
***WATER DISTRICT NO. 1 OF
JOHNSON COUNTY, KANSAS
FINANCIAL STATEMENTS
DECEMBER 31, 2017***

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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 financial statements of Water District No. 1 of Johnson County, Kansas as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Water District No. 1 of Johnson County, Kansas' basic financial statements as listed in the table of contents.

Management's Responsibility For The Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Water District No. 1 of Johnson County, Kansas as of December 31, 2017 and 2016, and the 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, the schedule of funding progress of the other postemployment benefit plan on page 48 and the schedules of selected pension information of the employee retirement plan on pages 46 through 47 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 49 through 55, 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 6, 2018

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2017

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, 2017 and 2016. This information is presented in conjunction with the audited financial statements which follow this section.

Financial Highlights

Operating revenues in 2017 were \$107.20 million. Operating revenues in 2016 were \$109.92 million.

Operating expenses in 2017 were \$52.93 million, excluding depreciation. Operating expenses in 2016 were \$49.73 million, excluding depreciation.

During 2017 and 2016, WaterOne received \$20.28 million and \$15.70 million, respectively, in capital contributions.

Investment income before unrealized gains and losses for 2017 was approximately \$1.37 million compared to \$803,000 in 2016. The 2017 average funds invested of \$137.18 million was more than the 2016 balance of \$122.42 million and the 2017 rate of return of 1.00 percent was higher than the 2016 rate of 0.66 percent.

WaterOne's capital assets were \$1,020 million in 2017 compared to \$999 million in 2016.

The debt service coverage ratio for Debt Service (excluding System Development Charges) was 2.31 for 2017, compared to 2.47 for 2016.

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 2017 and 2016. 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 indicate if the financial condition has improved over the previous year. WaterOne's total net position increased \$39.43 million (4.54 percent) in 2017 and \$41.52 million (5.02 percent) in 2016.

Table 1
Net Position
(Dollars in thousands)

| | December 31, | | Variance | | December 31, | | Variance | |
|---|----------------|----------------|---------------------|--------------|----------------|---------------------|--------------|--|
| | 2017 | 2016 | Dollars | Percentage | 2015 | Dollars | Percentage | |
| | | | Increase (Decrease) | | | Increase (Decrease) | | |
| Capital assets | \$ 1,019,953 | \$ 999,306 | \$ 20,647 | 2.07% | \$ 973,106 | \$ 26,200 | 2.69% | |
| Total special funds | 62,148 | 45,035 | 17,113 | 38.00% | 49,118 | (4,083) | (8.31)% | |
| Total current assets | 145,304 | 125,206 | 20,098 | 16.05% | 119,274 | 5,932 | 4.97% | |
| Deferred outflows of resources | 7,703 | 7,837 | (134) | (1.71)% | 6,136 | 1,701 | 27.72% | |
| Total Assets And | | | | | | | | |
| Deferred Outflows | \$ 1,235,108 | \$ 1,177,384 | \$ 57,724 | 4.90% | \$ 1,147,634 | \$ 29,750 | 2.59% | |
| Long-term liabilities and other liabilities | \$ 295,858 | \$ 277,716 | \$ 18,142 | 6.53% | \$ 284,331 | \$ (6,615) | (2.33)% | |
| Current liabilities | 28,528 | 30,007 | (1,479) | (4.93)% | 35,427 | (5,420) | (15.30)% | |
| Deferred inflows of resources | 1,897 | 263 | 1,634 | 621.29% | — | 263 | 100.00% | |
| Total Liabilities And Deferred | | | | | | | | |
| Inflows Of Resources | 326,283 | 307,986 | 18,297 | 5.94% | 319,758 | (11,772) | (3.68)% | |
| Net investment in capital assets | 774,551 | 743,852 | 30,699 | 4.13% | 703,478 | 40,374 | 5.74% | |
| Restricted | 27,050 | 27,487 | (437) | (1.59)% | 27,175 | 312 | 1.15% | |
| Unrestricted | 107,224 | 98,059 | 9,165 | 9.35% | 97,223 | 836 | 0.86% | |
| Total Net Position | 908,825 | 869,398 | 39,427 | 4.53% | 827,876 | 41,522 | 5.02% | |
| Total Liabilities, Deferred Inflows | | | | | | | | |
| Of Resources, And Net Position | \$ 1,235,108 | \$ 1,177,384 | \$ 57,724 | 4.90% | \$ 1,147,634 | \$ 29,750 | 2.59% | |

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 | |
|--|-------------------|-------------------|------------------|-----------------|-------------------|------------------|---------------|------------|
| | 2017 | 2016 | Dollars | Percentage | 2015 | Dollars | Percentage | |
| | | | Increase | (Decrease) | | | Increase | (Decrease) |
| Operating revenues | \$ 107,197 | \$ 109,916 | \$ (2,719) | (2.47)% | \$ 96,065 | \$ 13,851 | 14.42% | |
| Operating expenses | 52,927 | 49,728 | 3,199 | 6.43% | 46,817 | 2,911 | 6.22% | |
| Net Operating Income (Before Depreciation) | 54,270 | 60,188 | (5,918) | (9.83)% | 49,248 | 10,940 | 22.21% | |
| Depreciation | 25,136 | 23,608 | 1,528 | 6.47% | 22,905 | 703 | 3.07% | |
| Net Operating Income | 29,134 | 36,580 | (7,446) | (20.36)% | 26,343 | 10,237 | 38.86% | |
| Total other income | 1,073 | 1,439 | (366) | (25.43)% | 1,159 | 280 | 24.16% | |
| Total other expenses | 11,056 | 12,201 | (1,145) | (9.38)% | 9,801 | 2,400 | 24.49% | |
| Net Income Before Capital Contributions | 19,151 | 25,818 | (6,667) | (25.82)% | 17,701 | 8,117 | 45.86% | |
| Capital contributions | 20,276 | 15,704 | 4,572 | 29.11% | 13,596 | 2,108 | 15.50% | |
| Change In Net Position | 39,427 | 41,522 | (2,095) | (5.05)% | 31,297 | 10,225 | 32.67% | |
| Beginning Net Position As Previously Reported | 869,398 | 827,876 | 41,522 | 5.02% | 803,944 | 23,932 | 2.98% | |
| Prior Period Adjustments: | | | | | | | | |
| Implementation of GASB 68 | — | — | — | | (7,365) | 7,365 | | |
| Beginning Net Position As Restated | 869,398 | 827,876 | 41,522 | | 796,579 | 31,297 | | |
| Ending Net Position | \$ 908,825 | \$ 869,398 | \$ 39,427 | 4.53% | \$ 827,876 | \$ 41,522 | 5.02% | |
| Total Revenues | \$ 128,546 | \$ 127,059 | | | \$ 110,820 | | | |
| Total Expenses | \$ 89,119 | \$ 85,537 | | | \$ 79,523 | | | |

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. The last of the Senior Parity Bonds were refunded in November of 2017 which closes that level of bonds for WaterOne.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

Variances 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, 2017, WaterOne's retail water rates increased 1.9 percent. Effective January 1, 2016, WaterOne's retail water rates increased 2.5 percent.
- 2. Changes in Customer Consumption Due to Weather Influences** - 2017 water sales were \$105.8 million. Sales in 2017 were \$5.5 million less than projected and \$2.79 million less than those in 2016. 2016 water sales were \$108.59 million. Sales for 2016 were \$169,000 more than projected and \$13.81 million more than those in 2015. Approximately 62.98 percent of the water sales revenue was from sales to single-family residences. The remaining 37.02 percent represent sales to multifamily and commercial customers.

Gallons sold in 2017 were 18.04 billion which was 0.89 billion less than gallons sold in 2016 and 1.80 billion less than projected. Gallons sold in 2016 were 18.93 billion which was 2.15 billion more than gallons sold in 2015 and 0.77 billion less than projected.

- 3. Changes in the Number of Customers** - Excluding temporary fire hydrant meters and wholesale customers, 1,284 new retail customers were added in 2017, which were 110 (7.89 percent) less than the 1,394 new customers added in 2016. The new 2016 customers were 170 (13.89 percent) more than the 1,224 new customers added in 2015.

Investment income (before unrealized gain/loss on investments) increased from \$803,000 in 2016 to \$1.37 million in 2017. Investment income (before unrealized gain/loss on investments) increased from \$548,000 in 2015 to \$803,000 in 2016.

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|------------------------|------------------|------------------|------------------|
| Average funds invested | \$137.18 Million | \$122.42 Million | \$130.72 Million |
| Average rate of return | 1.00% | 0.66% | 0.42% |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

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 \$3.20 million (6.43 percent) more in 2017 than in 2016. The increase in operating expenses during 2017 was primarily due to higher power, chemical, and net labor costs. In addition, net benefits were higher in 2017 than 2016.
 - **Water Source, Treatment, and Pumping** expenses were \$1.73 million (7.03 percent) higher in 2017 than in 2016, primarily due to:
 - An increase in power cost of \$668,000
 - An increase in chemical costs of \$443,000
 - An increase in net labor of \$351,000
 - An increase in net benefits allocation of \$212,000
 - **Transmission and Distribution** expenses were \$466,000 (4.26 percent) higher in 2017 than in 2016, primarily due to:
 - An increase in net labor of \$565,000
 - An increase in net benefits allocation of \$238,000
 - A decrease in maintenance of mains expense of \$300,000
 - **Customer Service** expenses were \$146,000 (3.41 percent) higher in 2017 than in 2016.
 - An increase in net labor of \$168,000
 - An increase in net benefits allocation of \$88,000
 - A decrease in uncollectable accounts of \$86,000
 - **Administrative and General** expenses were \$860,000 (8.65 percent) higher in 2017 than in 2016.
 - An increase in net labor of \$328,000
 - An increase in net benefits allocation of \$228,000
 - An increase in training of \$127,000

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis *(Continued)*

2. Total operating expenses (before depreciation) were \$2.91 million (6.22 percent) less in 2016 than in 2015. The increase in operating expenses during 2016 was primarily due to lower power and chemical costs. In addition, a change in accounting standards required a different calculation of the annual Defined Benefit Pension Plan expense.
- **Water Source, Treatment, and Pumping** expenses were \$2.0 million (8.85 percent) higher in 2016 than in 2015, primarily due to:
 - An increase in power cost of \$806,000.
 - An increase in chemical costs of \$581,000.
 - An increase in net benefits allocation of \$413,000.
 - **Transmission and Distribution** expenses were \$103,000 (0.95 percent) higher in 2016 than in 2015.
 - **Customer Service** expenses were \$265,000 (6.36 percent) higher in 2016 than in 2015.
 - **Administrative and General** expenses were \$555,000 (5.91 percent) higher in 2016 than in 2015.

Capital Contributions

Capital contributions are recognized as “Contributions” on the Statements of Revenues, Expenses, and Changes in Net Position. Capital contributions for the years 2017, 2016 and 2015 consisted of the following:

Table 3
Capital Contributions
(Dollars in thousands)

| | December 31, | | Variance | | December 31, | | Variance | |
|------------------------------------|------------------|------------------|---------------------|---------------|------------------|---------------------|---------------|--|
| | 2017 | 2016 | Dollars | Percentage | 2015 | Dollars | Percentage | |
| | | | Increase (Decrease) | | | Increase (Decrease) | | |
| Main extensions | \$ 8,793 | \$ 4,591 | \$ 4,202 | 91.53% | \$ 4,744 | \$ (153) | (3.23)% | |
| System development charges | 9,958 | 9,525 | 433 | 4.55% | 7,630 | 1,895 | 24.84% | |
| Benefit areas | 147 | 172 | (25) | (14.53)% | 115 | 57 | 49.57% | |
| New services | 1,378 | 1,416 | (38) | (2.68)% | 1,107 | 309 | 27.91% | |
| Total Capital Contributions | \$ 20,276 | \$ 15,704 | \$ 4,572 | 29.11% | \$ 13,596 | \$ 2,108 | 15.50% | |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

Capital Assets

As of December 31, 2017, WaterOne's investment in net capital assets totaled \$1.02 billion which is an increase of \$20.65 million (2.07 percent) over the 2016 balance. Net capital assets in 2016 totaled \$999.31 million, which was an increase of \$26.20 million (2.69 percent) over the 2015 balance of \$973.11 million. 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 | |
|--|---------------------|---------------------|---------------------|--------------|---------------------|---------------------|--------------|--|
| | 2017 | 2016 | Dollars | Percentage | 2015 | Dollars | Percentage | |
| | | | Increase (Decrease) | | | Increase (Decrease) | | |
| Land | \$ 31,733 | \$ 31,728 | \$ 5 | 0.02% | \$ 26,669 | \$ 5,059 | 18.97% | |
| Intake, purification and pumping system | 389,482 | 384,064 | 5,418 | 1.41% | 357,121 | 26,943 | 7.54% | |
| Transmission and distribution system | 851,616 | 831,169 | 20,447 | 2.46% | 742,140 | 89,029 | 12.00% | |
| Buildings, improvements, furniture and equipment | 50,940 | 50,627 | 313 | 0.62% | 44,244 | 6,383 | 14.43% | |
| Construction work in progress | 63,477 | 46,092 | 17,385 | 37.72% | 126,322 | (80,230) | (63.51)% | |
| Capital Assets Before Depreciation | \$ 1,387,248 | \$ 1,343,680 | \$ 43,568 | 3.24% | \$ 1,296,496 | \$ 47,184 | 3.64% | |
| Less: Accumulated depreciation | \$ (367,295) | \$ (344,374) | \$ (22,921) | 6.66% | \$ (323,390) | \$ (20,984) | 6.49% | |
| Net Capital Assets | \$ 1,019,953 | \$ 999,306 | \$ 20,647 | 2.07% | \$ 973,106 | \$ 26,200 | 2.69% | |

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 to fund 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 were rated Aaa by Moody's and AAA by Standard and Poor's. Second Lien bonds were rated Aa1 by Moody's and AAA by Standard and Poor's. The last of the outstanding Senior Parity Bonds were refunded in November 2017 which closed the Senior Parity bond series. As a result of the closing of the Senior Parity series, Moody's upgraded all of WaterOne's Second Lien bonds to Aaa in November 2017.

At the end of 2017, WaterOne had \$265.61 million of outstanding bonds, compared to \$256.45 million at the end of 2016. The increase was the result of the issuance of \$150.31 million of bonds in November 2017, the retirement of \$132.09 million of the 2007 bonds, and principal payments of \$9.07 million.

At the end of 2016, WaterOne had \$256.45 million of outstanding bonds, compared to \$270.22 million at the end of 2015. The decrease was the result of principal payments of \$13.77 million.

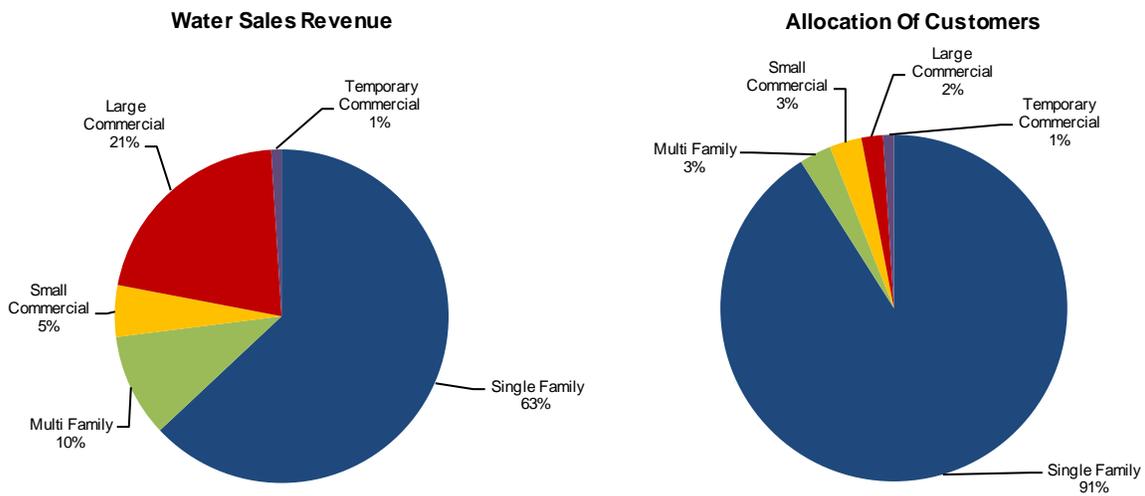
As discussed in Note 4 of the Notes to Financial Statements, the current debt service schedule extends to 2042 and includes bonds with interest rates ranging from 1.50 percent to 5.00 percent. Bond covenants require that WaterOne maintain a debt service coverage ratio on its Water Revenue bonds of 1.25; 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 2017, the actual debt service coverage ratio for WaterOne's bonds (excluding System Development Charges) was 2.31 which was lower than the comparable ratio of 2.47 for 2016 and higher than the 2015 ratio of 1.93.

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, 2017, WaterOne served 146,472 customers compared to 145,208 customers served as of December 31, 2016 and 143,817 served as of December 31, 2015. As of December 31, 2017, 91.02 percent of the customers served were single-family residential homes.



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, 2017, WaterOne's top 15 commercial customers contributed only 3.82 percent of total 2017 annual water sales revenue.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Management's Discussion and Analysis (*Continued*)

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 all of WaterOne's Revenue bonds.

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, | |
|--|-------------------------|-------------------------|
| | 2017 | 2016 |
| Assets And Deferred Outflows Of Resources | | |
| Current Assets | | |
| Cash and short-term investments: | | |
| Water system general fund | \$ 108,626,883 | \$ 96,848,850 |
| System development account | 18,918,260 | 9,981,994 |
| Accounts receivable and accrued water sales | 9,995,560 | 10,001,501 |
| Interest receivable | 887,971 | 685,709 |
| Materials and supplies | 4,143,078 | 3,715,287 |
| Contractor extension receivables | 1,843,097 | 2,854,009 |
| Prepayments and deposits | 888,632 | 1,119,127 |
| Total Current Assets | 145,303,481 | 125,206,477 |
| Noncurrent Assets | | |
| Capital Assets, Net Of Accumulated Depreciation | | |
| Nondepreciable capital assets: | | |
| Land | 31,732,399 | 31,727,793 |
| Construction in progress | 63,477,172 | 46,092,312 |
| Total nondepreciable capital assets | 95,209,571 | 77,820,105 |
| Depreciable capital assets: | | |
| Intake, purification, and pumping system | 223,747,451 | 228,001,095 |
| Transmission and distribution system | 674,632,642 | 665,907,513 |
| Building, improvements, furniture, and equipment | 26,363,630 | 27,577,536 |
| Total depreciable capital assets, net of accumulated depreciation | 924,743,723 | 921,486,144 |
| Net Capital Assets | 1,019,953,294 | 999,306,249 |
| Restricted Cash And Investments | | |
| Special funds created by bond resolutions: | | |
| Principal and interest | 1,038,867 | 1,604,902 |
| Senior bond reserve fund | - | 14,635,740 |
| Second Lien bond reserve fund | 15,636,176 | 7,650,904 |
| Construction fund | 26,499,610 | - |
| Water system general fund | 18,973,316 | 21,143,287 |
| Total Special Funds Created By Bond Resolutions | 62,147,969 | 45,034,833 |
| Total Noncurrent Assets | 1,082,101,263 | 1,044,341,082 |
| Total Assets | 1,227,404,744 | 1,169,547,559 |
| Deferred Outflows Of Resources | | |
| Pensions | 7,703,570 | 7,767,001 |
| Refunding of debt | - | 69,382 |
| Total Assets And Deferred Outflows Of Resources | \$ 1,235,108,314 | \$ 1,177,383,942 |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF NET POSITION

Page 2 Of 2

| | December 31, | |
|--|-------------------------|-------------------------|
| | 2017 | 2016 |
| Liabilities, Deferred Inflows of Resources And Net Position | | |
| Current Liabilities | | |
| Accounts payable | \$ 7,534,260 | \$ 6,896,052 |
| Customer advances for system development charges | 2,675,615 | 2,818,345 |
| Retainage on construction contracts | 595,828 | 1,556,877 |
| Current maturities of revenue bonds payable | 12,585,000 | 14,490,000 |
| Accrued interest on revenue bonds payable | 535,954 | 498,785 |
| Compensated employee absences | 1,502,578 | 1,369,821 |
| Other current liabilities | 3,098,850 | 2,376,942 |
| Total Current Liabilities | 28,528,085 | 30,006,822 |
| Noncurrent And Other Liabilities | | |
| Revenue bonds payable | 253,025,000 | 241,960,000 |
| Premium on revenue bonds payable | 12,680,972 | 5,070,921 |
| Customer advances for construction | 6,429,560 | 8,798,047 |
| Net pension liability | 13,913,248 | 12,768,448 |
| Other post-employment | 9,809,148 | 9,119,272 |
| Total Noncurrent And Other Liabilities | 295,857,928 | 277,716,688 |
| Total Liabilities | 324,386,013 | 307,723,510 |
| Deferred Inflows Of Resources | | |
| Pensions | 224,229 | 262,823 |
| Refunding of debt | 1,673,351 | — |
| Total Liabilities And Deferred Inflows Of Resources | 326,283,593 | 307,986,333 |
| Net Position | | |
| Net investment in capital assets | 774,550,909 | 743,852,166 |
| Restricted by bond resolution | 27,050,077 | 27,487,046 |
| Unrestricted | 107,223,735 | 98,058,397 |
| Total Net Position | 908,824,721 | 869,397,609 |
| Total Liabilities, Deferred Inflows of Resources And Net Position | \$ 1,235,108,314 | \$ 1,177,383,942 |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

| | For The Years Ended December 31, | |
|---|-------------------------------------|-----------------------|
| | 2017 | 2016 |
| Operating Revenues | | |
| Water sales | \$ 105,837,757 | \$ 108,586,314 |
| Other operating revenues | 1,359,342 | 1,329,856 |
| Total Operating Revenues | 107,197,099 | 109,916,170 |
| Operating Expense | | |
| Water source, treatment and pumping | 26,285,896 | 24,559,593 |
| Transmission and distribution | 11,408,087 | 10,942,407 |
| Customer service | 4,428,095 | 4,282,027 |
| Administrative and general | 10,804,719 | 9,944,276 |
| Depreciation of utility plant | 25,136,075 | 23,608,212 |
| Total Operating Expense | 78,062,872 | 73,336,515 |
| Operating Income | 29,134,227 | 36,579,655 |
| Nonoperating Revenues (Expense) | | |
| Investment income | 904,667 | 859,020 |
| Miscellaneous, net | 167,634 | 154,699 |
| Bond interest expense | (10,235,294) | (10,812,649) |
| Amortization expense - refunded bonds | (13,521) | (23,127) |
| Amortization of premiums and issuance costs | (274,394) | 425,757 |
| Loss on disposal of capital assets | (532,165) | (1,365,173) |
| Net Nonoperating Expense | (9,983,073) | (10,761,473) |
| Income Before Capital Contributions | 19,151,154 | 25,818,182 |
| Capital Contributions | 20,275,958 | 15,703,700 |
| Change In Net Position | 39,427,112 | 41,521,882 |
| Beginning Net Position | 869,397,609 | 827,875,727 |
| Net Position - End Of Year | \$ 908,824,721 | \$ 869,397,609 |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF CASH FLOWS

Page 1 Of 2

| | For The Years | |
|--|-----------------------|-----------------------|
| | Ended December 31, | |
| | 2017 | 2016 |
| Cash Flows From Operating Activities | | |
| Receipts from customers | \$ 107,031,847 | \$ 109,401,144 |
| Payments to suppliers | (31,173,580) | (30,102,205) |
| Payments to employees | (18,987,062) | (17,574,698) |
| Net Cash Provided By Operating Activities | 56,871,205 | 61,724,241 |
| Cash Flows Provided By Noncapital Financing Activities, Miscellaneous | 167,633 | 154,699 |
| Cash Flows From Capital And Related Financing Activities | | |
| Proceeds from sale of capital assets | 297,218 | 243,914 |
| System development charges | 9,815,570 | 9,753,230 |
| Acquisition and construction of capital assets | (37,951,456) | (49,058,124) |
| Principal payments on revenue bonds | (9,065,000) | (13,770,000) |
| Interest payments on revenue bonds | (10,300,010) | (10,848,082) |
| Issuance of long term debt | 150,310,000 | — |
| Retirement of long term debt | (132,085,000) | — |
| Premiums on debt issuance | 9,796,105 | — |
| Debt issuance costs | (731,234) | — |
| Net Cash Used In Capital And Related Financing Activities | (19,913,807) | (63,679,062) |
| Cash Flows From Investing Activities | | |
| Purchase of short-term investments | (136,751,903) | (89,098,220) |
| Interest received on investments | 1,164,272 | 468,345 |
| Maturities of short-term investments | 97,150,000 | 82,993,483 |
| Net Cash Provided By (Used In) Investing Activities | (38,437,631) | (5,636,392) |
| Net Decrease In Cash | (1,312,600) | (7,436,514) |
| Cash - Beginning Of Year | 15,121,489 | 22,558,003 |
| Cash - End Of Year | \$ 13,808,889 | \$ 15,121,489 |
| Investments | \$ 175,884,223 | \$ 136,744,188 |
| Cash | 13,808,889 | 15,121,489 |
| Total Cash And Investments | \$ 189,693,112 | \$ 151,865,677 |
| Principal and interest fund - restricted | \$ 1,038,867 | \$ 1,604,902 |
| Water system general fund | 108,626,883 | 96,848,850 |
| Water system general fund - restricted | 18,973,316 | 21,143,287 |
| Cash bond reserve fund - restricted | 15,636,176 | 22,286,644 |
| Construction fund | 26,499,610 | — |
| System development account | 18,918,260 | 9,981,994 |
| | \$ 189,693,112 | \$ 151,865,677 |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

STATEMENT OF CASH FLOWS

Page 2 Of 2

| | For The Years Ended December 31, | |
|---|-------------------------------------|----------------------|
| | 2017 | 2016 |
| Net Cash From Operating Activities | | |
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | \$ 29,134,227 | \$ 36,579,655 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation | 25,136,075 | 23,608,212 |
| Changes in assets and liabilities: | | |
| Increase in receivables and accrued water sales | (165,253) | (515,025) |
| Increase in materials and supplies | (355,936) | (255,074) |
| Decrease in prepayments and deposits and net pension liability | 230,558 | 165,940 |
| Increase (decrease) in other assets | (521,099) | 145,101 |
| Increase in accounts payable | 699,599 | 147,079 |
| Increase in other liabilities and compensation | 2,713,034 | 1,848,353 |
| Net Cash Provided By Operating Activities | \$ 56,871,205 | \$ 61,724,241 |
| Noncash capital and related financing activities: | | |
| Property contributed to WaterOne | \$ 10,317,658 | \$ 6,178,415 |
| Acquisition of capital assets through retainage payable | (961,049) | (1,898,913) |
| Acquisition of capital assets through accounts payable | (61,390) | (4,782,101) |
| Noncash retirement of capital assets | 532,165 | 1,365,173 |
| Noncash investing activities: | | |
| Appreciation (depreciation) of fair value | 461,866 | (56,236) |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

NOTES TO FINANCIAL STATEMENTS For The Year Ended December 31, 2017

Note 1. Summary Of Significant Accounting Policies

Water District No. 1 of Johnson County, Kansas (WaterOne) is a water utility that provides service to 146,472 and 145,208 customers as of December 31, 2017 and 2016, 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 \$101,885 and \$0 was capitalized in fiscal year 2017 and 2016, 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, 2017 and 2016.

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.

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 bond covenant required reserves in the general fund.

Materials And Supplies

Materials and supplies inventories are reported at average cost.

Unamortized Refunding Charges

Deferred amounts related to gains or losses from refunding debt are classified as Deferred Outflows or Inflows of Resources and are amortized over the shorter of either 1) the original life of the refunded debt or 2) the life of the refunding debt.

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*)

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Water District No. 1 of Johnson County, Kansas Sixth Revised Retirement Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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, 2017 WaterOne had \$26.5 million of unspent bond proceeds. There were no unspent bond proceeds as of December 31, 2016. 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.

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, 2017 is as follows:

| | Balance - December 31, 2016 | Increases | Decreases | Balance - December 31, 2017 |
|---|-----------------------------------|----------------------|------------------------|-----------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 31,727,793 | \$ 4,606 | \$ — | \$ 31,732,399 |
| Construction work in progress | 46,092,312 | 46,612,502 | (29,227,642) | 63,477,172 |
| Total capital assets not being depreciated | 77,820,105 | 46,617,108 | (29,227,642) | 95,209,571 |
| Capital assets being depreciated: | | | | |
| Intake, purification and pumping system | 384,064,105 | 5,893,999 | (475,649) | 389,482,455 |
| Transmission and distribution systems | 831,168,848 | 21,518,546 | (1,071,758) | 851,615,636 |
| Building, improvements, furniture and equipment | 50,627,174 | 1,810,491 | (1,496,691) | 50,940,974 |
| Total capital assets being depreciated | 1,265,860,127 | 29,223,036 | (3,044,098) | 1,292,039,065 |
| Less accumulated depreciation for: | | | | |
| Intake, purification, and pumping system | 156,063,010 | 10,147,643 | (475,649) | 165,735,004 |
| Transmission and distribution systems | 165,261,335 | 11,967,333 | (245,674) | 176,982,994 |
| Building, improvements, furniture and equipment | 23,049,638 | 3,021,099 | (1,493,393) | 24,577,344 |
| Total accumulated depreciation | 344,373,983 | 25,136,075 | (2,214,716) | 367,295,342 |
| Total capital assets being depreciated, net | 921,486,144 | 4,086,961 | (829,382) | 924,743,723 |
| Net Capital Assets | \$ 999,306,249 | \$ 50,704,069 | \$ (30,057,024) | \$ 1,019,953,294 |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Capital asset activity for the year ended December 31, 2016 is as follows:

| | Balance - | | | Balance - | |
|---|-----------------------|-----------------------|-------------------------|-----------------------|--|
| | December 31, | | | December 31, | |
| | 2015 | Increases | Decreases | 2016 | |
| Capital assets not being depreciated: | | | | | |
| Land | \$ 26,669,133 | \$ 5,058,660 | \$ — | \$ 31,727,793 | |
| Construction work in progress | 126,322,324 | 51,430,023 | (131,660,035) | 46,092,312 | |
| Total capital assets not being depreciated | 152,991,457 | 56,488,683 | (131,660,035) | 77,820,105 | |
| Capital assets being depreciated: | | | | | |
| Intake, purification, and pumping system | 357,121,288 | 27,377,601 | (434,784) | 384,064,105 | |
| Transmission and distribution systems | 742,140,342 | 91,123,111 | (2,094,605) | 831,168,848 | |
| Building, improvements, furniture and equipment | 44,244,294 | 8,100,663 | (1,717,783) | 50,627,174 | |
| Total capital assets being depreciated | 1,143,505,924 | 126,601,375 | (4,247,172) | 1,265,860,127 | |
| Less accumulated depreciation for: | | | | | |
| Intake, purification, and pumping system | 146,742,894 | 9,663,924 | (343,808) | 156,063,010 | |
| Transmission and distribution systems | 154,748,819 | 11,123,057 | (610,541) | 165,261,335 | |
| Building, improvements, furniture and equipment | 21,899,176 | 2,821,231 | (1,670,769) | 23,049,638 | |
| Total accumulated depreciation | 323,390,889 | 23,608,212 | (2,625,118) | 344,373,983 | |
| Total capital assets being depreciated, net | 820,115,035 | 102,993,163 | (1,622,054) | 921,486,144 | |
| Net Capital Assets | \$ 973,106,492 | \$ 159,481,846 | \$ (133,282,089) | \$ 999,306,249 | |

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, 2017 and 2016, the bank balance of WaterOne's deposits were \$14,026,306 and \$15,382,532, 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, 2017 and 2016 is as follows:

| | Fair Value | | Moody's / Standard & Poor's Rating |
|---|-----------------------|-----------------------|--|
| | 2017 | 2016 | |
| U.S. Treasury securities | \$ 169,886,407 | \$ 109,388,651 | N/A |
| Federal Home Loan Bank securities | 1,997,816 | 15,335,524 | Aaa/AA+ |
| Federal Home Loan Mortgage Corporation securities | — | 5,007,770 | Aaa/AA+ |
| Federal National Mortgage Association securities | — | 1,012,243 | Aaa/AA+ |
| Certificates of deposit | 4,000,000 | 6,000,000 | N/A |
| Deposits | 13,806,939 | 15,119,539 | N/A |
| Petty cash | 1,950 | 1,950 | N/A |
| | \$ 189,693,112 | \$ 151,865,677 | |

The investments and deposits at December 31, 2017 and 2016 are shown on the statement of net position as follows:

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Cash and temporary investments: | | |
| General account | \$ 108,626,883 | \$ 96,848,850 |
| System development account | 18,918,260 | 9,981,994 |
| Special funds created by bond resolutions | 62,147,969 | 45,034,833 |
| | \$ 189,693,112 | \$ 151,865,677 |

WaterOne categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

WaterOne has the following recurring fair value measurements as of December 31, 2017 and 2016, respectively:

- U.S. Treasury securities of \$169,886,407 and \$109,388,651, respectively, valued using quoted market prices (Level 1 inputs).
- Government Agency securities of \$1,997,816 and \$21,355,537, respectively, valued using quoted market prices (Level 1 inputs).
- Certificates of deposit of \$4,000,000 and \$6,000,000, respectively, valued at amortized cost.

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. As of December 31, 2017, WaterOne held 1% of its investment securities in Federal Home Loan Bank securities, 0% in Federal Home Loan Mortgage Corporation securities, 0% in Federal National Mortgage Association securities, 2% in certificates of deposit, with the remainder being held in U.S Treasury Securities. As of December 31, 2016, WaterOne held 11% of its investment securities in Federal Home Loan Bank securities, 4% in Federal Home Loan Mortgage Corporation securities, and 1% in Federal National Mortgage Association securities, with the remainder being held in U.S Treasury Securities.

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, with the exception of reserve funds which may be invested in longer maturities to coincide with the expected use of funds, 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 0.85 and 0.81 as of December 31, 2017 and 2016, 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, 2017 and 2016 are as follows:

| Outstanding Bonds | Original Principal | Principal 2017 | Principal 2016 |
|---|-------------------------------|---------------------------|---------------------------|
| Water revenue refunding bonds: | | | |
| Series 2009 (2.0% to 5.0%), due 2010 - 2020 | \$ 26,190,000 | \$ 3,725,000 | \$ 5,165,000 |
| Series 2012 (1.5% to 2.0%), due 2013 - 2020 | 6,605,000 | 2,340,000 | 2,910,000 |
| Series 2017A(2.0% to 5.0%), due 2018 - 2033 | 110,205,000 | 110,205,000 | — |
| Water revenue improvement bonds: | | | |
| Series 2007 (3.57% to 4.36%), due 2010-2032 | 180,245,000 | — | 137,115,000 |
| Series 2010 (2.0% to 4.0%), due 2013 - 2030 | 28,890,000 | 24,065,000 | 25,510,000 |
| Series 2014 (2.0% to 5.0%), due 2014 - 2033 | 86,350,000 | 85,170,000 | 85,750,000 |
| Series 2017B (2.0% to 5.0%), due 2018 - 2042 | 40,105,000 | 40,105,000 | — |
| | <u>\$ 478,590,000</u> | 265,610,000 | 256,450,000 |
| Less principal amount of bonds payable within one year | | <u>12,585,000</u> | <u>14,490,000</u> |
| | | <u>\$ 253,025,000</u> | <u>\$ 241,960,000</u> |

The annual requirement to retire the revenue bonds outstanding as of December 31, 2017 is as follows:

| Year Ending December 31: | Principal | Interest | Total |
|---------------------------------|-----------------------|----------------------|-----------------------|
| 2018 | \$ 12,585,000 | \$ 10,902,773 | \$ 23,487,773 |
| 2019 | 13,200,000 | 9,507,350 | 22,707,350 |
| 2020 | 13,065,000 | 8,943,038 | 22,008,038 |
| 2021 | 13,670,000 | 8,336,738 | 22,006,738 |
| 2022 | 14,305,000 | 7,700,500 | 22,005,500 |
| 2023 - 2027 | 81,830,000 | 28,210,634 | 110,040,634 |
| 2028 - 2032 | 97,310,000 | 12,715,209 | 110,025,209 |
| 2033 - 2037 | 9,670,000 | 2,635,013 | 12,305,013 |
| 2038 - 2042 | 9,975,000 | 886,200 | 10,861,200 |
| | <u>\$ 265,610,000</u> | <u>\$ 89,837,455</u> | <u>\$ 355,447,455</u> |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

Following is a schedule of bond activity in 2017:

| | Balance - January 1, 2017 | Bonds Issued | Principal Payments | Bonds Retired | Balance - December 31, 2017 | Debt Due Within One Year | Interest Paid |
|---------------------------|---------------------------------|-----------------------|-----------------------|-----------------------|-----------------------------------|--------------------------------|----------------------|
| Water revenue refunding | | | | | | | |
| bonds: | | | | | | | |
| Series 2009 | \$ 5,165,000 | \$ — | \$ 1,440,000 | \$ — | \$ 3,725,000 | \$ 1,555,000 | \$ 168,175 |
| Series 2012 | 2,910,000 | — | 570,000 | — | 2,340,000 | 1,170,000 | 53,212 |
| Series 2017A | — | 110,205,000 | — | — | 110,205,000 | 7,640,000 | — |
| Water revenue improvement | | | | | | | |
| bonds: | | | | | | | |
| Series 2007 | 137,115,000 | — | 5,030,000 | 132,085,000 | — | — | 5,872,241 |
| Series 2010 | 25,510,000 | — | 1,445,000 | — | 24,065,000 | 1,520,000 | 1,011,138 |
| Series 2014 | 85,750,000 | — | 580,000 | — | 85,170,000 | 200,000 | 3,195,244 |
| Series 2017B | — | 40,105,000 | — | — | 40,105,000 | 500,000 | — |
| | \$ 256,450,000 | \$ 150,310,000 | \$ 9,065,000 | \$ 132,085,000 | \$ 265,610,000 | \$ 12,585,000 | \$ 10,300,010 |

Following is a schedule of bond activity in 2016:

| | Balance - January 1, 2016 | Bonds Issued | Principal Payments | Bonds Retired | Balance - December 31, 2016 | Debt Due Within One Year | Interest Paid |
|---------------------------|---------------------------------|-----------------|-----------------------|------------------|-----------------------------------|--------------------------------|----------------------|
| Water revenue refunding | | | | | | | |
| bonds: | | | | | | | |
| Series 2009 | \$ 7,465,000 | \$ — | \$ 2,300,000 | \$ — | \$ 5,165,000 | \$ 1,440,000 | \$ 222,250 |
| Series 2012 | 3,220,000 | — | 310,000 | — | 2,910,000 | 570,000 | 58,762 |
| Water revenue improvement | | | | | | | |
| bonds: | | | | | | | |
| Series 2007 | 146,690,000 | — | 9,575,000 | — | 137,115,000 | 10,455,000 | 6,311,188 |
| Series 2010 | 26,895,000 | — | 1,385,000 | — | 25,510,000 | 1,445,000 | 1,056,638 |
| Series 2014 | 85,950,000 | — | 200,000 | — | 85,750,000 | 580,000 | 3,199,244 |
| | \$ 270,220,000 | \$ — | \$ 13,770,000 | \$ — | \$ 256,450,000 | \$ 14,490,000 | \$ 10,848,082 |

The 2009, 2010, 2014, 2017A, and 2017B Series Bonds have early redemption provisions at the option of WaterOne. The 2009, 2010, and 2017B Series Bonds have certain mandatory sinking fund provisions beginning in 2020, 2022, and 2029 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, 2017 net revenues designated as available to meet debt service requirements (operating income before depreciation, plus system development charges and interest income) equaled 2.72 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, 2017, there was \$1,309,500 in the 2009 Second Lien Bond Reserve, \$1,499,900 in the 2010 Second Lien Bond Reserve, \$343,635 in the 2012 Second Lien Bond Reserve, \$4,477,836 in the 2014 Second Lien Bond Reserve, \$5,920,713 in the 2017A Second Lien Bond Reserve, and \$2,084,592 in the 2017B Second Lien Bond Reserve.

Prior to the November 2017 refunding of the 2007 Senior Parity Bonds, after all requirements in the preceding provisions have been met, the remaining monies may be expended for any lawful purpose, provided WaterOne maintains a general fund 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.

After the refunding of the last of the Senior Parity Bonds in November 2017, the remaining monies may be expended for any lawful purpose, provided WaterOne maintains a general fund balance sufficient to provide for renewal and replacement costs, operating expenses, material purchases and unfunded contracts and contingencies in an amount equal to 1/6 of budgeted revenue requirements.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

As of December 31, 2017, 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 | \$ 127,600,199 |
| Less funds reserved by bond resolution (Section 703) | <u>(18,973,316)</u> |
| General Fund after bond resolution reserves (Section 703) | <u><u>\$ 108,626,883</u></u> |

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

Additionally, WaterOne, by Board resolution, has established an account consisting of revenues collected from system development charges for the purpose of funding major improvements to the supply and distribution system. As of December 31, 2017 and 2016, the account totaled \$18,918,260 and \$9,981,994, respectively.

In 2017 and 2016, WaterOne did not carry an alternative debt in the form of bank loans.

In November 2017, WaterOne issued \$110,205,000 of Water Revenue Refunding Bonds, Series 2017A, with an average rate of 3.42 percent plus a net premium of \$8,209,265. Net bond proceeds (after paying debt issuance costs) along with other available WaterOne cash were used for the purpose of funding the 2017A Bond Reserve Account and to call the remaining outstanding amount of the Series 2007 Senior Parity Bonds. The difference between the cash flows required to service the old debt and the new debt was \$17,219,898. The economic gain resulting from the transaction was \$19,571,625.

In November 2017, WaterOne issued \$40,105,000 of Water Revenue Bonds, Series 2017B, with an average rate of 3.37 plus a net premium of \$1,586,840. Net proceeds of \$41,426,033 (after paying debt issuance costs) were used for the purpose of funding the 2017B Bond Reserve Account, funding capitalized interest and providing funds to build a portion of WaterOne's Master Plan facilities.

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

Water District No. 1 of Johnson County (Kansas) Sixth Revised Retirement Plan and the Water District No. 1 of Johnson County Cash Balance Plan (the Plan) is a single-employer defined benefit pension plan administered by WaterOne to provide pension benefits for its employees. The Plan does not issue a stand-alone financial report.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Benefits Provided

All full-time employees are covered under the Plan. Employees hired prior to January 1, 2014 participate in the Final Average Pay Plan, after attaining age 21 and one year of service. Employees hired on or after January 1, 2014 participate immediately in the Cash Balance Plan. The main benefits provided are retirement benefits. However, the Plan also provides ancillary benefits in the event of pre-retirement death, disability, or termination of employment prior to meeting the eligibility requirements to retire.

Final Pay Plan: Retirement is at age 65 with benefits calculated as the greater of: (1) 1.91% of average monthly earnings (AME) (AME is the highest five consecutive year average of January 1 base rates of pay) plus 0.48% of AME in excess of monthly integration multiplied by the years of credited service (max of 25) plus 0.50% of AME times credited service in excess of 25 years, (2) 1.5% of monthly base rate of pay for each plan year in which the participant earns credited service, or (3) the December 31, 1988 accrued benefit. The calculation varies with early retirement including unreduced benefits at age 62 with 15 years of service. Benefits vest after five years of service.

Cash Balance Plan: Retirement is at age 65 with benefits calculated using base pay and a schedule of pay credits ranging from 3% to 6%, based on years of service, plus interest credits at an effective annual rate of 5.25%. Early and late retirement benefits are actuarial equivalent of the participant's account balance as of the annuity starting date. Benefits vest after five years of service.

The benefit paid to a retired Final Pay Plan member is subject to an ad hoc COLA. No such COLA has been granted in the recent past. Benefit and contribution provisions are specified in the Plan document and may only be amended by WaterOne.

Employees Covered By Benefit Terms

At December 31, 2017, the following employees were covered by the benefit terms:

| | <u>2017</u> | <u>2016</u> |
|----------------------------|-------------|-------------|
| Membership Data | | |
| Retirees and Beneficiaries | 73 | 64 |
| Inactive Vested Members | 95 | 96 |
| Inactive Nonvested Members | 2 | 0 |
| Active Employees | <u>360</u> | <u>347</u> |
| Total Membership | <u>530</u> | <u>507</u> |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements *(Continued)*

Contributions

An actuarial valuation is performed each year to determine the employer actuarial required contribution. Contribution provisions are specified in the Plan document and may only be amended by WaterOne. Members of the Final Pay Plan do not make contributions to the Plan. Members of the Cash Balance Plan contribute 3% of compensation. WaterOne contributes for the full employer actuarial contribution amount as determined in the annual actuarial valuation. For the years ending December 31, 2017, the Plan received \$2,714,967 and \$2,672,247, respectively, in employer contributions.

Net Pension Liability

WaterOne's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017.

Actuarial Assumptions

The total pension liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|--|------------------------|
| Actuarial Method | Entry Age Normal |
| Asset Valuation Method | 5 year smoothed market |
| Amortization Method | Level dollar, closed |
| Inflation | 3.75% wage; 3.0% price |
| Salary Increases | 3.75% - 8.75% per year |
| Investment Rate of Return, Net of Investment Expense | 7.75% |

Mortality rates were based on the RP-2000 Combined Mortality Table with generational mortality improvements using scale AA. Rates are set forward two years for males and set back one year for females.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Long-term Expected Rate Of Return

The long-term expected rate of return on Plan assets is reviewed as part of regular experience studies prepared periodically. The most recent analysis was performed and results were provided on June 3, 2014. Generally, several factors are considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for each asset class, were developed by the Plan's investment consultant. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant often cover a shorter investment horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the long-term inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of December 31, 2017, as provided by the Plan's investment consultant, Benefit Trust, are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate Of Return</u> |
|----------------------|--------------------------|---|
| Domestic Equity | 52.00% | 4.34% |
| Foreign Equity | 13.00% | 5.84% |
| Fixed Income | 30.00% | 1.18% |
| Cash/Cash Equivalent | 5.00% | (0.26)% |
| Total | 100.00% | |

Discount Rate

The discount rate used to measure the total pension liability at December 31, 2017 and December 31, 2016 was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan contributions from employees and WaterOne will be made at the current contribution amounts as set out in the funding policy. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Plan members. Therefore, the long-term expected rate of return on Plan investments of 7.75% was applied to all periods of projected benefit payments to determine the total pension liability at the measurement date. Projected future benefit payments for all current plan members were projected through 2115.

Changes In The Net Pension Liability

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|--|-----------------------------------|---------------------------------------|---------------------------------------|
| Balances At December 31, 2015 | \$ 48,413,805 | \$ 38,028,790 | \$ 10,385,015 |
| Changes For The Year: | | | |
| Service cost at end of year | 1,595,654 | — | 1,595,654 |
| Interest on total pension liability | 3,627,117 | — | 3,627,117 |
| Benefit provision changes | — | — | — |
| Differences between expected and actual experience | (301,417) | — | (301,417) |
| Assumption changes | — | — | — |
| Employer contributions | — | 3,080,900 | (3,080,900) |
| Employee contributions | — | 77,736 | (77,736) |
| Net investment income | — | (359,276) | 359,276 |
| Benefit payments, including member refunds | (3,285,912) | (3,285,912) | — |
| Administrative expenses | — | (261,439) | 261,439 |
| Net changes | 1,635,442 | (747,991) | 2,383,433 |
| Balances At December 31, 2016 | \$ 50,049,247 | \$ 37,280,799 | \$ 12,768,448 |
| Changes For The Year: | | | |
| Service cost at end of year | 1,539,973 | — | 1,539,973 |
| Interest on total pension liability | 3,741,788 | — | 3,741,788 |
| Differences between expected and actual experience | 1,042,069 | — | 1,042,069 |
| Assumption changes | — | — | — |
| Employer contributions | — | 2,672,247 | (2,672,247) |
| Employee contributions | — | 127,371 | (127,371) |
| Net investment income | — | 2,657,466 | (2,657,466) |
| Benefit payments, including member refunds | (3,603,463) | (3,603,463) | — |
| Administrative expenses | — | (278,054) | 278,054 |
| Net changes | 2,720,367 | 1,575,567 | 1,144,800 |
| Balances At December 31, 2017 | \$ 52,769,614 | \$ 38,856,366 | \$ 13,913,248 |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The following presents the net pension liability of WaterOne, calculated using the discount rate of 7.75%, as well as what the employer's net pension liability would be using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

| | <u>Current Single Discount</u> | | |
|-----------------------|--------------------------------|-------------------|--------------------|
| | <u>Rate</u> | | |
| | <u>1% Decrease</u> | <u>Assumption</u> | <u>1% Increase</u> |
| | <u>(6.75%)</u> | <u>(7.75%)</u> | <u>(8.75%)</u> |
| Net Pension Liability | \$ 18,554,468 | \$ 13,913,248 | \$ 9,871,827 |

Pension Expense, Deferred Outflows Of Resources And Deferred Inflows Of Resources Related To Pensions

For the years ended December 31, 2017 and 2016, WaterOne recognized pension expense of \$3,878,794 and \$3,594,855, respectively. WaterOne reported deferred outflows and inflows of resources related to pensions from the following sources for 2017 and 2016:

| | <u>2017</u> | |
|--|--------------------|-------------------|
| | <u>Deferred</u> | <u>Deferred</u> |
| | <u>Outflows Of</u> | <u>Inflows Of</u> |
| | <u>Resources</u> | <u>Resources</u> |
| Differences between expected and actual experience | \$ 1,479,829 | \$ 224,229 |
| Changes of assumptions | 1,176,720 | — |
| Differences between projected and actual earnings | 2,337,864 | — |
| Contributions subsequent to the measurement date | 2,709,157 | — |
| Total | \$ 7,703,570 | \$ 224,229 |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

| | 2016 | |
|---|--------------------------------------|-------------------------------------|
| | Deferred Outflows Of Resources | Deferred Inflows Of Resources |
| Differences between expected and actual experience | \$ 702,969 | \$ 262,823 |
| Changes of assumptions | 1,442,947 | — |
| Differences between projected and actual earnings | 2,948,838 | — |
| Contributions subsequent to the measurement date | 2,672,247 | — |
| Total | \$ 7,767,001 | \$ 262,823 |

The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date of \$2,709,157 will be recognized as a reduction in the net pension liability for the year ending December 31, 2018.

Experience gains/losses and the impact of changes in actuarial assumptions, if any, are recognized over the average expected remaining service life of the active and inactive Plan members at the beginning of the measurement period. Investment gains and losses are recognized equally over a five-year period. Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending December 31, | Net Deferred Outflows Of Resources | Net Deferred Inflow Of Resources |
|---------------------------------|---|---|
| 2018 | 1,333,065 | 38,594 |
| 2019 | 1,333,064 | 38,594 |
| 2020 | 1,227,912 | 38,594 |
| 2021 | 569,567 | 38,594 |
| 2022 | 301,796 | 38,594 |
| Thereafter | 229,009 | 31,259 |
| Total | \$ 4,994,413 | \$ 224,229 |

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 spouses 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, 2017 and 2016, the amount actuarially contributed to the plan, and changes in WaterOne's annual OPEB obligation:

| | 2017 | 2016 |
|--|--------------|--------------|
| Annual required contribution | \$ 1,328,736 | \$ 1,282,246 |
| Interest on net OPEB obligation | 364,771 | 304,827 |
| Adjustment to annual required contribution | (507,085) | (423,754) |
| Annual OPEB cost | 1,186,422 | 1,163,319 |
| Contributions and payments made | (496,546) | (439,528) |
| Increase in Net OPEB obligation | 689,876 | 723,791 |
| Net OPEB obligation - beginning of year | 9,119,272 | 8,395,481 |
| Net OPEB obligation - end of year | \$ 9,809,148 | \$ 9,119,272 |

WaterOne's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 is as follows:

| <u>For The Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage Of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|---------------------------|-----------------------------|---|--------------------------------|
| December 31, 2015 | 1,163,319 | 33.40% | 8,395,481 |
| December 31, 2016 | 1,163,319 | 37.78% | 9,119,272 |
| December 31, 2017 | 1,186,422 | 41.85% | 9,809,148 |

Funded status and funding progress as of December 31, 2017: As of January 1, 2017, the most recent actuarial valuation date, the plan was not funded. WaterOne's actuarial accrued liability for benefits was \$15,880,496 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$15,880,496. The covered payroll as of January 1, 2017 (annual payroll of active employees covered by the plan) was \$13,957,525, and the ratio of the UAAL to the covered payroll was 113.78 percent.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

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, 2017 actuarial valuation, the entry age normal actuarial method was used. The actuarial assumptions included a 4.0 percent discount rate and investment rate of return, a 3.75 percent salary rate increase, a merit component varying by length of service, and a healthcare cost trend rate of 7.75 percent initially, reduced to an ultimate rate of 5 percent after 6 years. 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.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

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.

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.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (Continued)

WaterOne had deposited assets for the matching portions of the 401(a) plan in the amount of \$453,693 and \$381,590 during 2017 and 2016, respectively. As of December 31, 2017 and 2016, a liability had been recorded by WaterOne for the annual percent base contributions in the amounts of \$642,425 and \$586,174, respectively. These amounts were subsequently deposited to the defined contribution plan in January 2018 and 2017. 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 12/31/2016 | 2017 Earned Vacation | 2017 Taken Vacation | Vacation Liability At 12/31/2017 | Due Within One Year |
|---|-------------------------------------|------------------------------------|---|--------------------------------|
| \$ 1,369,821 | \$ 1,560,048 | \$ 1,427,291 | \$ 1,502,578 | \$ 1,502,578 |

| Vacation Liability At 12/31/2015 | 2016 Earned Vacation | 2016 Taken Vacation | Vacation Liability At 12/31/2016 | Due Within One Year |
|---|-------------------------------------|------------------------------------|---|--------------------------------|
| \$ 1,322,248 | \$ 1,418,116 | \$ 1,370,543 | \$ 1,369,821 | \$ 1,369,821 |

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, 2017, WaterOne had total contractor commitments of \$49.10 million related to various Master Plan projects, including those under Phase V. Approximately \$9.45 million of the Master Plan commitments have been charged to the projects as of December 31, 2017. WaterOne has sufficient monies designated in the system development account and the general account to fund any unpaid Phase V outstanding costs and retainages. Also included in the December 31, 2017 balance of the system development account and the general account are monies for anticipated engineering, legal services and contingencies that may be required to bring these projects to completion.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY, KANSAS

Notes To Financial Statements (*Continued*)

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, 2017, GASB has issued statements that are not yet effective for WaterOne and have not yet been implemented, but will impact WaterOne's financial statements. The statements are as follows:

In June 2015, the GASB issued Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which will require governments providing defined benefit plans for other postemployment benefits (OPEB) to recognize their long-term obligation for benefits as a liability for the first time, and will expand required disclosures. This statement will be effective for WaterOne's year ending December 31, 2018. WaterOne has not yet determined the effect that the adoption of this Statement will have on its financial statements.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This statement is to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. This statement will be effective for WaterOne's year ending December 31, 2019. WaterOne has not yet determined the effect that the adoption of this Statement will have on its financial statements.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

REQUIRED SUPPLEMENTARY INFORMATION Schedules Of Selected Pension Information December 31, 2017

Schedule 1

Schedule of Employer Contributions Year Ended December 31, (\$ In Thousands)

| Year | Actuarially Determined Contribution | Contribution In Relation To The Required Contribution | Contribution Deficiency | Covered Employee Payroll | Contribution As A Percentage Of Covered Payroll |
|------|---|--|----------------------------|--------------------------------|--|
| 2008 | \$ 2,733 | \$ 2,733 | \$ — | \$ 22,009 | 12.4% |
| 2009 | 3,102 | 3,056 | 46 | 21,273 | 14.4% |
| 2010 | 3,133 | 3,181 | (48) | 20,423 | 15.6% |
| 2011 | 3,348 | 3,356 | (8) | 20,625 | 16.3% |
| 2012 | 3,469 | 6,461 | (2,992) | 21,608 | 29.9% |
| 2013 | 2,966 | 2,966 | — | 22,199 | 13.4% |
| 2014 | 2,684 | 2,684 | — | 22,832 | 11.8% |
| 2015 | 3,081 | 3,081 | — | 23,045 | 13.4% |
| 2016 | 2,672 | 2,672 | — | 23,878 | 11.2% |
| 2017 | 2,709 | 2,709 | — | 25,120 | 10.8% |

The following actuarial methods and assumptions were used to determine the Actuarially Determined Contribution reported for the year ending December 31, 2016 (based on the January 1, 2017 actuarial valuation).

| | |
|--|--|
| Actuarial cost method | Entry age |
| Amortization method | Level dollar, closed |
| Remaining amortization period | Charge and credit amortizations range from 1 to 23 years (Single Equivalent Amortization Period is 12 years) |
| Asset valuation method | 5-year smoothed market |
| Salary increases, including wage inflation | 3.75 to 8.75 percent |
| Long-term rate of return, net of investment expense, and including inflation | 7.75 percent |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

REQUIRED SUPPLEMENTARY INFORMATION Schedules Of Selected Pension Information December 31, 2017

Schedule 2

Schedule Of Changes In The Net Pension Liability

| | Years Ended December 31, | | |
|--|-----------------------------|----------------------|----------------------|
| | 2017 | 2016 | 2015 |
| Total Pension Liability | | | |
| Service cost | \$ 1,539,973 | \$ 1,595,654 | \$ 1,469,574 |
| Interest | 3,741,788 | 3,627,117 | 3,605,427 |
| Benefit provision changes | — | — | — |
| Differences between expected and actual experience | 1,042,069 | (301,417) | 962,367 |
| Assumption changes | — | — | 1,975,401 |
| Benefit payments, including member refunds | (3,603,463) | (3,285,912) | (3,950,945) |
| Net Change In Total Pension Liability | 2,720,367 | 1,635,442 | 4,061,824 |
| Total Pension Liability - Beginning | 50,049,247 | 48,413,805 | 44,351,981 |
| Total Pension Liability - Ending (a) | 52,769,614 | 50,049,247 | 48,413,805 |
| Plan Fiduciary Net Position | | | |
| Employer contributions | 2,672,247 | 3,080,900 | 2,683,598 |
| Employee contributions | 127,371 | 77,736 | 27,199 |
| Net investment income | 2,657,466 | (359,276) | 2,554,880 |
| Benefit payments, including member refunds | (3,603,463) | (3,285,912) | (3,950,945) |
| Administrative expenses | (278,054) | (261,439) | (267,041) |
| Other changes | — | — | — |
| Net Change In Plan Fiduciary Net Position | 1,575,567 | (747,991) | 1,047,691 |
| Plan Fiduciary Net Position - Beginning | 37,280,799 | 38,028,790 | 36,981,099 |
| Plan Fiduciary Net Position - Ending (b) | 38,856,366 | 37,280,799 | 38,028,790 |
| Net Pension Liability - Ending (a) - (b) | \$ 13,913,248 | \$ 12,768,448 | \$ 10,385,015 |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 73.63% | 74.49% | 78.55% |
| Covered payroll | \$ 23,878,000 | \$ 23,044,509 | \$ 22,832,055 |
| Employers' Net Pension Liability as a percentage of covered payroll as of the measurement dates of December 31, 2016, 2015 and 2014 | 58.27% | 55.41% | 45.48% |

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

REQUIRED SUPPLEMENTARY INFORMATION Schedule Of Funding Progress Of Other Postemployment Benefit Plan December 31, 2017

Schedule 3

| Year Ended | Actuarial Valuation Date | Actuarial Value Of Net Assets (a) | Actuarial 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) |
|------------|--------------------------|-----------------------------------|-------------------------------|---------------------------|--------------------|---------------------|---|
| 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% |
| 2015 | January 1, 2015 | — | 14,536,966 | (14,536,966) | — | 15,281,760 | 95.13% |
| 2016 | January 1, 2015 | — | 14,536,966 | (14,536,966) | — | 15,281,760 | 95.13% |
| 2017 | January 1, 2017 | — | 15,880,496 | (15,880,496) | — | 13,957,525 | 113.78% |

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of January 1, 2017.

Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Credit method prior to January 1, 2015 and Entry Age Normal method thereafter.
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, 2015 and 4.0 percent thereafter.
4. Healthcare cost trend rates of 7.75% initially, reduced to an ultimate rate of 5% after 6 years
5. Explicit wage growth assumption of 3.75%
6. 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, 2017

Schedule 4

| 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. | \$198,713 | \$250,000,000 | Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604 Policy # RMP2010729912 | 07/01/18 | | | | | | | | | | | | | | | | | | | | |
| <div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> 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: center; border-bottom: 1px solid black;">Deductible</th> <th style="text-align: center; border-bottom: 1px solid black;">Coverage</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$ 100,000</td> <td>Flood (outside floodplains)/earthquake</td> </tr> <tr> <td style="text-align: right;">\$ 500,000</td> <td>Flood inside floodplains area</td> </tr> <tr> <td style="text-align: right;">\$ 25,000</td> <td>All other losses</td> </tr> <tr> <td style="text-align: right;">\$ 25,000</td> <td>Business Income</td> </tr> <tr> <td style="text-align: right;">\$ 5,000</td> <td>Fine arts coverage</td> </tr> <tr> <td style="text-align: right;">\$ 25,000</td> <td>Acts of Terrorism</td> </tr> </tbody> </table> | Deductible | Coverage | \$ 100,000 | Flood (outside floodplains)/earthquake | \$ 500,000 | Flood inside floodplains area | \$ 25,000 | All other losses | \$ 25,000 | Business Income | \$ 5,000 | Fine arts coverage | \$ 25,000 | Acts of Terrorism | | | | | | | | | | |
| Deductible | Coverage | | | | | | | | | | | | | | | | | | | | | | | | |
| \$ 100,000 | Flood (outside floodplains)/earthquake | | | | | | | | | | | | | | | | | | | | | | | | |
| \$ 500,000 | Flood inside floodplains area | | | | | | | | | | | | | | | | | | | | | | | | |
| \$ 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 | See COVERAGE I above | \$100,000,000 | Continental Casualty Company 333 S Wabash Ave, Chicago, IL 60604 | 07/01/18 | | | | | | | | | | | | | | | | | | | | |
| | <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Deductible</th> </tr> </thead> <tbody> <tr> <td style="text-align: right;">\$25,000</td> </tr> <tr> <td style="text-align: center;">Time Element</td> </tr> <tr> <td style="text-align: center;">IMDV</td> </tr> </tbody> </table> | Deductible | \$25,000 | Time Element | IMDV | | | | | | | | | | | | | | | | | | | | |
| Deductible | | | | | | | | | | | | | | | | | | | | | | | | | |
| \$25,000 | | | | | | | | | | | | | | | | | | | | | | | | | |
| Time Element | | | | | | | | | | | | | | | | | | | | | | | | | |
| IMDV | | | | | | | | | | | | | | | | | | | | | | | | | |
| Per schedule of equipment | COVERAGE III – Inland Marine Physical loss or damage of EDP, mobile equipment, contractors equipment. | See COVERAGE I above | | Continental Casualty Insurance Company 333 S Wabash Ave, Chicago, IL 60604 | 07/01/18 | | | | | | | | | | | | | | | | | | | | |
| | <table style="width: 100%; border-collapse: collapse;"> <tbody> <tr> <td style="text-align: right;">\$25,000</td> <td>All other losses</td> <td></td> </tr> <tr> <td style="text-align: right;">\$25,000</td> <td>Electronic Data Processing</td> <td style="text-align: center;">Included</td> </tr> <tr> <td style="text-align: right;">\$1,000</td> <td>Laptops & Ipads</td> <td style="text-align: right;">\$300,000</td> </tr> <tr> <td style="text-align: right;">\$1,000</td> <td>GPS Equipment</td> <td style="text-align: right;">\$140,000</td> </tr> <tr> <td style="text-align: right;">\$1,000</td> <td>Mobile Equipment</td> <td style="text-align: right;">\$600,000</td> </tr> <tr> <td style="text-align: right;">\$5,000</td> <td>Scheduled Contractors Equipment & Trailers</td> <td style="text-align: right;">\$3,886,345</td> </tr> <tr> <td style="text-align: right;">\$10,000</td> <td>Leased equipment</td> <td style="text-align: right;">\$1,000,000</td> </tr> </tbody> </table> | \$25,000 | All other losses | | \$25,000 | Electronic Data Processing | Included | \$1,000 | Laptops & Ipads | \$300,000 | \$1,000 | GPS Equipment | \$140,000 | \$1,000 | Mobile Equipment | \$600,000 | \$5,000 | Scheduled Contractors Equipment & Trailers | \$3,886,345 | \$10,000 | Leased equipment | \$1,000,000 | | | |
| \$25,000 | All other losses | | | | | | | | | | | | | | | | | | | | | | | | |
| \$25,000 | Electronic Data Processing | Included | | | | | | | | | | | | | | | | | | | | | | | |
| \$1,000 | Laptops & Ipads | \$300,000 | | | | | | | | | | | | | | | | | | | | | | | |
| \$1,000 | GPS Equipment | \$140,000 | | | | | | | | | | | | | | | | | | | | | | | |
| \$1,000 | Mobile Equipment | \$600,000 | | | | | | | | | | | | | | | | | | | | | | | |
| \$5,000 | Scheduled Contractors Equipment & Trailers | \$3,886,345 | | | | | | | | | | | | | | | | | | | | | | | |
| \$10,000 | Leased equipment | \$1,000,000 | | | | | | | | | | | | | | | | | | | | | | | |
| Bodily injury and property damage | COVERAGE IV- General Liability | \$151,204 | \$1,000,000 per occurrence \$3,000,000 aggregate \$3,000,000 products-completed operations aggregate \$10,000 Medical Expense | TRAVELERS INSURANCE COMPANY 485 Lexington Ave, New York, NY 10017 Policy # ZLP-15T48479 | 07/01/18 | | | | | | | | | | | | | | | | | | | | |
| | <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center; border-bottom: 1px solid black;">General Liability Deductible</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">\$1,000 each employee</td> </tr> <tr> <td style="text-align: center;">\$200,000 aggregate deductible</td> </tr> <tr> <th style="text-align: center; border-bottom: 1px solid black;">Management Liability</th> </tr> <tr> <td style="text-align: center;">Retroactive Date - None</td> </tr> <tr> <td style="text-align: center;">Deductible - 5,000 per offense</td> </tr> </tbody> </table> | General Liability Deductible | \$1,000 each employee | \$200,000 aggregate deductible | Management Liability | Retroactive Date - None | Deductible - 5,000 per offense | Included | \$1,000,000 per occurrence \$3,000,000 aggregate | | | | | | | | | | | | | | | | |
| General Liability Deductible | | | | | | | | | | | | | | | | | | | | | | | | | |
| \$1,000 each employee | | | | | | | | | | | | | | | | | | | | | | | | | |
| \$200,000 aggregate deductible | | | | | | | | | | | | | | | | | | | | | | | | | |
| Management Liability | | | | | | | | | | | | | | | | | | | | | | | | | |
| Retroactive Date - None | | | | | | | | | | | | | | | | | | | | | | | | | |
| Deductible - 5,000 per offense | | | | | | | | | | | | | | | | | | | | | | | | | |
| Based on revenue | | | | | | | | | | | | | | | | | | | | | | | | | |
| Includes Wrongful Acts, Employment Practices Liability and Offenses | | | | | | | | | | | | | | | | | | | | | | | | | |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION

Insurance Coverage (Unaudited) Page 2 Of 4 For The Year Ended December 31, 2017

Schedule 4 (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: | \$118,191 | | TRAVELERS INSURANCE COMPANY | |
| | Liability coverage is combined single limit for bodily injury and property: Kansas Statutory Limit | | \$ 1,000,000 | 485 Lexington Ave, New York, NY 10017 | 07/01/18 |
| | | | \$ 500,000 | Policy # 8102C412861 | |
| | <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> | <u>Coverage</u> | | | |
| | \$1,000 each ded. \$1,000 each ded. \$1000 ded comp/\$1,000 coll \$25,000 | Comprehensive Collision 50,000 limit on hired car Single Accident all auto PD aggregate | | | |
| | Additional named insured on leased vehicles, or used by others under contract | | | | |
| | COVERAGE VI- Excess Liability - Occurrence | \$23,797 | \$5,000,000 Each Occurrence | TRAVELERS INSURANCE COMPANY | 07/01/18 |
| Excess over general liability, automobile, employment practices, public officials employers liability | | | \$5,000,000 General aggregate \$10,000 any occurrence/offense | 485 Lexington Ave, New York, NY 10017 Policy # ZUP51M63005 | |
| Pollution liability | COVERAGE VII - Environmental Impairment Liability (claims made) | \$ 74,661 | \$2,000,000 Per Occur/Aggr | Illinois Union Insurance Co. | 07/01/18 |
| | *Premium includes Addition of the water treatment plant and monofill Retro date 01/01/03 Per occurrence/aggregate | (3 yr policy) | | 303 Erie St. #310, Chicago, IL 60654 Policy # PPL G28137060 | |
| | <u>Deductible</u> | | | | |
| | Each loss \$25,000 | | | | |
| Money and securities | COVERAGE VIII - Crime | \$8,759 | \$2,000,000 Per Loss | Hartford Fire Insurance Company | 07/01/18 |
| Covered perils: Public employee theft, forgery, or alteration, theft, disappearance, destruction, credit card forgery, and computer fraud each with separate policy | | | Employee Theft | Hartford, CT 06115 Policy # 37 FA0244006-16 | |
| | <u>Deductible</u> | | \$2,000,000 Depositors Forgery or Alteration (including Credit Card Forgery) | | |
| | \$20,000 per occurrence/ per peril | | \$2,000,000 Theft, Disappearance and Destruction \$2,000,000 Computer and Funds Transfer Fraud | | |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 3 Of 4 For The Year Ended December 31, 2017

Schedule 4 (Continued)

| Property Or Liability Insured | Character Of Insurance | Premium | Amount Of Insurance | Name Of Insurer | Expiration Date |
|---|---|-----------|--|--|--------------------|
| Bodily injury by accident and disease; rating basis total annual remunerations: Waterworks \$14,079,045 Clerical office employees \$7,122,748 | COVERAGE IX - Workers' Compensation <u>COVERAGE A</u> 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 | \$255,876 | Statutory | TRAVELERS INSURANCE COMPANY 485 Lexington Ave, New York, NY 10017 Policy # UB-004J995164 | 07/01/18 |
| | <u>COVERAGE B</u> Employers liability limits: Bodily injury by accident (each accident) Bodily injury by disease (policy limit) Bodily injury by diseases (each employee) No deductible | | \$500,000 \$500,000 \$500,000 | | |
| Violation of any of the duties and responsibilities imposed upon including negligent acts, errors & omissions in administration | COVERAGE X - Fiduciary Claims-made policy form-that provides coverage for breach of fiduciary duty <u>Retention</u> \$25,000 each claim | \$14,099 | \$3,000,000 | RLI Insurance Company 9025 North Lindbergh Drive, Peoria, IL 61615 Policy # EPG0016112 | 07/01/18 |
| | COVERAGE XI - Cyber Privacy Liability Each Claim Data Breach Fund Each Claim Network Security Liability Each Claim Policy Aggregate <u>Deductible</u> \$25,000 each claim | \$17,533 | \$1,000,000 \$100,000 \$1,000,000 \$1,000,000 | ACE American Insurance Company P.O. Box 1000 Philadelphia, PA 19106 Policy # EON G25560887 002 | 07/01/18 |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Insurance Coverage (Unaudited) Page 4 Of 4 For The Year Ended December 31, 2017

Schedule 4 (Continued)

| Property Or Liability Insured | Character Of Insurance | Premium | Amount Of Insurance | Name Of Insurer | Expiration Date |
|---|--|---------|--|--|--------------------|
| Statutory Public Officials Bond for General Manager and | Public official bond: General Manager (Michael J. Armstrong) | \$1,750 | \$500,000 | Hartford Fire Insurance Company, as surety for Hartford, Connecticut 37BSBAF3543 | 01/01/18 |
| Director of Finance | Director of Finance - Ronald Appletoft | \$1,750 | \$500,000 | Liberty Mutual Ins. Co. #674027043 | 02/01/18 |
| Board Member | Brenda Cherpitel | \$355 | \$10,000 | Liberty Mutual Fire Ins. Co. #674011379 | 4/30/2021 |
| Board Member | Robert Olson | \$325 | \$10,000 | Liberty Mutual Fire Ins. Co. #674011377 | 4/30/2019 |
| Board Member | Terrence Frederick | \$325 | \$10,000 | Liberty Mutual Fire Ins. Co. #674011375 | 4/30/2019 |
| Board Member | Mark George Parkins | \$325 | \$10,000 | Liberty Mutual Fire Ins. Co. #674025609 | 2/1/2020 |
| Board Member | Robert Reese | \$355 | \$10,000 | Liberty Mutual Ins. Co. #32S110342 | 4/30/2021 |
| Board Member | James Vader | \$355 | \$10,000 | Liberty Mutual Ins. Co. #32S130325 | 4/30/2021 |
| Board Member | Dennis Wilson | \$355 | \$10,000 | Liberty Mutual Fire Ins. Co. #674024726 | 4/30/2019 |
| Performance Bond | City of Leawood | \$125 | \$5,000 | Liberty Mutual #5983959 | 2/8/2018 |
| Right of Way Excavation Bond | City of Lenexa | \$100 | \$10,000 | Liberty Mutual Fire Ins. Co. #674010642 | 3/1/2018 |
| Performance Bond | City of Mission Woods | \$100 | \$10,000 | Liberty Mutual Fire Ins. Co. #674011858 | 5/7/2018 |
| License & Permit Bond | City of Merriam | \$250 | \$2,000 | Liberty Mutual Ins. Co. #E7835050 | 7/5/2020 |
| License & Permit Bond | City of Mission Hills | \$250 | \$5,000 | Liberty Mutual Ins. Co. #E7899810 | 8/15/2020 |
| License & Permit Bond | City of Olathe | \$250 | \$1,000 | Liberty Mutual Fire Ins. Co. #674019454 | 3/9/2018 |
| License & Permit Bond | City of Roeland Park | \$250 | \$1,000 | Liberty Mutual Ins. Co. #E7835060 | 7/5/2020 |
| License & Permit Bond | City of Shawnee | \$250 | \$5,000 | Safeco Ins. Co. #EX790410 | 11/8/2020 |
| License & Permit Bond | City of Westwood | \$250 | \$5,000 | Safeco Ins. Co. #EX803026 | 3/12/2018 |
| License & Permit Bond | Johnson County | \$250 | \$5,000 | American States Ins. Co. #E731273-0000 | 5/1/2018 |
| License & Permit Bond | Miami County | \$250 | \$50,000 | Liberty Mutual Fire Ins. Co. #674014712 | 1/9/2018 |
| License & Permit Bond | State of Kansas | \$250 | \$10,000 | American States #EX7822710 | 5/29/2020 |
| KDHE#29089 001,002,003-7601 Holiday Dr. Kansas City, KS | COVERAGE XII - Underground Storage Tank Liability Bodily injury and property damage caused by "accidental releases" arising from operating these underground storage tanks. Meets statutory compliance. <i>Deductible</i> \$2,500 per incident Retro date: 06/10/1991 | \$357 | \$500,000 per incident \$1,000,000 annual aggregate \$100,000 defense-per incident | Great American Alliance Ins. Co. 301 East Fourth Street, Cincinnati, OH 45202 Policy # KST7731871-24 | 7/1/2019 |
| Bond | Notary Public Errors and Omissions Group Policy \$25,000 Each Person Limit <i>Deductible</i> \$0 | \$260 | \$25,000 10 Notaries - Total Limit | Western Surety Co. 101 South Reid Street, Sioux Falls, SD 57103 68809375 | 01/04/18 |
| Boat Hull Policy | COVERAGE XIII - Marine Hull Policy Hull Coverage \$15,000 Deductible \$500 | \$550 | | OneBeacon Insurance Group 605 Highway 169 North, Suite 800, Plymouth, MN 55441 Policy # B5JH61090 | 7/15/2018 |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION Fidelity Bonds In Force (Unaudited) For The Year Ended December 31, 2017

Schedule 5

Water District No. 1 Of Johnson County, Kansas

Fidelity Bonds In Force (Unaudited)

Water District Board Members:

| | | |
|--|----|-----------|
| Robert S. Olson - Chairman | \$ | 10,000 |
| Robert P. Reese - Vice Chairman | | 10,000 |
| Brenda Cherpitel - Member | | 10,000 |
| Terrence D. Frederick - Member | | 10,000 |
| Mark Parkins - Member | | 10,000 |
| James E. Vader - Member * | | 10,000 |
| Dennis Wilson - Member | | 10,000 |
| Michael J. Armstrong - General Manager | | 500,000 |
| Darin L. Kamradt - 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.

*Mr. Vader's last day on the Board was January 9, 2018. He was succeeded by Ms. Kay E. Heley.

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION

Operating Data (Unaudited) Page 1 Of 2 For The Years Ended 2017 And 2016

Schedule 6

Customers Served by WaterOne: During 2017, WaterOne served a weighted average of 145,832 customers, as compared to 144,543 customers during 2016; this is an increase of 1,289 customers in 2017, as compared to an increase of 1,367 customers in 2016.

Water Sales and Water Delivered Summary: Water sales by class of customer for the years ended December 31, 2017 and 2016 were as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------------|-----------------------|-----------------------|
| Residential: | | |
| Single family | \$ 66,650,753 | \$ 68,474,573 |
| Multifamily | 10,362,013 | 10,323,535 |
| Commercial: | | |
| Small | 5,748,026 | 6,029,060 |
| Large | 22,600,137 | 23,183,608 |
| Temporary | 476,828 | 575,538 |
| Wholesale | — | — |
| <u>Total water sales</u> | <u>\$ 105,837,757</u> | <u>\$ 108,586,314</u> |

During the year ended December 31, 2017, water sales and water delivered to the distribution lines, in terms of thousands of gallons, as compared to 2016, were as follows:

| | <u>2017</u> | <u>2016</u> |
|--|-------------|-------------|
| Delivered to distribution system | | |
| Water produced | 20,672,284 | 21,727,059 |
| Water sales | | |
| Metered water | 18,037,899 | 18,929,362 |
| Unmetered water | 2,634,385 | 2,797,697 |
| Unmetered water as percentage of total water delivered | 12.74% | 12.88% |

WATER DISTRICT NO. 1 OF JOHNSON COUNTY KANSAS

ADDITIONAL SUPPLEMENTARY INFORMATION

Operating Data (Unaudited) Page 2 Of 2
Years Ended 2017 And 2016

Schedule 6 (Continued)

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

| | <u>2017</u> | <u>2016</u> |
|------------------------------|-------------|-------------|
| Residential - single family: | | |
| Average number of customers | 132,730 | 131,550 |
| Average gallons per customer | 80,301 | 85,401 |
| Average revenue per customer | \$ 502 | \$ 521 |
| Residential - multifamily: | | |
| Average number of customers | 4,692 | 4,621 |
| Average gallons per customer | 419,790 | 433,524 |
| Average revenue per customer | \$ 2,208 | \$ 2,234 |
| Commercial - small: | | |
| Average number of customers | 4,962 | 4,959 |
| Average gallons per customer | 193,728 | 208,867 |
| Average revenue per customer | \$ 1,158 | \$ 1,216 |
| Commercial - large: | | |
| Average number of customers | 3,209 | 3,164 |
| Average gallons per customer | 1,372,159 | 1,451,121 |
| Average revenue per customer | \$ 7,043 | \$ 7,327 |
| Commercial - temporary: | | |
| Average number of customers | 239 | 249 |
| Average gallons per customer | 189,589 | 258,742 |
| Average revenue per customer | \$ 1,995 | \$ 2,311 |
| Wholesale: | | |
| Number of customers | — | — |
| Thousand gallons per class | — | — |
| Revenue per class | \$ — | \$ — |