Risk Management**

WaterOne is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; and malpractice. WaterOne purchases commercial insurance for property and casualty, workers' compensation, employee health, life, and dental insurance. During the last three years, settled claims have not exceeded insurance coverage.

**Note 12. Governmental Accounting Standards Board (GASB) Statements**

As of December 31, 2012, GASB has issued several statements that are not yet effective for WaterOne and have not yet been implemented. These statements are as follows:

GASB Statement No. 61, “The Financial Reporting Entity - Omnibus - An Amendment of GASB Statement No. 14 and No. 34”, strengthens the criteria for blending component units. The amendments stipulate that if a primary government pays entirely or almost entirely for a component unit’s debts, no matter what type of debt, then a financial burden is created and the component unit should be blended. This statement is effective for periods beginning after June 15, 2012. This statement will have no effect on WaterOne.

GASB Statement No. 68, “Accounting and Financial Reporting for Pensions”, was issued June 2012. This statement establishes accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statement No. 27, “Accounting for Pensions by State and Local Government Employers”, as well as the requirements of Statement No. 50, “Pension Disclosures”, as they relate to pensions that are provided through pension plans administered as trusts or equipment arrangements that meet certain criteria. Also, this statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. The provisions of this statement are effective for fiscal years beginning after June 15, 2014.

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

## REQUIRED SUPPLEMENTARY INFORMATION Schedule Of Funding Progress Of Employee Retirement System December 31, 2012

### Schedule 1

Fiscal Year Ended	Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability	(a)-(b)	(a)/(b)	(c) Covered Payroll	{(a)-(b)/(c)} UAAAL As A Percentage Of Covered Payroll
				Unfunded Assets In Excess Of Actuarial Accrued Liability (UAAAL)			
2007	January 1, 2007	\$ 19,928,385	\$ 26,739,176	\$ (6,810,791)	74.53%	\$ 17,593,638	(38.71)%
2008	January 1, 2008	20,851,642	28,029,982	(7,178,340)	74.39	18,591,019	(38.61)
2009	January 1, 2009	22,470,820	31,096,787	(8,625,967)	72.26	19,312,634	(44.66)
2010	January 1, 2010	24,975,402	33,070,927	(8,095,525)	75.52	18,736,224	(43.21)
2011	January 1, 2011	26,179,096	35,335,274	(9,156,178)	74.09	18,483,587	(49.54)
2012	January 1, 2012	30,001,573	36,747,193	(6,745,620)	81.64	17,567,680	(38.40)

Note:

WaterOne contributed 92% of the annual required contribution in 2007. The remaining contribution was made up from a portion of the NPO.

WaterOne contributed 100% of the annual required contribution in 2008.

WaterOne contributed 99% of the annual required contribution in 2009.

WaterOne contributed 102% of the annual required contribution in 2010.

WaterOne contributed 100% of the annual required contribution in 2011.

WaterOne contributed 100% of the annual required contribution in 2012, with an additional \$3 million contribution in December of 2012.

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of January 1, 2012.

Additional information is as follows:

1. The cost method used to determine the ARC is the Projected Unit Credit method.
2. Economic assumptions are as follows: discount rate of 8.5%, salary increases of 5.0%.
3. The amortization method is level dollar closed.

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# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

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## REQUIRED SUPPLEMENTARY INFORMATION

### Schedule of Funding Progress Of Other Postemployment Benefit Plan

#### December 31, 2012

### Schedule 2

<b>Fiscal Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value Of Net Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (a-b)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>Percentage Of Covered Payroll ((a-b)/c)</b>
2008	January 1, 2006	\$ —	\$ 11,157,561	\$ (11,157,561)	—	\$ 18,554,479	(60.13)%
2009	January 1, 2009	—	11,881,075	(11,881,075)	—	20,416,701	(58.19)%
2010	January 1, 2009	—	11,881,075	(11,881,075)	—	20,416,701	(58.19)%
2011	January 1, 2011	—	14,457,815	(14,457,815)	—	18,838,987	(76.74)%
2012	January 1, 2011	—	14,457,815	(14,457,815)	—	18,838,987	(76.74)%

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of January 1, 2011.

Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Credit method.
2. There are no plan assets.
3. Economic assumptions are as follows: discount rate of 4.5 percent.
4. The amortization method is level dollar closed.

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

## ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 1 Of 4 Year Ended December 31, 2012

### Schedule 3

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
Blanket building and contents per schedule of values	<b>COVERAGE I – Property, Inland Marine, Boiler &amp; Machinery</b> All risk of direct physical loss of or damage to the insured property.	\$238,119	\$200,000,000 Loss Limit	Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604 Policy # - RMP2010729912	07/01/13
	<b>Note: Policy includes COVERAGE II, Boiler and COVERAGE III, Inland Marine</b>		Real and personal property \$25,000,000 - Business Income \$5,000,000 - Extra Expense \$50,000,000 Limitation Flood and Earthquake Coverage \$500,000 Fine Arts \$3,800 month/\$45,600 Aggregate Equipment Rental Terrorism - Included		
	<u>Deductible</u>		<u>Coverage</u>		
	\$100,000		Flood/earthquake		
	\$25,000		All other losses		
	\$25,000		Business Income		
	\$5,000		Fine arts coverage		
	\$25,000		Acts of Terrorism		
Boilers, fired storage water heaters, fired coil water heaters, and electric steam generators per schedule	<b>COVERAGE II – Boiler</b> Losses on property of insured, temporary repairs to property of insured, losses to property of others, defense against claims	See COVERAGE I above	\$100,000,000	Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604	07/01/13
	<u>Deductible</u>				
	\$25,000				
	Time Element 1MDV				
Per schedule of equipment	<b>COVERAGE III – Inland Marine</b> Physical loss or damage of EDP, mobile equipment, contractors equipment	See COVERAGE I above		Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604	07/01/13
	<u>Deductible</u>		<u>Coverage</u>		
	\$25,000		All other losses		
	\$25,000		Electronic Data Processing	Included	
	\$1,000		Mobile Equipment	\$440,000	
	\$5,000		Scheduled Contractors Equipment plus trailers	\$3,819,437	
	\$10,000		Leased equipment	\$500,000	
Bodily injury and property damage Premium is based on exposure of payroll at \$19,539,832  Based on revenue  Includes Wrongful Acts, Employment Practices Liability and Offenses in the Admin. Of Employee Benefit Plans	<b>COVERAGE IV- General Liability</b>  <b>General Liability Deductible</b> \$5,000 per occurrence  <b>Management Liability</b> Retroactive Date - None Deductible - 5,000 per offense	\$185,975	\$1,000,000 per occurrence \$3,000,000 aggregate \$3,000,000 products-completed operations aggregate  Included \$1,000,000 per occurrence \$3,000,000 aggregate	OneBeason America Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0001	07/01/13

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

## ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 2 Of 4 Year Ended December 31, 2012

### Schedule 3 (Continued)

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date											
Coverage extends to all District owned, rented, or leased vehicles	<b>COVERAGE V- Comprehensive Auto Liability:</b> Liability coverage is combined single limit for bodily injury and property:	\$93,403		OneBeason America Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0001	07/01/13											
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;"><i>Deductible</i></td> <td style="text-align: center; border-bottom: 1px solid black;"><i>Coverage</i></td> </tr> <tr> <td style="text-align: center;">\$5,000 each accident</td> <td style="text-align: center;">Bodily injury and property damage Annual policy</td> </tr> </table>	<i>Deductible</i>	<i>Coverage</i>	\$5,000 each accident	Bodily injury and property damage Annual policy											
<i>Deductible</i>	<i>Coverage</i>															
\$5,000 each accident	Bodily injury and property damage Annual policy															
	Comprehensive automobile physical damage to fleet including fire, explosion, theft, windstorm, hail, earthquake, and flood Deductibles apply to each covered vehicle; there is no deductible on fire or lightning loss		Actual cash value													
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;"><i>Deductible</i></td> <td style="text-align: center; border-bottom: 1px solid black;"><i>Coverage</i></td> </tr> <tr> <td style="text-align: center;">\$1,000 each ded.</td> <td style="text-align: center;">Comprehensive</td> </tr> <tr> <td style="text-align: center;">\$1,000 each ded.</td> <td style="text-align: center;">Collision</td> </tr> <tr> <td style="text-align: center;">\$1,000 ded comp/\$1,000 coll</td> <td style="text-align: center;">50,000 limit on hired car</td> </tr> <tr> <td style="text-align: center;">\$25,000</td> <td style="text-align: center;">Single Accident all auto PD aggregate</td> </tr> <tr> <td colspan="2" style="text-align: center;">Additional named insured on leased vehicles, or used by others under contract</td> </tr> </table>	<i>Deductible</i>	<i>Coverage</i>	\$1,000 each ded.	Comprehensive	\$1,000 each ded.	Collision	\$1,000 ded comp/\$1,000 coll	50,000 limit on hired car	\$25,000	Single Accident all auto PD aggregate	Additional named insured on leased vehicles, or used by others under contract				
<i>Deductible</i>	<i>Coverage</i>															
\$1,000 each ded.	Comprehensive															
\$1,000 each ded.	Collision															
\$1,000 ded comp/\$1,000 coll	50,000 limit on hired car															
\$25,000	Single Accident all auto PD aggregate															
Additional named insured on leased vehicles, or used by others under contract																
	<b>COVERAGE VI- Excess Liability - Occurrence</b> Excess over general liability, automobile, employment practices, public officials employers liability	\$50,780	\$5,000,000 Each Occurrence \$5,000,000 General aggregate	OneBeason America Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0001	07/01/13											
Pollution liability	<b>COVERAGE VII – Environmental Impairment Liability</b> (claims made) *Premium includes addition of the water treatment plant and monofill Retro date 01/01/03 Per occurrence/aggregate	\$80,093 includes tax 3 yr policy	\$2,000,000 Per Occur/Aggr	Chartis Specialty Insurance Company 101 Hudson Street, 31st Floor Jersey City, NJ 07302 Policy # PLC2039548	07/01/13											
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center; border-bottom: 1px solid black;"><i>Deductible</i></td> </tr> <tr> <td style="text-align: center;">Each loss \$25,000</td> </tr> </table>	<i>Deductible</i>	Each loss \$25,000													
<i>Deductible</i>																
Each loss \$25,000																

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

## ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 3 Of 4 Year Ended December 31, 2012

### Schedule 3 (Continued)

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
Money and securities	<b>COVERAGE VIII - Crime</b>	\$6,217	\$2,000,000 Per Loss Employee Theft	Hartford Fire Insurance Company Hartford, CT 06115 Policy # 00 FA 0244006	07/01/13
Covered perils: Public employee theft, forgery, or alteration, theft, disappearance, destruction, credit card forgery, and computer fraud each with separate policy limit as shown	<u>Deductible</u> \$10,000 per occurrence/per peril		\$2,000,000 Depositors Forgery or Alteration (including Credit Card Forgery) \$2,000,000 Theft, Disappearance and Destruction \$2,000,000 Computer and Funds Transfer Fraud		
Bodily injury by accident and disease; rating basis total annual remunerations: Waterworks \$13,161,034 Clerical office employees \$6,378,798	<b>COVERAGE IX - Workers' Compensation</b> <b>COVERAGE A</b> Workers' compensation applies to the workers' compensation laws for the State of Kansas. Coverage also included is for employers' liability, which applies to work in each state listed on the declaration page of the policy	\$591,502	Statutory	Liberty Insurance Corporation WC7-Z91-424965-022	07/01/13
	<b>COVERAGE B</b> Employers liability limits: Bodily injury by accident (each accident) Bodily injury by disease (policy limit) Bodily injury by diseases (each employee) No deductible		\$500,000 \$500,000 \$500,000		
Violation of any of the duties and responsibilities imposed upon fiduciaries by common or statutory laws including negligent acts, errors & omissions in administration	<b>COVERAGE X-Fiduciary</b> Claims-made policy form-that provides coverage for breach of fiduciary duty	\$6,600	\$3,000,000	Federal Insurance Company 8208-0561	07/01/13
	<u>Deductible</u> \$10,000 per incident				

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

## ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 4 Of 4 Year Ended December 31, 2012

### Schedule 3 (Continued)

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
KDHE#29089 001,002,003-7601 Holiday Dr. Kansas City, KS	<b>Underground storage tank liability</b>	\$357	\$500,000 per incident	Great American Alliance Ins. Co.	07/01/13
	Bodily injury and property damage caused by "accidental releases" arising from operating these underground storage tanks. Meets statutory compliance		\$1,000,000 annual aggregate	KST773187120	
			\$100,000 limit of defense-per incident		
	<u>Deductible</u>				
	\$2,500 per incident				
	Retro date: 06/10/1991				
Bond	<b>Notary Public Errors and Omissions Group Policy</b> <b>\$25,000 Each Person Limit</b>	\$260	\$25,000	CNA/Western Surety Co. Sioux Falls, SD 68809375	01/04/14
	<u>Deductible</u>				
	\$0				
Boat Hull Policy	Hull Coverage \$15,000 Deductible \$500	\$450	\$15,000	International Marine #B5JH61090	07/15/13
Statutory Public Officials Bond for General Manager and Director of Finance	<b>Public official bond:</b> General Manager (Michael J. Armstrong)	\$1,750	\$500,000	Hartford Fire Insurance Company, as surety for Hartford, Connecticut 37BSBAF3543	01/01/14
	Director of Finance - Ronald Appletoft	\$1,750	\$500,000	Hartford Fire Insurance Company, as surety for Hartford, Connecticut - 37BSBDI8292	06/08/13
Board Member	Brenda Cherpitel	\$175	\$10,000	Liberty Mutual Fire Ins. Co. #674011379	04/30/13
Board Member	Robert Olson	\$400	\$10,000	Liberty Mutual Fire Ins. Co. #674011377	04/30/15
Board Member	Richard Noon	\$400	\$10,000	Liberty Mutual Fire Ins. Co. #674011376	04/30/15
Board Member	Terrence Frederick	\$400	\$10,000	Liberty Mutual Fire Ins. Co. #674011375	04/30/15
Board Member	Joseph Vaughan	\$400	\$10,000	Liberty Mutual Fire Ins. Co. #674011378	04/30/15
Board Member	Robert Reese	\$355	\$10,000	Safeco Ins. Co. #EX861994	04/30/13
Board Member	James Vader	\$355	\$10,000	Safeco Ins. Co. #EX973286	04/30/13
Performance Bond	City of Leawood	\$125	\$5,000	Liberty Mutual #5983959	02/08/13
Right of Way Excavation Bond	City of Lenexa	\$100	\$10,000	Liberty Mutual Fire Ins. Co. #674010642	03/01/13
Performance Bond	City of Mission Woods	\$100	\$10,000	Liberty Mutual Fire Ins. Co. #674011858	05/07/13
License & Permit Bond	City of Merriam	\$250	\$2,000	Safeco Ins. Co. #E783505-0000	07/05/14
License & Permit Bond	City of Mission Hills	\$250	\$5,000	Safeco Ins. Co. #E789981-0000	08/15/14
License & Permit Bond	City of Olathe	\$250	\$1,000	Liberty Mutual Fire Ins. Co. #674019454	03/09/15
License & Permit Bond	City of Roeland Park	\$250	\$1,000	Safeco Ins. Co. #E783506-0000	07/05/14
License & Permit Bond	City of Shawnee	\$250	\$5,000	Safeco Ins. Co. #EX790410	11/08/14
License & Permit Bond	City of Westwood	\$250	\$5,000	Safeco Ins. Co. #EX803026	03/12/15
License & Permit Bond	Johnson County	\$250	\$5,000	Safeco Ins. Co. #E731273-0000	05/01/14
License & Permit Bond	Miami County	\$250	\$50,000	Liberty Mutual Fire Ins. Co. #674014712	01/09/14
License & Permit Bond	State of Kansas	\$250	\$10,000	Liberty Mutual #E782271-0000	05/29/14
Land Disturbance Bond	City of Shawnee	\$100	\$8,536	Liberty Mutual #674020193	08/09/13
Land Disturbance Bond	City of Shawnee	\$100	\$7,763	Liberty Mutual #674020192	08/09/13

# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

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## ADDITIONAL SUPPLEMENTARY INFORMATION Fidelity Bonds In Force (Unaudited) Year Ended December 31, 2012

### Schedule 4

#### Water District No. 1 Of Johnson County, Kansas

#### Fidelity Bonds In Force (Unaudited)

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Water District Board Members:

Robert S. Olson - Chairman	\$	10,000
Brenda Cherpitel - Vice Chairman		10,000
Terrance D. Frederick - Member		10,000
H. Richard Noon - Member		10,000
Robert P. Reese - Member		10,000
James E. Vader - Member		10,000
Joe Vaughn - Member		10,000
Mike Armstrong - General Manager		500,000
Ron Appletoft - Director of Finance		500,000
Public Employees' Blanket Bond		2,000,000

All employees are included under the blanket crime section of the comprehensive business policy listed herein.

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# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

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## ADDITIONAL SUPPLEMENTARY INFORMATION

### Operating Data (Unaudited)

Years Ended 2012 And 2011

#### Schedule 5

Customers Served by WaterOne: During 2012, WaterOne served a weighted average of 139,020 customers, as compared to 138,142 customers, during 2011; this is an increase of 878 customers in 2012, as compared to an increase of 522 customers in 2011.

Water Sales and Water Delivered Summary: Water sales by class of customer for the years ended December 31, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Residential:		
Single family	\$ 74,328,661	\$ 59,387,677
Multifamily	9,499,459	8,348,435
Commercial:		
Small	6,356,593	5,051,929
Large	23,974,985	18,938,255
Temporary	504,368	318,569
Wholesale	8,635	—
	<u>\$ 114,672,701</u>	<u>\$ 92,044,865</u>

During the year ended December 31, 2012, water sales and water delivered to the distribution lines, in terms of thousands of gallons, as compared to 2011, were as follows:

	<u>2012</u>	<u>2011</u>
Delivered to distribution system		
Water produced	26,663,479	22,338,030
Water sales		
Metered water	23,558,346	19,504,784
Unmetered water	3,105,133	2,833,246
Unmetered water as percentage of total water delivered	11.65%	12.68%

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# WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

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## ADDITIONAL SUPPLEMENTARY INFORMATION

### Operating Data (Unaudited) Years Ended 2012 And 2011

#### Schedule 5 (Continued)

The weighted average number of customers served, the average annual revenue, and usage per customer were as follows:

	<u>2012</u>	<u>2011</u>
Residential - single family:		
Average number of customers	126,668	125,891
Average gallons per customer	115,348	94,828
Average revenue per customer	\$ 586.80	\$ 471.74
Residential - multifamily:		
Average number of customers	4,370	4,342
Average gallons per customer	486,538	451,330
Average revenue per customer	\$ 2,173.79	\$ 1,922.72
Commercial - small:		
Average number of customers	4,821	4,799
Average gallons per customer	265,807	217,116
Average revenue per customer	\$ 1,318.52	\$ 1,052.70
Commercial - large:		
Average number of customers	2,983	2,958
Average gallons per customer	1,831,347	1,528,881
Average revenue per customer	\$ 8,037.21	\$ 6,402.18
Commercial - temporary:		
Average number of customers	178	152
Average gallons per customer	422,620	281,545
Average revenue per customer	\$ 2,833.53	\$ 2,095.85
Wholesale (1):		
Number of customers	—	—
Thousand gallons per class	1,689	—
Revenue per class	\$ 8,635.62	\$ —

(1) During 2012, WaterOne sold surplus water to the City of Bonner Springs through a temporary connection.