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

DECEMBER 31, 2014

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Independent Auditors' Report

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

Report On The Financial Statements

We have audited the accompanying statement of net position of Water District No. 1 of Johnson County, Kansas as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended and the related notes to the financial statements.

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 control 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Water District No. 1 of Johnson County, Kansas as of December 31, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 and the schedules of funding progress of the employee retirement system and other postemployment benefit plan on pages 45 and 46 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 47 through 53, 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 11, 2015

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

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, 2014 and 2013. This information is presented in conjunction with the audited financial statements which follow this section.

Financial Highlights

Operating revenues in 2014 were \$97.87 million. Operating revenues in 2013 were \$98.87 million.

Operating expenses in 2014 were \$48.77 million, excluding depreciation. Operating expenses in 2013 were \$47.21 million, excluding depreciation.

During 2014 and 2013, WaterOne received \$17.31 million and \$13.31 million, respectively, in capital contributions.

During 2014, WaterOne issued \$86.35 million in Second Lien water revenue bonds Series, 2014.

Investment income before unrealized gains and losses for 2014 was approximately \$352,000 compared to \$197,000 in 2013. The 2014 average funds invested of \$138.02 million was more than the 2013 balance of \$93.13 million and the 2014 rate of return of 0.25 percent was higher than the 2013 rate of 0.21 percent.

WaterOne's capital assets were \$921 million in 2014 compared to \$875 million in 2013.

The debt service coverage ratio for Senior Parity and Second Lien Debt (excluding System Development Charges) was 2.08 for 2014, compared to 2.44 for 2013.

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 2014 and 2013. 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 \$34.36 million (4.46 percent) in 2014 and \$34.58 million (4.70 percent) in 2013.

Table 1
Net Position
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2014	2013	Dollars	Percentage	2012	Dollars	Percentage	
			Increase	(Decrease)		Increase	(Decrease)	
Capital assets	\$ 920,903	\$ 874,899	\$ 46,004	5.26%	\$ 855,673	\$ 19,226	2.25%	
Total special funds	73,240	36,108	37,132	102.84%	37,092	(984)	(2.65)%	
Total current assets	127,386	95,162	32,224	33.86%	91,586	3,576	3.90%	
Net pension asset	2,678	2,825	(147)	(5.20)%	3,000	(175)	(5.83)%	
Deferred outflows of resources	116	139	(23)	(16.55)%	172	(33)	(19.19)%	
Total Assets And								
Deferred Outflows	\$ 1,124,323	\$ 1,009,133	\$ 115,190	11.41%	\$ 987,523	\$ 21,610	2.19%	
Long-term liabilities and other liabilities	\$ 288,344	\$ 214,231	\$ 74,113	34.59%	\$ 230,582	\$ (16,351)	(7.09)%	
Current liabilities	32,035	25,319	6,716	26.53%	21,937	3,382	15.42%	
Total Liabilities And Deferred								
Inflows Of Resources	320,379	239,550	80,829	33.74%	252,519	(12,969)	(5.14)%	
Net investment in capital assets	664,126	659,544	4,582	0.69%	622,132	37,412	6.01%	
Restricted	26,367	26,385	(18)	(0.07)%	28,326	(1,941)	(6.85)%	
Unrestricted	113,451	83,654	29,797	35.62%	84,546	(892)	(1.06)%	
Total Net Position	803,944	769,583	34,361	4.46%	735,004	34,579	4.70%	
Total Liabilities, Deferred Inflows								
Of Resources, And Net Position	\$ 1,124,323	\$ 1,009,133	\$ 115,190	11.41%	\$ 987,523	\$ 21,610	2.19%	

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	
	2014	2013	Dollars	Percentage	2012	Dollars	Percentage	
			Increase (Decrease)				Increase (Decrease)	
Operating revenues	\$ 97,874	\$ 98,868	\$ (994)	(1.01)%	\$ 116,042	\$ (17,174)	(14.80)%	
Operating expenses	48,770	47,214	1,556	3.30%	48,870	(1,656)	(3.39)%	
Net Operating Income (Before Depreciation)	49,104	51,654	(2,550)	(4.94)%	67,172	(15,518)	(23.10)%	
Depreciation	22,249	21,825	424	1.94%	21,015	810	3.85%	
Net Operating Income	26,855	29,829	(2,974)	(9.97)%	46,157	(16,328)	(35.37)%	
Total other income	774	1,275	(501)	(39.29)%	576	699	121.35%	
Total other expenses	10,572	9,839	733	7.45%	10,171	(332)	(3.26)%	
Net Income Before Capital Contributions	17,057	21,265	(4,208)	(19.79)%	36,562	(15,297)	(41.84)%	
Capital contributions	17,304	13,314	3,990	29.97%	10,310	3,004	29.14%	
Change In Net Position	34,361	34,579	(218)	(0.63)%	46,872	(12,293)	(26.23)%	
Beginning Net Position	769,583	735,004	34,579	4.70%	688,132	46,872	6.81%	
Ending Net Position	\$ 803,944	\$ 769,583	\$ 34,361	4.46%	\$ 735,004	\$ 34,579	4.70%	
Total Revenues	\$ 115,952	\$ 113,457			\$ 126,928			
Total Expenses	\$ 81,591	\$ 78,878			\$ 80,056			

The largest source of WaterOne's operating revenue is 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.

Variations in water sales revenues 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, 2014, WaterOne's retail water rates increased 3.9 percent. Effective January 1, 2013, WaterOne's retail water rates increased 3.2 percent.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

- 2. Changes in customer consumption due to weather influences** - 2014 water sales were \$96.57 million. Sales in 2014 were \$3.78 million less than projected and \$1.03 million less than those in 2013. 2013 water sales were \$97.60 million. Sales for 2013 were \$1.34 million more than projected and \$17.08 million less than those in 2012. Approximately 63 percent of the water sales revenue was from sales to single-family residences. The remaining 37 percent represent sales to multifamily and commercial customers.

Gallons sold in 2014 were 17.91 billion which was 1.04 billion less than gallons sold in 2013 and 1.50 billion less than projected. Gallons sold in 2013 were 18.95 billion which was 4.61 billion less than gallons sold in 2012.

- 3. Changes in the number of customers** - Excluding temporary fire hydrant meters and wholesale customers, 1,581 new retail customers were added in 2014, which were 232 (17.20 percent) more than the 1,349 new customers added in 2013. The new 2013 customers were 272 (25.26 percent) more than the 1,077 new customers added in 2012.

Investment income (before unrealized gain/loss on investments) increased from \$197,000 in 2013 to \$352,000 in 2014. Investment income (before unrealized gain/loss on investments) decreased from \$235,000 in 2012 to \$197,000 in 2013.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Average funds invested	\$138.02 Million	\$ 93.13 Million	\$ 81.35 Million
Average rate of return	0.25%	0.21%	0.29%

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 \$1.56 million (3.30 percent) higher in 2014 than in 2013. The increase in operating expenses during 2014 was primarily due to higher net labor costs and higher employee insurance costs.
 - Water Source, Treatment, and Pumping** expenses were \$273,000 (1.13 percent) higher in 2014 than in 2013, primarily due to:
 - An increase in chemical cost of \$205,000.
 - An increase in net labor expense of \$190,000.
 - A decrease in allocated employee benefits cost of \$168,000.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

- **Transmission and Distribution** expenses were \$268,000 (2.50 percent) higher in 2014 than in 2013, primarily due to:
 - An increase in maintenance of mains expense of \$98,000.
 - An increase in allocated employee benefits cost of \$168,000.
 - **Customer Service** expenses were \$425,000 (11.59 percent) higher in 2014 than in 2013, primarily due to:
 - An increase in net labor expense of \$207,000.
 - An increase in allocated employee benefits cost of \$179,000.
 - **Administrative and General** expenses were \$589,000 (6.87 percent) higher in 2014 than in 2013, primarily due to:
 - An increase in net labor expense of \$380,000.
 - An increase in allocated employee benefits cost of \$207,000.
2. Total operating expenses (before depreciation) were \$1.66 million (3.39 percent) less in 2013 than in 2012. The reduction of operating expenses during 2013 was primarily due to lower chemical, power and maintenance of mains expenses that were partially offset by higher net labor costs.
- Water Source, Treatment and Pumping expenses were \$1.69 million (6.51 percent) less in 2013 than 2012, primarily due to:
 - A \$1.35 million decrease in power cost.
 - A \$621,000 decrease in chemical cost.
 - Transmission and Distribution expenses were \$197,000 (1.81 percent) less in 2013 when compared to 2012, primarily due to:
 - A decrease in maintenance of mains expense of \$339,000.
 - An increase in net labor cost of \$104,000.
 - Customer Service expenses were \$343,000 (10.35 percent) higher in 2013 than in 2012, primarily due to:
 - An increase in net labor expense of \$192,000.
 - A nearly \$87,000 increase in public relations related expenses.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

- Administrative and General expenses were \$113,000 (1.29 percent) lower in 2013 than in 2012, primarily due to:
 - A decrease in the net Clean Drinking Water fee of \$233,108.
 - Net labor increased \$47,000.
 - Non-employee overload expense increased \$68,000.

Capital Contributions

Capital contributions are recognized as "Contributions" on the Statements of Revenues, Expenses, and Changes in Net Position. Capital contributions for the years 2014, 2013 and 2012 consisted of the following:

Table 3
Capital Contributions
(Dollars in thousands)

	December 31,		Variance		December 31,		Variance	
	2014	2013	Dollars Increase (Decrease)	Percentage	2012	Dollars Increase (Decrease)	Percentage	
Main extensions	\$ 5,464	\$ 3,364	\$ 2,100	62.43%	\$ 2,921	\$ 443	15.17%	
System development charges	10,471	8,691	1,780	20.48%	6,560	2,131	32.48%	
Benefit areas	(22)	65	(87)	(133.85)%	6	59	983.33%	
New services	1,392	1,194	198	16.58%	823	371	45.08%	
Total Capital Contributions	\$ 17,305	\$ 13,314	\$ 3,991	29.98%	\$ 10,310	\$ 3,004	29.14%	

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

Capital Assets

As of December 31, 2014, WaterOne's investment in net capital assets totaled \$920.90 million which is an increase of \$46.00 million (5.26 percent) over the 2013 balance. Net capital assets in 2013 totaled \$874.90 million, which was an increase of \$19.23 million (2.25 percent) over the 2012 balance of \$855.67 million. 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	
	2014	2013	Dollars	Percentage	2012	Dollars	Percentage	
			Increase (Decrease)			Increase (Decrease)		
Land	\$ 26,669	\$ 26,639	\$ 30	0.11%	\$ 23,484	\$ 3,155	13.43%	
Intake, purification and pumping system	351,554	349,801	1,753	0.50%	346,235	3,566	1.03%	
Transmission and distribution distribution system	721,560	698,712	22,848	3.27%	677,254	21,458	3.17%	
Buildings, improvements, furniture and equipment	45,355	47,109	(1,754)	(3.72)%	47,849	(740)	(1.55)%	
Construction work in progress	82,267	41,128	41,139	100.03%	32,600	8,528	26.16%	
Capital Assets Before Depreciation	\$ 1,227,405	\$ 1,163,389	\$ 64,016	5.50%	\$ 1,127,422	\$ 35,967	3.19%	
Less: Accumulated depreciation	(306,502)	(288,490)	(18,012)	6.24%	(271,749)	(16,741)	6.16%	
Net Capital Assets	\$ 920,903	\$ 874,899	\$ 46,004	5.26%	\$ 855,673	\$ 19,226	2.25%	

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 an 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.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

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.

At the end of 2014, WaterOne had \$284.71 million of outstanding bonds, compared to \$213.40 million at the end of 2013. The increase was the result of principal payments of \$15.04 million offset by the issuance of \$86.35 million of new Senior Lien bonds in February 2014.

At the end of 2013, WaterOne had \$213.40 million of outstanding bonds, compared to \$229.84 million at the end of 2012. The decrease was the result of principal payments of \$11.82 million and the current refunding of \$4.62 million of Senior Lien 2003 bonds.

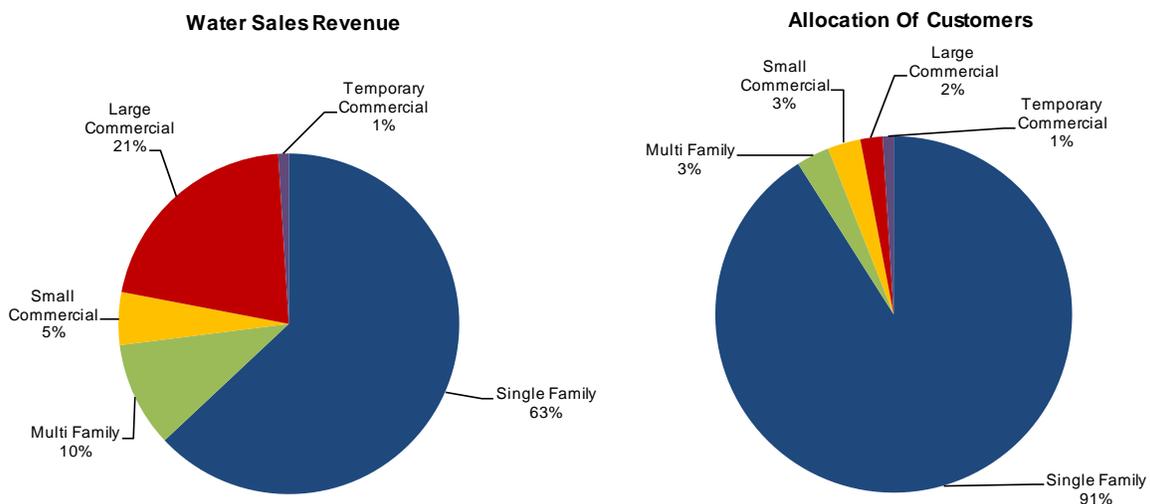
As discussed in Note 4 of the Notes to Financial Statements, the current debt service schedule extends to 2033 and includes bonds with interest rates ranging from 1.50 percent to 5.00 percent. Bond covenants require that WaterOne maintain a debt service coverage ratio on its Senior Parity Debt of 1.25; 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 2014, the actual debt service coverage ratio for WaterOne's Senior Parity Bonds and Second Lien Bonds (excluding System Development Charges) was 2.08, which was lower than the comparable ratio of 2.44 for 2013 and lower than the 2012 ratio of 3.58.

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, 2014, WaterOne served 142,567 customers compared to 140,961 customers served as of December 31, 2013 and 139,558 served as of December 31, 2012. As of December 31, 2014, 91 percent of the customers served were single-family residential homes.



Customer growth in the Johnson County area has continued to accelerate after a period 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, was somewhat insulated from the worst of economic downturns. Sixty-three percent of annual water sales were to single family residential homes, and the remaining 37 percent was scattered among many relatively small commercial users. For the year ended December 31, 2014, WaterOne's top 15 commercial customers contributed only 4.07 percent of total 2014 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, 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

Management's Discussion and Analysis (*Continued*)

WaterOne Contact Information

This financial report is designed to provide 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:

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WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF NET POSITION

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	December 31,	
	2014	2013
Assets And Deferred Outflows Of Resources		
Current Assets		
Cash and short-term investments:		
Water system general fund	\$ 82,559,836	\$ 75,322,269
System development account	29,190,762	4,517,609
Accounts receivable and accrued water sales	9,036,858	8,747,591
Interest receivable	140,668	53,397
Materials and supplies	3,497,768	3,667,978
Contractor extension receivables	1,894,085	1,495,164
Prepayments and deposits	1,066,110	1,358,394
Total Current Assets	127,386,087	95,162,402
Noncurrent Assets		
Capital Assets, Net Of Accumulated Depreciation		
Nondepreciable capital assets:		
Land	26,669,133	26,638,598
Construction in progress	82,267,441	41,128,486
Total nondepreciable capital assets	108,936,574	67,767,084
Depreciable capital assets:		
Intake, purification, and pumping system	214,278,961	220,579,977
Transmission and distribution system	576,994,944	563,433,122
Building, improvements, furniture, and equipment	20,692,507	23,118,548
Total depreciable capital assets, net of accumulated depreciation	811,966,412	807,131,647
Net Capital Assets	920,902,986	874,898,731
Restricted Cash And Investments		
Special funds created by bond resolutions:		
Principal and interest	1,401,802	1,360,894
Construction fund	27,756,652	—
Senior bond reserve fund	14,633,929	14,658,640
Second Lien bond reserve fund	7,636,915	3,158,299
Water system general fund	21,811,047	16,930,320
Total Special Funds Created By Bond Resolutions	73,240,345	36,108,153
Net Pension Asset	2,678,277	2,825,000
Total Noncurrent Assets	996,821,608	913,831,884
Total Assets	1,124,207,695	1,008,994,286
Deferred Outflows Of Resources	115,637	138,764
Total Assets And Deferred Outflows Of Resources	\$ 1,124,323,332	\$ 1,009,133,050

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF NET POSITION (Continued)

Page 2 Of 2

	December 31,	
	2014	2013
Liabilities And Net Position		
Current Liabilities		
Accounts payable	\$ 9,312,634	\$ 4,367,767
Customer advances for system development charges	1,500,200	1,898,325
Retainage on construction contracts	3,033,511	509,275
Current maturities of revenue bonds payable	14,490,000	14,840,000
Accrued interest on revenue bonds payable	565,464	602,839
Compensated employee absences	1,332,636	1,313,848
Other current liabilities	1,800,254	1,786,880
Total Current Liabilities	32,034,699	25,318,934
Noncurrent And Other Liabilities		
Revenue bonds payable	270,220,000	198,560,000
Premium on revenue bonds payable	5,922,436	3,596,805
Customer advances for construction	4,581,396	5,292,465
Other post-employment	7,620,668	6,782,170
Total Noncurrent And Other Liabilities	288,344,500	214,231,440
Total Liabilities	320,379,199	239,550,374
Net Position		
Net investment in capital assets	664,126,547	659,544,105
Restricted by bond resolution	26,366,599	26,384,199
Unrestricted	113,450,987	83,654,372
Total Net Position	803,944,133	769,582,676
Total Liabilities And Net Position	\$ 1,124,323,332	\$ 1,009,133,050

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	For The Years Ended December 31,	
	2014	2013
Operating Revenues		
Water sales	\$ 96,571,419	\$ 97,594,793
Other operating revenues	1,302,105	1,273,121
Total Operating Revenues	97,873,524	98,867,914
Operating Expense		
Water source, treatment and pumping	24,532,047	24,258,726
Transmission and distribution	10,978,791	10,710,661
Customer service	4,088,518	3,663,845
Administrative and general	9,170,371	8,580,992
Depreciation of utility plant	22,248,655	21,824,518
Total Operating Expense	71,018,382	69,038,742
Operating Income	26,855,142	29,829,172
Nonoperating Revenues (Expense)		
Investment income	264,704	206,286
Miscellaneous, net	95,107	787,196
Bond interest expense	(9,566,867)	(9,373,175)
Bond issuance expense	(146,743)	(82,500)
Amortization expense - refunded bonds	(23,127)	(32,973)
Amortization of premiums and other interest charges	413,743	281,580
Loss on disposal of capital assets	(835,226)	(351,524)
Net Nonoperating Expense	(9,798,409)	(8,565,110)
Income Before Capital Contributions	17,056,733	21,264,062
Capital Contributions	17,304,724	13,314,253
Change In Net Position	34,361,457	34,578,315
Net Position - Beginning Of Year	769,582,676	735,004,361
Net Position - End Of Year	\$ 803,944,133	\$ 769,582,676

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF CASH FLOWS

Page 1 Of 2

	For The Years	
	Ended December 31,	
	2014	2013
Cash Flows From Operating Activities		
Receipts from customers	\$ 97,718,003	\$ 98,731,707
Payments to suppliers	(30,107,486)	(30,119,845)
Payments to employees	(17,375,549)	(16,830,504)
Net Cash Provided By Operating Activities	50,234,968	51,781,358
Cash Flows Provided By Noncapital Financing Activities, Miscellaneous	95,107	787,196
Cash Flows From Capital And Related Financing Activities		
Proceeds from sale of capital assets	69,305	100,134
System development charges	10,073,105	9,634,845
Acquisition and construction of capital assets	(51,203,705)	(35,913,597)
Principal payments on revenue bonds	(15,040,000)	(11,820,000)
Retirement of long-term debt	—	(4,615,000)
Interest payments on revenue bonds	(11,566,557)	(9,435,488)
Debt issuance costs	(146,743)	(82,500)
Issuance of long-term debt, net of premium	86,350,000	—
Net Cash Provided By (Used In) Capital And Related Financing Activities	18,535,405	(52,131,606)
Cash Flows From Investing Activities		
Purchase of short-term investments	(151,988,967)	(70,791,464)
Interest received on investments	264,274	294,151
Maturities of short-term investments	97,388,687	78,278,350
Net Cash Provided By (Used In) Investing Activities	(54,336,006)	7,781,037
Net Increase In Cash	14,529,474	8,217,985
Cash - Beginning Of Year	24,293,425	16,075,440
Cash - End Of Year	\$ 38,822,899	\$ 24,293,425
Investments	\$ 146,168,044	\$ 91,654,606
Cash	38,822,899	24,293,425
Total Cash And Investments	\$ 184,990,943	\$ 115,948,031
Principal and interest fund - restricted	\$ 1,401,802	\$ 1,360,894
Construction fund - restricted	27,756,652	—
Water system general fund	82,559,836	75,322,269
Water system general fund - restricted	21,811,047	16,930,320
Cash bond reserve fund - restricted	22,270,844	17,816,939
System development account	29,190,762	4,517,609
	\$ 184,990,943	\$ 115,948,031

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF CASH FLOWS (Continued)

Page 2 Of 2

	For The Years	
	Ended December 31,	
	2014	2013
Net Cash From Operating Activities		
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 26,855,142	\$ 29,829,172
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	22,248,655	21,824,518
Changes in assets and liabilities:		
Increase in receivables and accrued water sales	(155,521)	(136,207)
(Increase) decrease in materials and supplies	132,449	(635,945)
(Increase) decrease in prepayments and deposits and net pension asset	438,919	(190,614)
Decrease in other liabilities	(408,201)	(209,485)
Increase in accounts payable	254,584	213,511
Increase in other liabilities and compensation	868,941	1,086,408
Net Cash Provided By Operating Activities	\$ 50,234,968	\$ 51,781,358
Noncash capital and related financing activities:		
Property contributed to WaterOne	\$ 6,833,494	\$ 4,623,633
Acquisition of capital assets through retainage payable	2,525,955	111,057
Acquisition of capital assets through accounts payable	4,690,283	(1,091,990)
Noncash retirement of capital assets	835,227	351,524
Noncash investing activities:		
Appreciation (depreciation) of fair value	86,842	8,914

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

NOTES TO FINANCIAL STATEMENTS For The Year Ended December 31, 2014

Note 1. Summary Of Significant Accounting Policies

Water District No. 1 of Johnson County, Kansas (WaterOne) is a water utility that provides service to 142,567 and 140,961 customers as of December 31, 2014 and 2013, 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

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 \$1,962,316 and \$0 was capitalized in fiscal year 2014 and 2013, 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, 2014 and 2013.

Investments

Authorized investments consist of direct obligations of the United States of America, debt obligations of certain United States Government Sponsored Enterprises (Agencies) and collateralized bank certificates of deposit. Investments are reported at fair value, based on quoted market prices.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

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, and 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 retirement or 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.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

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, 2014, WaterOne had \$33,740,360 of unspent bond proceeds. WaterOne had \$1,503,415 of unspent bond proceeds at the end of 2013. 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.

Reclassifications

Certain 2013 amounts have been reclassified to conform to the 2014 presentation. These reclassifications had no effect on total net position.

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, 2014 is as follows:

	Balance - December 31, 2013	Increases	Decreases	Balance - December 31, 2014
Capital assets not being depreciated:				
Land	\$ 26,638,598	\$ 30,535	\$ —	\$ 26,669,133
Construction work in progress	41,128,486	69,157,440	(28,018,485)	82,267,441
Total capital assets not being depreciated	67,767,084	69,187,975	(28,018,485)	108,936,574
Capital assets being depreciated:				
Intake, purification and pumping system	349,801,207	3,033,420	(1,280,809)	351,553,818
Transmission and distribution systems	698,711,570	24,316,636	(1,468,657)	721,559,549
Building, improvements, furniture and equipment	47,109,238	637,894	(2,392,475)	45,354,657
Total capital assets being depreciated	1,095,622,015	27,987,950	(5,141,941)	1,118,468,024
Less accumulated depreciation for:				
Intake, purification, and pumping system	129,221,230	9,268,830	(1,215,203)	137,274,857
Transmission and distribution systems	135,278,448	10,024,333	(738,176)	144,564,605
Building, improvements, furniture and equipment	23,990,690	2,955,492	(2,284,032)	24,662,150
Total accumulated depreciation	288,490,368	22,248,655	(4,237,411)	306,501,612
Total capital assets being depreciated, net	807,131,647	5,739,295	(904,530)	811,966,412
Net Capital Assets	\$ 874,898,731	\$ 74,927,270	\$ (28,923,015)	\$ 920,902,986

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Capital asset activity for the year ended December 31, 2013 is as follows:

	Balance - December 31, 2012	Increases	Decreases	Balance - December 31, 2013
Capital assets not being depreciated:				
Land	\$ 23,484,205	\$ 3,154,393	\$ —	\$ 26,638,598
Construction work in progress	32,599,941	41,611,424	(33,082,879)	41,128,486
Total capital assets not being depreciated	56,084,146	44,765,817	(33,082,879)	67,767,084
Capital assets being depreciated:				
Intake, purification, and pumping system	346,235,058	5,219,978	(1,653,829)	349,801,207
Transmission and distribution systems	677,254,235	22,024,521	(567,186)	698,711,570
Building, improvements, furniture and equipment	47,849,249	2,683,987	(3,423,998)	47,109,238
Total capital assets being depreciated	1,071,338,542	29,928,486	(5,645,013)	1,095,622,015
Less accumulated depreciation for:				
Intake, purification, and pumping system	121,859,090	9,015,969	(1,653,829)	129,221,230
Transmission and distribution systems	125,786,382	9,660,519	(168,453)	135,278,448
Building, improvements, furniture and equipment	24,103,734	3,148,030	(3,261,074)	23,990,690
Total accumulated depreciation	271,749,206	21,824,518	(5,083,356)	288,490,368
Total capital assets being depreciated, net	799,589,336	8,103,968	(561,657)	807,131,647
Net Capital Assets	\$ 855,673,482	\$ 52,869,785	\$ (33,644,536)	\$ 874,898,731

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

Notes To Financial Statements (*Continued*)

Operating and 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. Operating and 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.

Operating and 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.

Operating funds and bond funds may also be invested in Mortgage Backed Securities (MBS) for which the principal and interest are unconditionally guaranteed by the United States of America.

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 and MBS for which the principal and interest are unconditionally guaranteed by the United States of America.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Deposits

As of December 31, 2014 and 2013, the bank balance of WaterOne's deposits were \$39,129,391 and \$25,024,015, 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.

Investments

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, 2014 and 2013 is as follows:

	Fair Value		Moody's / Standard & Poor's Rating
	2014	2013	
U.S. Treasury securities	\$ 80,700,684	\$ 91,654,606	N/A
Federal Home Loan Bank securities	12,467,360	—	Aaa/AA+
Certificates of deposit	53,000,000	—	N/A
Deposits	38,820,949	24,291,475	N/A
Petty cash	1,950	1,950	N/A
	\$ 184,990,943	\$ 115,948,031	

The investments and deposits at December 31, 2014 and 2013 are shown on the statement of net position as follows:

	2014	2013
Cash and temporary investments:		
General account	\$ 82,559,836	\$ 75,322,269
System development account	29,190,762	4,517,609
Special funds created by bond resolutions	73,240,345	36,108,153
	\$ 184,990,943	\$ 115,948,031

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, and obligations of the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Federal Home Loan Bank and Government National Mortgage Association. WaterOne held 13% of its investment securities in Federal Home Loan Bank securities during 2014, with the remainder being held in U.S Treasury Securities.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

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 investments is 0.95 and 0.71 as of December 31, 2014 and 2013, respectively.

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.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Note 4. Bonded Indebtedness

Details of revenue bonds outstanding at December 31, 2014 and 2013 are as follows:

<u>Outstanding Bonds</u>	<u>Original Principal</u>	<u>Principal 2014</u>	<u>Principal 2013</u>
Water revenue refunding bonds:			
Series 2009 (2.0% to 5.0%), due 2010 - 2020	\$ 26,190,000	\$ 10,550,000	\$ 14,880,000
Series 2012 (1.5% to 2.0%), due 2013 - 2020	6,605,000	4,765,000	5,735,000
Water revenue improvement bonds:			
Series 2007 (3.57% to 4.36%), due 2010-2032	\$ 180,245,000	\$ 155,780,000	\$ 164,750,000
Series 2010 (2.0% to 4.0%), due 2013 - 2030	28,890,000	27,465,000	28,035,000
Series 2014 (2.0% to 5.0%), due 2014 - 2033	86,350,000	86,150,000	—
	<u>\$ 328,280,000</u>	284,710,000	213,400,000
Less principal amount of bonds payable within one year		<u>14,490,000</u>	<u>14,840,000</u>
		<u>\$ 270,220,000</u>	<u>\$ 198,560,000</u>

The annual requirement to retire the revenue bonds outstanding as of December 31, 2014 is as follows:

<u>Year Ending December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 14,490,000	\$ 11,368,991	\$ 25,858,991
2016	13,770,000	10,848,082	24,618,082
2017	14,490,000	10,300,010	24,790,010
2018	15,495,000	9,633,748	25,128,748
2019	15,930,000	8,946,210	24,876,210
2020 - 2024	84,140,000	33,532,115	117,672,115
2025 - 2029	89,600,000	16,504,407	106,104,407
2030 - 2033	36,795,000	2,423,713	39,218,713
	<u>\$ 284,710,000</u>	<u>\$ 103,557,276</u>	<u>\$ 388,267,276</u>

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

Following is a schedule of bond activity in 2014:

	Balance - January 1, 2014	Bonds Issued	Principal Payments	Bonds Retired	Balance - December 31, 2014	Debt Due Within One Year	Interest Paid
Water revenue refunding							
bonds:							
Series 2009	\$ 14,880,000	\$ —	\$ 4,330,000	\$ —	\$ 10,550,000	\$ 3,085,000	\$ 402,425
Series 2012	5,735,000	—	970,000	—	4,765,000	1,545,000	101,625
Water revenue improvement							
bonds:							
Series 2007	164,750,000	—	8,970,000	—	155,780,000	9,090,000	7,121,948
Series 2010	28,035,000	—	570,000	—	27,465,000	570,000	1,089,788
Series 2014	—	86,350,000	200,000	—	86,150,000	200,000	2,850,772
	\$ 213,400,000	\$ 86,350,000	\$ 15,040,000	\$ —	\$ 284,710,000	\$ 14,490,000	\$ 11,566,558

Following is a schedule of bond activity in 2013:

	Balance - January 1, 2013	Bonds Issued	Principal Payments	Bonds Retired	Balance - December 31, 2013	Debt Due Within One Year	Interest Paid
Water revenue refunding							
bonds:							
Series 2003	\$ 6,770,000	\$ —	\$ 2,155,000	\$ 4,615,000	\$ —	\$ —	\$ 247,569
Series 2009	17,830,000	—	2,950,000	—	14,880,000	4,330,000	514,825
Series 2012	6,605,000	—	870,000	—	5,735,000	970,000	138,034
Water revenue improvement							
bonds:							
Series 2007	170,025,000	—	5,275,000	—	164,750,000	8,970,000	7,432,448
Series 2010	28,605,000	—	570,000	—	28,035,000	570,000	1,102,613
	\$ 229,835,000	\$ —	\$ 11,820,000	\$ 4,615,000	\$ 213,400,000	\$ 14,840,000	\$ 9,435,489

The 2007, 2009, 2010 and 2014 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. 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.

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, 2014 net revenues designated as available to meet debt service requirements (operating income before depreciation, plus system development charges and interest income) equaled 2.53 times the annual Senior Parity and Second Lien debt service requirement.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

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, 2014, there was a balance of \$14,633,929 in the Senior Bond Reserve, \$1,309,560 in the 2009 Second Lien Bond Reserve, \$1,499,967 in the 2010 Second Lien Bond Reserve, \$343,648 in the 2012 Second Lien Bond Reserve, and \$4,483,740 in the 2014 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.

As of December 31, 2014, 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	\$ 104,370,883
Less funds reserved by bond resolution (Section 703):	
Contingencies	(2,000,000)
Operation and maintenance	(7,084,310)
Material purchases	(158,815)
Unfunded contracts and commitments	(12,567,922)
<u>General Fund after bond resolution reserves (Section 703)</u>	<u>\$ 82,559,836</u>

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

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, 2014 and 2013, the account totaled \$29,190,762 and \$4,517,609, respectively.

In February 2014, WaterOne issued \$86,350,000 of Water Revenue Bonds, Series 2014, with an average interest rate of 3.75 percent plus a net premium of \$2,739,375. Net proceeds of \$88,831,852 (after payment of debt issuance costs) were used for the purpose of funding the 2014 Bond Reserve Account, funding capitalized interest and providing funds to build a portion of WaterOne's Phase V Master Plan facilities.

On December 1, 2013, WaterOne cash defeased the remaining \$4,615,000 principal portion of the Series 2003 bonds. The interest savings on the defeased 2014 and 2015 principal amounts will be \$233,500.

In 2014 and 2013, WaterOne did not carry an alternative debt in the form of bank loans.

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

Defined Benefit Plan Description

WaterOne contributed to the Water District No. 1 of Johnson County, Kansas Sixth 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 who were hired before January 1, 2014 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. In 2013, the plan was further amended to close participation to any employees hired on or after January 1, 2014. As of January 1, 2014, the System had 442 participants. This was made up of 300 active participants, 89 participants eligible for a deferred benefit, and 53 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.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

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.

Annual pension cost and net pension obligation: WaterOne's annual pension cost (APC) and net pension obligation (NPO) as of December 31, 2014, 2013 and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Annual Required Contribution (ARC)	\$ 2,684,000	\$ 2,966,000	\$ 3,469,000
Interest on NPO (asset)	(240,000)	(255,000)	—
Adjustments to ARC	386,723	430,000	—
APC	2,830,723	3,141,000	3,469,000
Contributions	(2,684,000)	(2,966,000)	(6,461,000)
Increase (decrease) in NPO (asset)	146,723	175,000	2,992,000
NPO (asset), January 1	(2,825,000)	(3,000,000)	(8,000)
NPO (asset), December 31	\$ (2,678,277)	\$ (2,825,000)	\$ 3,000,000
Percentage of APC contributed	94.8%	94.4%	186.2%

Actuarial methods and assumptions: The annual required contribution for the current year was determined as part of the January 1, 2014 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

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

Notes To Financial Statements *(Continued)*

The following summarizes the actuarial assumptions and cost method employed for the January 1, 2014 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	2014 Base Rate of Pay
Benefits Not Valued	Disability was assumed to have an insignificant cost
Changes since prior valuation	None

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Funding status and funding progress as of December 31, 2014: As of January 1, 2014, the most recent valuation date, the plan was 89.60 percent funded. The actuarial accrued liability for benefits was \$39,754,053, and the actuarial value of assets was \$35,608,180, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,145,873, and the ratio of the UAAL to the covered payroll was 22.2 percent. WaterOne's covered payroll for employees covered by the System as of January 1, 2014 was \$18,640,523. 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, 2013: As of January 1, 2013, the plan was 84.10 percent funded. The actuarial accrued liability for benefits was \$38,722,845, and the actuarial value of assets was \$32,564,667, resulting in an unfunded actuarial accrued liability (UAAL) of \$6,158,178, and the ratio of the UAAL to the covered payroll was 33.71 percent. WaterOne's covered payroll for employees covered by the System as of January 1, 2013 was \$18,266,810. Covered payroll is defined as the pay, limited by Internal Revenue Code 401(a)(17), for all participants under Normal Retirement Age.

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.

Cash Balance Plan Description

In 2013, the Water District created a Cash Balance Plan for all eligible employees hired after December 31, 2013. The Cash Balance Plan qualifies under Sections 401(a) and 414(d) of the Internal Revenue Code of 1986, as amended, and the trust holding the plan's assets is exempt for tax under Section 501(a) of the Internal Revenue Code. The Cash Balance Plan is considered a defined benefit plan and its assets, liabilities and participants are included in the January 1, 2014 Actuarial Report on the Sixth Revised Retirement Plan addressed above.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

The Cash Balance Plan consists of the following:

- A mandatory employee contribution of 3 percent of employee's compensation.
- Employer pay credits which increase with years of service starting at 3 percent and ending at 6 percent of each employee's Compensation.
- An annual interest credit of 5.25 percent on pay credits and employee contributions.
- Five years of service is required before an employee is vested. Employees are always vested in their employee contributions and applicable interest credits.

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.

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 type of plan covering the retiree and spouse depends on the age of the retiree and spouse. As each becomes 65 years old, the coverage changes from WaterOne's group medical plan to a Medicare supplement plan. The current funding policy of WaterOne is to pay premiums as they occur on a pay-as-you-go basis.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

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, 2014 and 2013, the amount actuarially contributed to the plan, and changes in WaterOne's annual OPEB obligation:

	<u>2014</u>	<u>2013</u>
Annual required contribution	\$ 1,245,468	\$ 1,245,468
Interest on net OPEB obligation	237,747	237,747
Adjustment to annual required contribution	(330,503)	(330,503)
Annual OPEB cost	1,152,712	1,152,712
Contributions and payments made	(314,214)	(314,214)
Increase in Net OPEB obligation	838,498	838,498
Net OPEB Obligation - beginning of year	6,782,170	5,943,672
Net OPEB Obligation - end of year	\$ 7,620,668	\$ 6,782,170

WaterOne's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2014 is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage Of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2012	\$ 1,608,718	20.85%	\$ 5,943,672
December 31, 2013	1,152,712	27.26%	6,782,170
December 31, 2014	1,152,712	27.26%	7,620,668

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

Funded status and funding progress as of December 31, 2014 and 2013: As of January 1, 2013, the most recent actuarial valuation date, the plan was not funded. WaterOne's actuarial accrued liability for benefits was \$12,882,108 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$12,882,108. The covered payroll as of January 1, 2013 (annual payroll of active employees covered by the plan) was \$16,555,075, and the ratio of the UAAL to the covered payroll was 77.81 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.

In the January 1, 2013 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent discount rate and investment rate of return, a 5.0 percent salary rate increase and 6.25 - 8.5 percent healthcare cost trend rates. The UAAL is being amortized as level dollar open. 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 four parts, consisting of the following:

Employees hired before January 1, 2014:

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.

Employees hired on or after January 1, 2014:

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 100 percent of an employee's contribution to the 457 plan, up to the first 2 percent of the employee's eligible annual compensation and a match of 50 percent on the next 5 percent of eligible annual 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 4 percent of the employee's eligible annual compensation.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Assets of all 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 portions of the 401(a) plan in the amount of \$353,692 and \$334,011 during 2014 and 2013, respectively. As of December 31, 2014 and 2013, a liability had been recorded by WaterOne for the annual percent base contributions in the amounts of \$515,907 and \$490,019, respectively. These amounts were subsequently deposited to the defined contribution plan in January 2015 and 2014. 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 retirement or termination, an employee is paid for accumulated vacation.

Vacation Liability At 12/31/2013	2014 Earned Vacation	2014 Taken Vacation	Vacation Liability At 12/31/2014	Due Within One Year
\$ 1,313,848	\$ 1,388,015	\$ 1,369,227	\$ 1,332,636	\$ 1,332,636

Vacation Liability At 12/31/2012	2013 Earned Vacation	2013 Taken Vacation	Vacation Liability At 12/31/2013	Due Within One Year
\$ 1,284,764	\$ 1,327,785	\$ 1,298,701	\$ 1,313,848	\$ 1,313,848

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, 2014, WaterOne had total contractor commitments of \$59.70 million related to various Master Plan projects, including those under Phase V. Approximately \$29.69 million of the Master Plan commitments have been charged to the projects as of December 31, 2014. WaterOne has sufficient monies designated in the construction fund, the system development account and the general account to fund any unpaid Phase V outstanding costs and retainages. Also included in the December 31, 2014 balance of the construction fund, 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, 2014, GASB has issued a statement that is not yet effective for WaterOne and has not yet been implemented, but will impact WaterOne's financial statements. The statement is as follows:

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 equivalent 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, 2014

Schedule 1

Fiscal Year Ended	Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability	(a)-(b) Unfunded Assets In Excess Of Actuarial Accrued Liability (UAAL)	(a)/(b) Funded Ratio (1)	(c) Covered Payroll	{(a)-(b)/(c)} UAAL As A Percentage Of Covered Payroll
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%
2013	January 1, 2013	32,564,667	38,722,845	(6,158,178)	84.10%	18,266,810	33.71%
2014	January 1, 2014	35,608,180	39,754,053	(4,145,873)	89.57%	18,640,523	22.24%

Note:

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.

WaterOne contributed 100% of the annual required contribution in 2013.

WaterOne contributed 100% of the annual required contribution in 2014.

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of January 1, 2014.

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.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

REQUIRED SUPPLEMENTARY INFORMATION Schedule Of Funding Progress Of Other Postemployment Benefit Plan December 31, 2014

Schedule 2

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value Of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As A Percentage Of Covered Payroll ((a-b)/c)
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%
2013	January 1, 2013	—	12,882,108	(12,882,108)	—	16,555,075	77.81%
2014	January 1, 2013	—	12,882,108	(12,882,108)	—	16,555,075	77.81%

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of January 1, 2013.

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 for all valuations prior to January 1, 2013 and 4.0 percent thereafter.
4. The amortization method is level dollar.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 1 Of 4 For The Year Ended December 31, 2014

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	COVERAGE I – Property, Inland Marine, Boiler & Machinery All risk of direct physical loss of or damage to the insured property. <div style="border: 1px solid black; padding: 2px; margin: 5px 0;"> Note: Policy includes COVERAGE II, Boiler and COVERAGE III, Inland Marine </div> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>Deductible</u></th> <th style="text-align: left; border-bottom: 1px solid black;"><u>Coverage</u></th> </tr> </thead> <tbody> <tr> <td>\$100,000</td> <td>Flood/earthquake</td> </tr> <tr> <td>\$25,000</td> <td>All other losses</td> </tr> <tr> <td>\$25,000</td> <td>Business Income</td> </tr> <tr> <td>\$5,000</td> <td>Fine arts coverage</td> </tr> <tr> <td>\$25,000</td> <td>Acts of Terrorism</td> </tr> </tbody> </table>	<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	\$221,899	\$250,000,000 Loss Limit Real and personal property \$35,000,000 - 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	Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604 Policy # - RMP2010729912	07/01/15				
<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	COVERAGE II – Boiler Losses on property of insured, temporary repairs to property of insured, losses to property of others, defense against claims <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>Deductible</u></th> </tr> </thead> <tbody> <tr> <td>\$25,000</td> </tr> <tr> <td>Time Element</td> </tr> <tr> <td>1MDV</td> </tr> </tbody> </table>	<u>Deductible</u>	\$25,000	Time Element	1MDV	See COVERAGE I above	\$100,000,000	Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604	07/01/15												
<u>Deductible</u>																					
\$25,000																					
Time Element																					
1MDV																					
Per schedule of equipment	COVERAGE III – Inland Marine Physical loss or damage of EDP, mobile equipment, contractors equipment <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>Deductible</u></th> <th style="text-align: left; border-bottom: 1px solid black;"><u>Coverage</u></th> </tr> </thead> <tbody> <tr> <td>\$25,000</td> <td>All other losses</td> </tr> <tr> <td>\$25,000</td> <td>Electronic Data Processing</td> </tr> <tr> <td>\$1,000</td> <td>Laptops & iPads</td> </tr> <tr> <td>\$1,000</td> <td>GPS Equipment</td> </tr> <tr> <td>\$1,000</td> <td>Mobile Equipment</td> </tr> <tr> <td>\$5,000</td> <td>Scheduled Contractors Equipment plus trailers</td> </tr> <tr> <td>\$10,000</td> <td>Leased equipment</td> </tr> </tbody> </table>	<u>Deductible</u>	<u>Coverage</u>	\$25,000	All other losses	\$25,000	Electronic Data Processing	\$1,000	Laptops & iPads	\$1,000	GPS Equipment	\$1,000	Mobile Equipment	\$5,000	Scheduled Contractors Equipment plus trailers	\$10,000	Leased equipment	See COVERAGE I above	Included \$300,000 \$140,000 \$600,000 \$3,187,690 \$1,000,000	Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604	07/01/15
<u>Deductible</u>	<u>Coverage</u>																				
\$25,000	All other losses																				
\$25,000	Electronic Data Processing																				
\$1,000	Laptops & iPads																				
\$1,000	GPS Equipment																				
\$1,000	Mobile Equipment																				
\$5,000	Scheduled Contractors Equipment plus trailers																				
\$10,000	Leased equipment																				
Bodily injury and property damage	COVERAGE IV- General Liability <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>General Liability Deductible</u></th> </tr> </thead> <tbody> <tr> <td>\$5,000 per occurrence</td> </tr> <tr> <td>\$200,000 aggregate deductible</td> </tr> </tbody> </table>	<u>General Liability Deductible</u>	\$5,000 per occurrence	\$200,000 aggregate deductible	\$208,269	\$1,000,000 per occurrence \$3,000,000 aggregate \$3,000,000 products-completed operations aggregate	OneBeacon Atlantic Specialty Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0003	07/01/15													
<u>General Liability Deductible</u>																					
\$5,000 per occurrence																					
\$200,000 aggregate deductible																					
Based on revenue Includes Wrongful Acts, Employment Practices Liability and Offenses in the Admin. Of Employee Benefit Plans	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; border-bottom: 1px solid black;"><u>Management Liability</u></th> </tr> </thead> <tbody> <tr> <td>Retroactive Date - None</td> </tr> <tr> <td>Deductible - 5,000 per offense</td> </tr> </tbody> </table>	<u>Management Liability</u>	Retroactive Date - None	Deductible - 5,000 per offense	Included	\$1,000,000 per occurrence \$3,000,000 aggregate															
<u>Management Liability</u>																					
Retroactive Date - None																					
Deductible - 5,000 per offense																					

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION *(Continued)* Insurance Coverage (Unaudited) Page 2 Of 4 For The Year Ended December 31, 2014

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	COVERAGE V- Comprehensive Auto Liability: Liability coverage is combined single limit for bodily injury and property:	\$100,316	\$1,000,000	OneBeacon Atlantic Specialty Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0003	07/01/15
	<u>Coverage</u> Bodily injury and property damage NO DEDUCTIBLE ON LIABILITY 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		
	<u>Deductible</u> \$1,000 each ded. \$1,000 each ded. \$1,000 ded comp/\$1,000 coll \$25,000 Additional named insured on leased vehicles, or used by others under contract		<u>Coverage</u> Comprehensive Collision 50,000 limit on hired car Single Accident all auto PD aggregate		
	COVERAGE VI- Excess Liability - Occurrence Excess over general liability, automobile, employment practices, public officials employers liability	\$51,777	\$5,000,000 Each Occurrence \$5,000,000 General aggregate	OneBeacon Atlantic Specialty Insurance Company 150 Royall Street Canton, MA 02021 Policy # 791-00-04-34-0003	07/01/15
Pollution liability	COVERAGE VII – Environmental Impairment Liability (claims made) *Premium includes addition of the water treatment plant and monofill Retro date 01/01/03 Per occurrence/aggregate	\$78,429 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	07/01/16
	<u>Deductible</u> Each loss \$25,000				

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION *(Continued)*

Insurance Coverage (Unaudited) Page 3 Of 4

For The Year Ended December 31, 2014

Schedule 3 *(Continued)*

Property Or Liability Insured	Character Of Insurance	Premium	Amount Of Insurance	Name Of Insurer	Expiration Date
Money and securities	COVERAGE VIII – Crime	\$8,281	\$2,000,000 Per Loss	Hartford Fire Insurance	07/01/15
	Covered perils: Public employee theft, forgery, or alteration, theft, disappearance, destruction, credit card forgery, and computer fraud each with separate policy limit as shown		Employee Theft	Company Hartford, CT 06115 Policy # 37 FA 0244006-14	
			\$2,000,000 Depositors Forgery or Alteration (including Credit Card Forgery)		
	<u>Deductible</u>		\$2,000,000 Theft, Disappearance and Destruction		
	\$20,000 per occurrence/per peril		\$2,000,000 Computer and Funds Transfer Fraud		
Bodily injury by accident and disease; rating basis total annual remunerations:	COVERAGE IX – Workers' Compensation	\$508,952		Crum & Forster Idemnity	07/01/15
Waterworks \$14,574,382	<u>COVERAGE A</u>		Statutory	Company	
Clerical office employees \$6,358,500	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			Policy#: 4087078326	
	<u>COVERAGE B</u>				
	Employers liability limits:				
	Bodily injury by accident (each accident)		\$500,000		
	Bodily injury by disease (policy limit)		\$500,000		
	Bodily injury by diseases (each employee)		\$500,000		
	No deductible				
Violation of any of the duties and responsibilities imposed upon fiduciaries by common or statutory laws including negligent acts, errors & omissions in administration	COVERAGE X-Fiduciary	\$7,975	\$3,000,000	Federal Insurance Company	07/01/15
	Claims-made policy form-that provides coverage for breach of fiduciary duty			8208-0561	
	<u>Deductible</u>				
	\$10,000 per incident				

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION *(Continued)*

Insurance Coverage (Unaudited) Page 4 Of 4

For The Year Ended December 31, 2014

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	Underground storage tank liability	\$357	\$500,000 per incident	Great American Alliance Ins. Co.	07/01/15
	Bodily injury and property damage caused by "accidental releases" arising from operating these underground storage tanks. Meets statutory compliance		\$1,000,000 annual aggregate	KST7731871-23	
	<u>Deductible</u> \$2,500 per incident Retro date: 06/10/1991			\$100,000 limit of defense-per incident	
Bond	Notary Public Errors and Omissions Group Policy \$25,000 Each Person Limit	\$260 10 Notaries - Total Limit	\$25,000	CNA/Western Surety Co. Sioux Falls, SD 68809375	01/04/16
	<u>Deductible</u> \$0				
Boat Hull Policy	Hull Coverage \$15,000 Deductible \$500	\$500	\$15,000	International Marine #B5JH61090	07/15/15
Statutory Public Officials Bond for General Manager and Director of Finance	Public official bond: General Manager- Michael J. Armstrong	\$1,750	\$500,000	Hartford Fire Insurance Company, as surety for Hartford, Connecticut 37BSBAF3543	01/01/16
	Director of Finance - Ronald Appletoft	\$1,750	\$500,000	Hartford Fire Insurance Company, as surety for Hartford, Connecticut - 37BSBD18292	06/08/15
Board Member	Brenda Cherpitel	\$355	\$10,000	Liberty Mutual Fire Ins. Co. #674011379	04/30/17
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	04/30/17
Board Member	James Vader	\$355	\$10,000	Safeco Ins. Co. #EX973286	04/30/17
Performance Bond	City of Leawood	\$125	\$5,000	Liberty Mutual #5983959	02/08/15
Right of Way Excavation Bond	City of Lenexa	\$100	\$10,000	Liberty Mutual Fire Ins. Co. #674010642	03/01/15
Performance Bond	City of Mission Woods	\$100	\$10,000	Liberty Mutual Fire Ins. Co. #674011858	05/07/15
License & Permit Bond	City of Merriam	\$250	\$2,000	Safeco Ins. Co. #EK783505-0000	07/05/17
License & Permit Bond	City of Mission Hills	\$250	\$5,000	Safeco Ins. Co. #EK789981-0000	08/15/17
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	07/05/17
License & Permit Bond	City of Shawnee	\$250	\$5,000	Safeco Ins. Co. #EX790410	11/08/17
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	05/01/17
License & Permit Bond	Miami County	\$250	\$50,000	Liberty Mutual Fire Ins. Co. #674014712	01/09/16
License & Permit Bond	State of Kansas	\$250	\$10,000	Liberty Mutual #E782271-0000	05/29/17
Land Disturbance Bond	City of Shawnee	\$100	\$8,536	Liberty Mutual #674020193	08/09/15
Land Disturbance Bond	City of Shawnee	\$100	\$7,763	Liberty Mutual #674020192	08/09/15

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Fidelity Bonds In Force (Unaudited) For The Year Ended December 31, 2014

Schedule 4

Water District No. 1 Of Johnson County, Kansas

Fidelity Bonds In Force (Unaudited)

Water District Board Members:

Brenda Cherpitel - Chairman	\$	10,000
Joe Vaughan - Vice Chairman		10,000
Terrence D. Frederick - Member		10,000
H. Richard Noon - Member		10,000
Robert S. Olson - Member		10,000
Robert P. Reese - Member		10,000
James E. Vader - 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.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION

Operating Data (Unaudited) For The Years Ended 2014 And 2013

Schedule 5

Customers Served by WaterOne: During 2014, WaterOne served a weighted average of 141,767 customers, as compared to 140,265 customers during 2013; this is an increase of 1,502 customers in 2014, as compared to an increase of 1,245 customers in 2013.

Water Sales and Water Delivered Summary: Water sales by class of customer for the years ended December 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Residential:		
Single family	\$ 61,215,674	\$ 63,035,017
Multifamily	9,234,852	9,019,555
Commercial:		
Small	5,325,460	5,283,720
Large	20,382,505	19,887,137
Temporary	412,928	369,761
Wholesale	—	(397)
Total water sales	\$ 96,571,419	\$ 97,594,793

During the year ended December 31, 2014, water sales and water delivered to the distribution lines, in terms of thousands of gallons, as compared to 2013, were as follows:

	<u>2014</u>	<u>2013</u>
Delivered to distribution system		
Water produced	21,044,359	21,773,423
Water sales		
Metered water	17,910,909	18,946,031
Unmetered water	3,133,450	2,827,392
Unmetered water as percentage of total water delivered	14.89%	12.99%

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION

Operating Data (Unaudited)

Years Ended 2014 And 2013

Schedule 5 (Continued)

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

	<u>2014</u>	<u>2013</u>
Residential - single family:		
Average number of customers	129,114	127,788
Average gallons per customer	82,864	90,441
Average revenue per customer	\$ 474.12	\$ 493.28
Residential - multifamily:		
Average number of customers	4,467	4,420
Average gallons per customer	428,106	442,633
Average revenue per customer	\$ 2,067.35	\$ 2,040.62
Commercial - small:		
Average number of customers	4,899	4,853
Average gallons per customer	197,223	205,530
Average revenue per customer	\$ 1,087.05	\$ 1,088.75
Commercial - large:		
Average number of customers	3,075	3,020
Average gallons per customer	1,395,180	1,454,422
Average revenue per customer	\$ 6,628.46	\$ 6,585.14
Commercial - temporary:		
Average number of customers	212	184
Average gallons per customer	203,930	231,267
Average revenue per customer	\$ 1,947.77	\$ 2,009.57
Wholesale (1):		
Number of customers	—	—
Thousand gallons per class	—	—
Revenue per class	\$ —	\$ —