

WaterOne

Water District No. 1 of Johnson County

POPULAR ANNUAL FINANCIAL REPORT 2019

For the Year Ended
December 31st, 2019

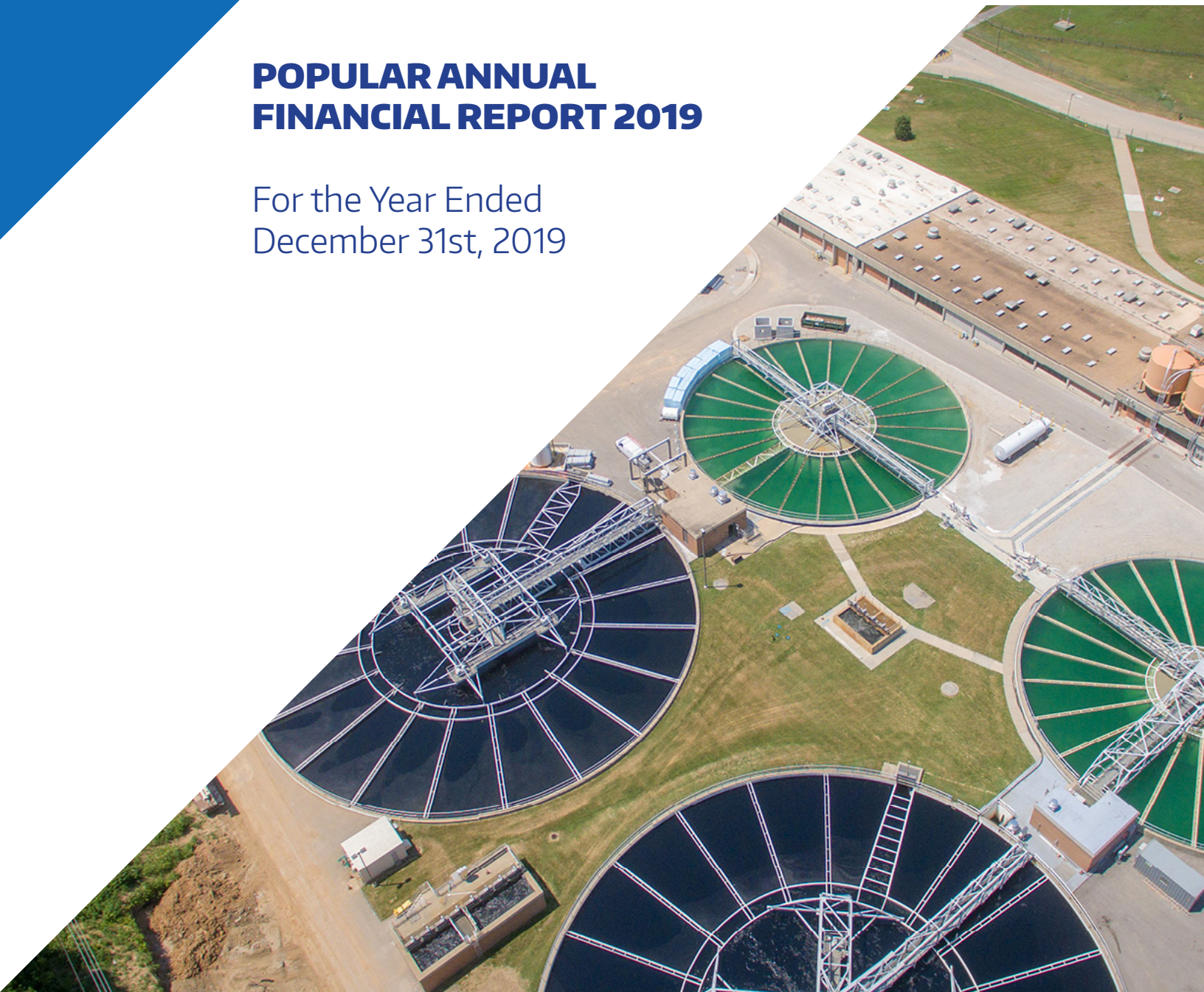


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DIRECTOR'S NOTE



DARIN KAMRADT, DIRECTOR OF FINANCE

At WaterOne, one of our strategic objectives is to provide our customers and stakeholders with accurate and timely information about WaterOne’s finances. The Finance Division takes the responsibility to provide sound financial management of customer resources seriously and is proud to present WaterOne’s Popular Annual Financial Report (PAFR) for the fiscal year ended December 31, 2019.

The PAFR is based on the 2019 financial statements which were audited by RubinBrown LLP and received an unmodified (clean) opinion. Please note that this report is unaudited. The PAFR is

designed to summarize WaterOne’s financial activities in a condensed and simplified way. WaterOne had a challenging year financially with a record low number of gallons sold per customer due to wet weather conditions. In spite of the revenue shortfall in 2019, WaterOne experienced positive customer growth, refunded outstanding debt for a cost savings to rate payers, constructed new facilities to improve and simplify the delivery and treatment of water, and invested in the replacement of existing infrastructure based on our proactive asset management plan. All of this was achieved with only a 1.9% rate

increase in 2019 while maintaining a AAA bond rating and winning awards for Sustainability and Budgeting Excellence.

I am honored to work with, and want to thank, the dedicated and professional finance staff who are committed to WaterOne’s mission and long-term financial health. As you review this report, if you would like additional information on the annual budget or audited financial statements, you can access these reports at waterone.org. If you have any questions or concerns, I want to hear from you. Don’t hesitate to contact me at dkamradt@waterone.org.

Darin Kamradt
Director of Finance



Governing Board



L-R: Kay Heley, Vice Chairman Mark Parkins, Brenda Cherpitel, Terry Frederick, Chairman Bob Reese, Rob Olson, and Dennis Wilson

Water District No. 1 of Johnson County, better known as WaterOne in this report, is pleased to present this Popular Annual Financial Report (PAFR) to the citizens of Johnson County who utilize our services.

Shown above are members of the WaterOne Governing Board serving in 2019. Board members serve as the decision makers who ensure WaterOne maintains the ability to provide safe, reliable, and affordable water now and for future generations.

This report on the fiscal year ending December 31, 2019 is meant to provide information that is easy to understand and will inform our customers of important milestones of the year that just ended.

Financial information referenced is sourced from WaterOne's financial statements and conform to Generally Accepted Accounting Principles.

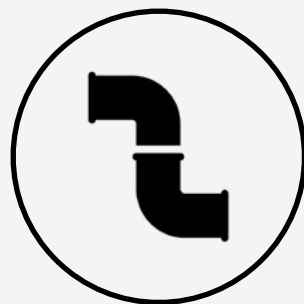
Who We Serve



**AREA
SERVED**
272
SQUARE
MILES



**POPULATION
SERVED**
443,000
RESIDENTS



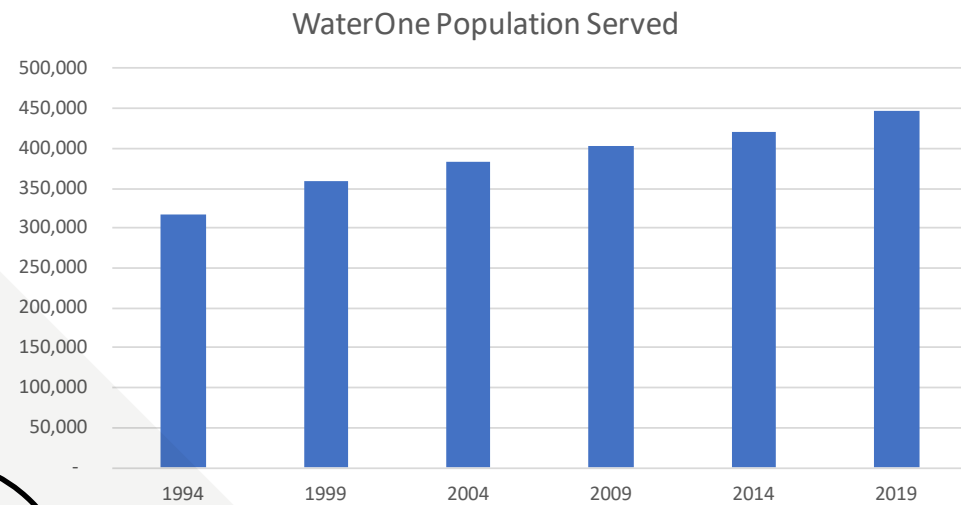
**SERVICE
CONNECTIONS**
149,000+



**RESIDENTIAL
CONNECTIONS**
91%



**COMMERCIAL
CONNECTIONS**
9%

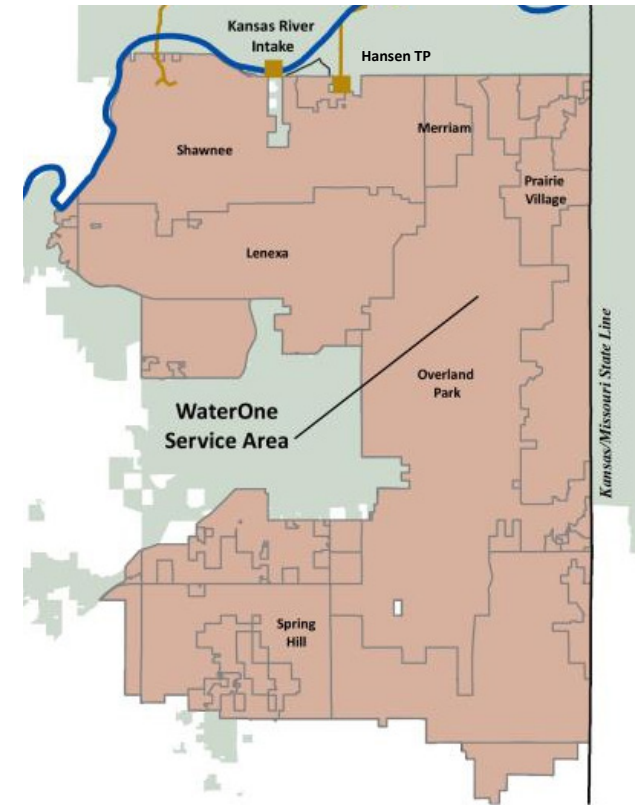


TOP COMMERCIAL ACCOUNTS*

- | | |
|-----------------------------------|------------------------------------|
| 1. Coca Cola Bottling | 6. Shawnee Mission School District |
| 2. Johnson County Wastewater | 7. Malkin Properties |
| 3. Blue Valley School District | 8. Corporate Woods |
| 4. City of Overland Park | 9. Ceva Biomune |
| 5. Shawnee Mission Medical Center | 10. Bayer Corp |

**WaterOne's top 10 customers account for less than 3% of total revenue.*

DISTRICT SERVICE AREA

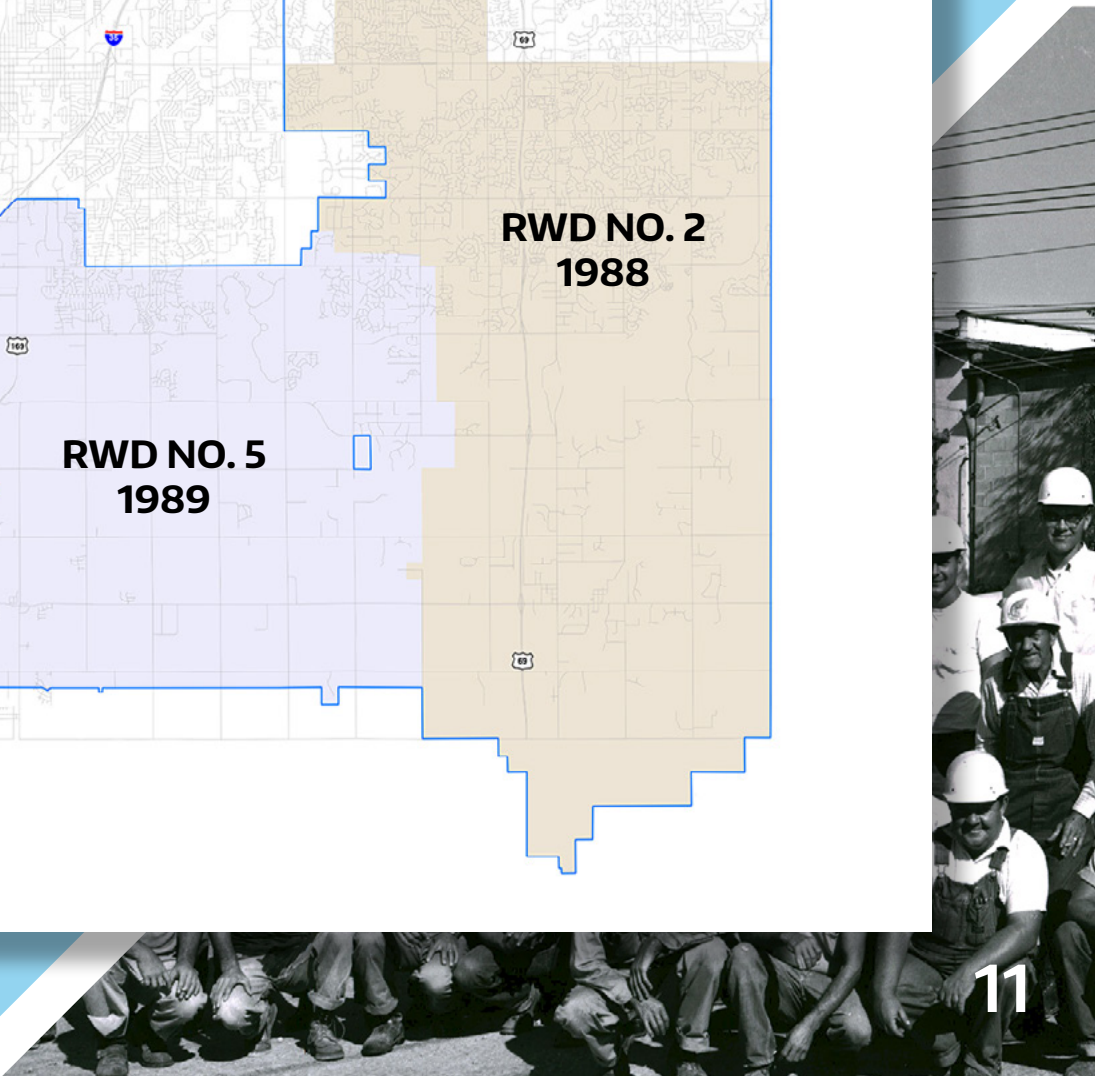
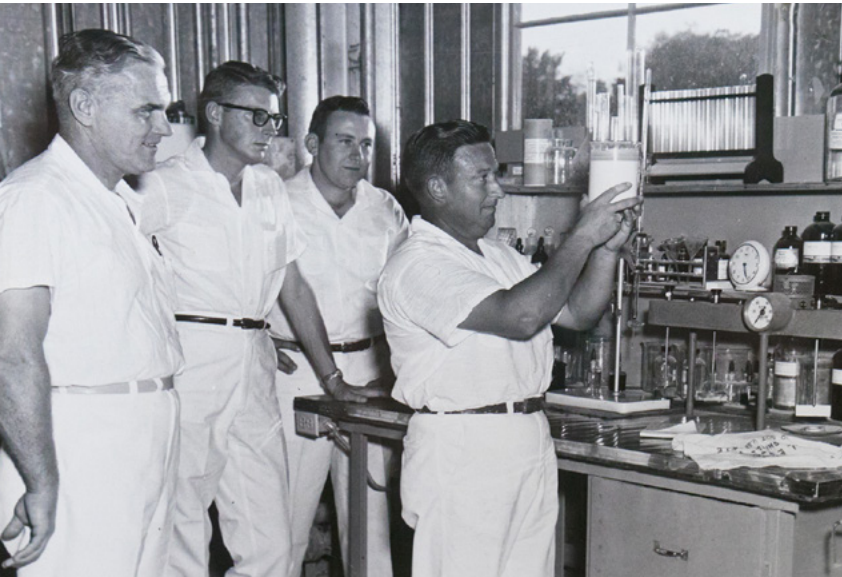
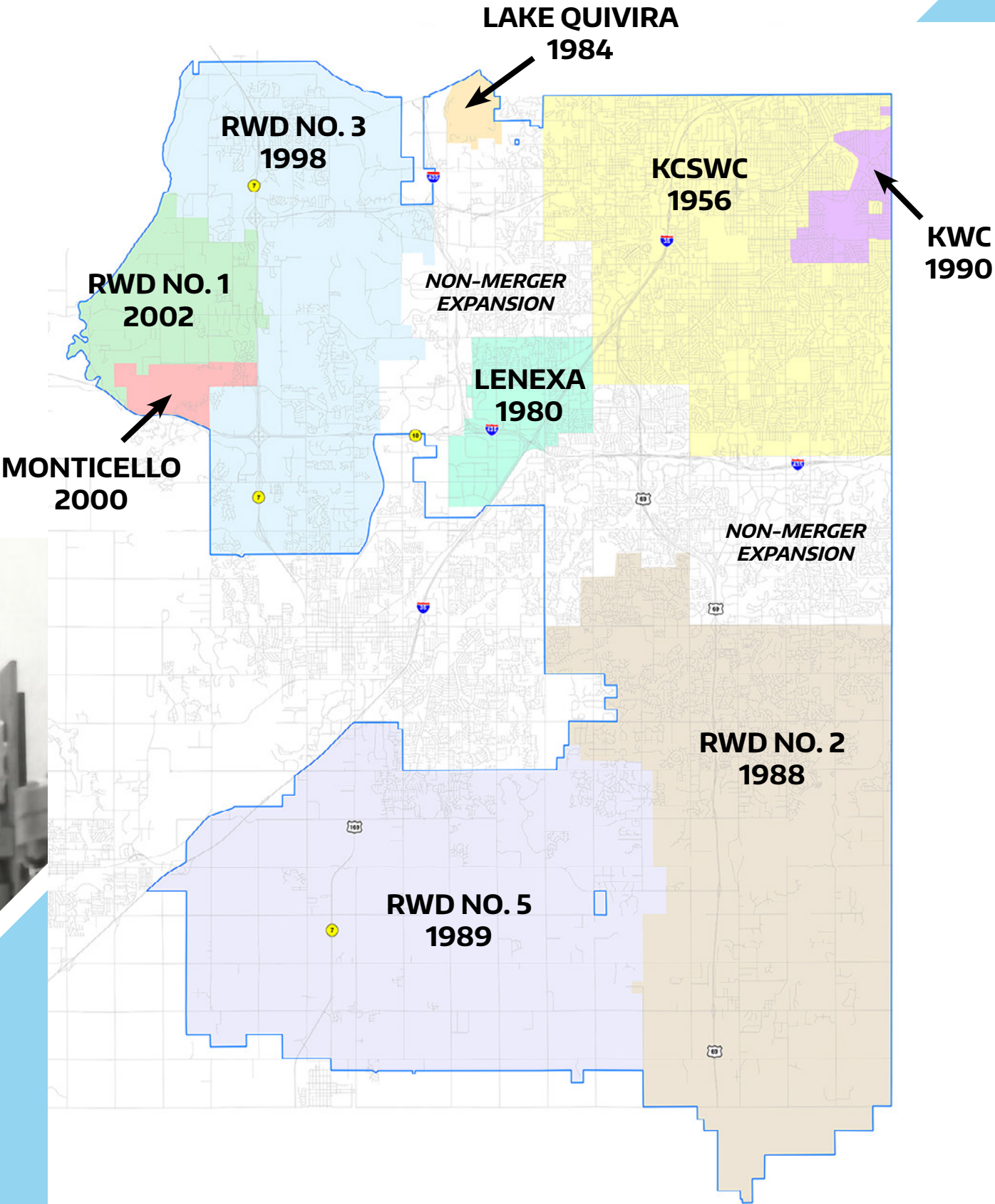


History

In 1957, northeastern Johnson County was served by a privately-owned water company, the Kansas City Suburban Water Company, which couldn't keep up with demand during the hot, dry summers. Frustrated residents took the matter into their own hands and overwhelmingly voted to buy them out and re-establish it as Water District No. 1 of Johnson County, a publicly-controlled, non-profit water utility. After years of sound leadership, careful planning, and responsible investment, the district now known as WaterOne has grown to become the largest water utility in the state of Kansas, serving over 443,000 customers throughout Johnson County every

day. On the right you can see the expansion of WaterOne through the years. Not many utilities like WaterOne exist. WaterOne is a public utility by customers and for customers, led by a democratically elected Governing Board. It's fully independent from city or county control, has no taxing authority, and funds its operations entirely through service fees and the water it sells. And unlike other municipal services provided by local governments, WaterOne has one and only one job: water. This lets WaterOne focus wholly on its mission of providing a safe, reliable, high-quality water supply with exceptional service and value.

WaterOne Service Area Expansion



WaterOne's Guiding Principles

WaterOne has thousands of decisions to make every year that shape the way it serves Johnson County in ways both large and small. To make sure the best interests of its customers are served, each decision is viewed through the prism of eight guiding principles. These principles are at the heart of everything WaterOne does.

Strategic Goals

1. Ensure a safe, reliable, high quality water supply
2. Provide excellent customer service
3. Be an employer of choice
4. Ensure financial stability and predictable rates
5. Continuously improve business processes
6. Proactively manage infrastructure
7. Be good stewards of the environment
8. Promote a safe work environment and establish a security conscious culture



Mission

To provide a safe, reliable, high-quality water supply with exceptional service and value.

Vision

Setting the standard for utility excellence.

Values

Quality | Integrity | Safety
Accountability | Respect

2019 Financial Overview

Prior to every fiscal year, WaterOne estimates the amount of funding necessary to meet payroll, provide benefits, maintain infrastructure, pay off debts, and many other needs. Then, based on the estimated water sales projected for the upcoming year, it sets the water rates needed to meet these needs.



REVENUES
ESTIMATED

RATES
SET

REVENUE
REQUIREMENTS
ESTABLISHED

Where does the money come from?

Rates & Revenues for 2019

There was a 1.9% rate increase from 2018 to 2019. Rate increases are required to ensure adequate investment in WaterOne's capital infrastructure and to help offset the impact of declining base (winter) consumption.

WaterOne receives most of its revenues from water sales, and therefore weather can heavily influence its revenue in a given year due to the volume of water that is used for lawn irrigation.

Although there was unusually high rainfall in 2019, and water sales revenues fell below projections due to reduced irrigation, this did not impact WaterOne's ability to keep rates low, and provide great service. Years ago, WaterOne established a rate stabilization reserve which helps protect against rate spikes when revenues decrease due to weather variability.

Revenues (millions)
Total \$107.8

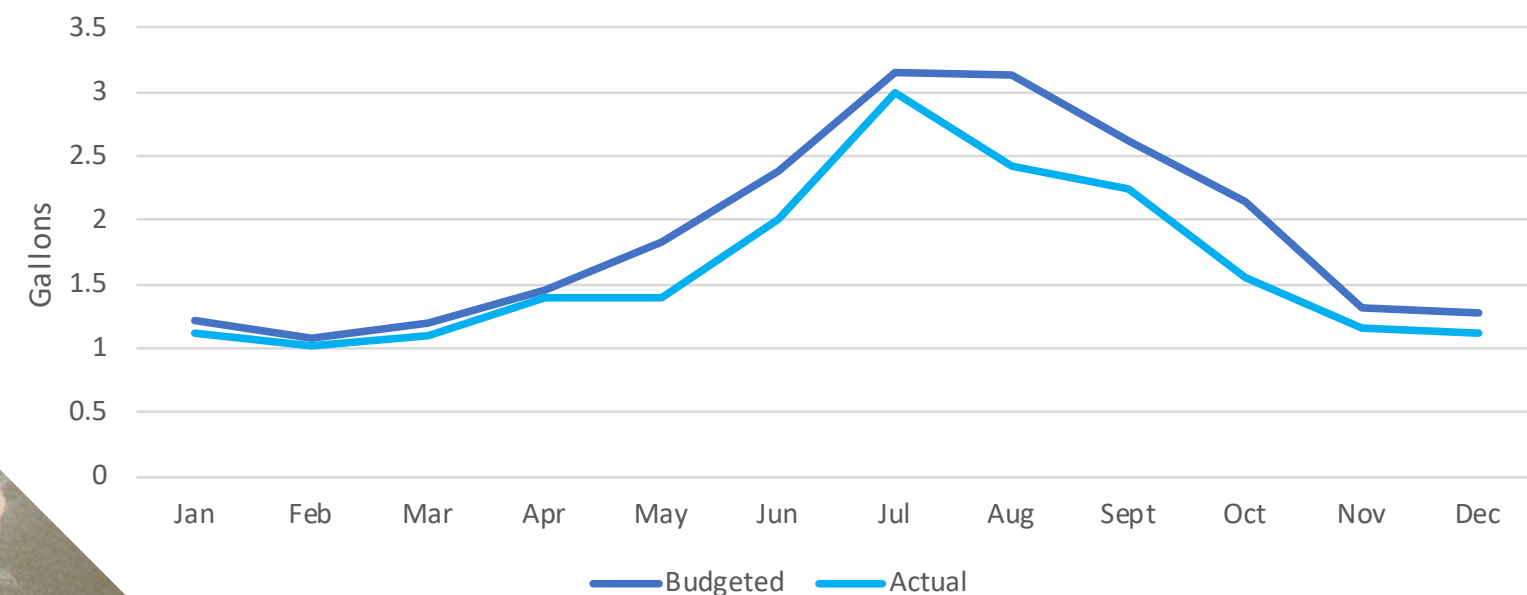


Other Revenues
Investment Income
Service Charge

Block 2 Volume Rates

Block 1 Volume Rates

Water Production in Billion Gallons



Water Rate Structure

WaterOne uses a Peak Management Rate fee structure for water rates. This is an inclining rate structure designed to encourage customers to reduce peak usage. This delays the need for additional capacity and/or recovers costs more equitably from those customers who choose to have peak water usage. Block 1 rates are for volumes up to 125% of the customer's Average Winter Consumption (AWC). The AWC is calculated based on a customer's average daily consumption from January through April. Block 2 rates are for those gallons used in excess of 125% of the customer's AWC.

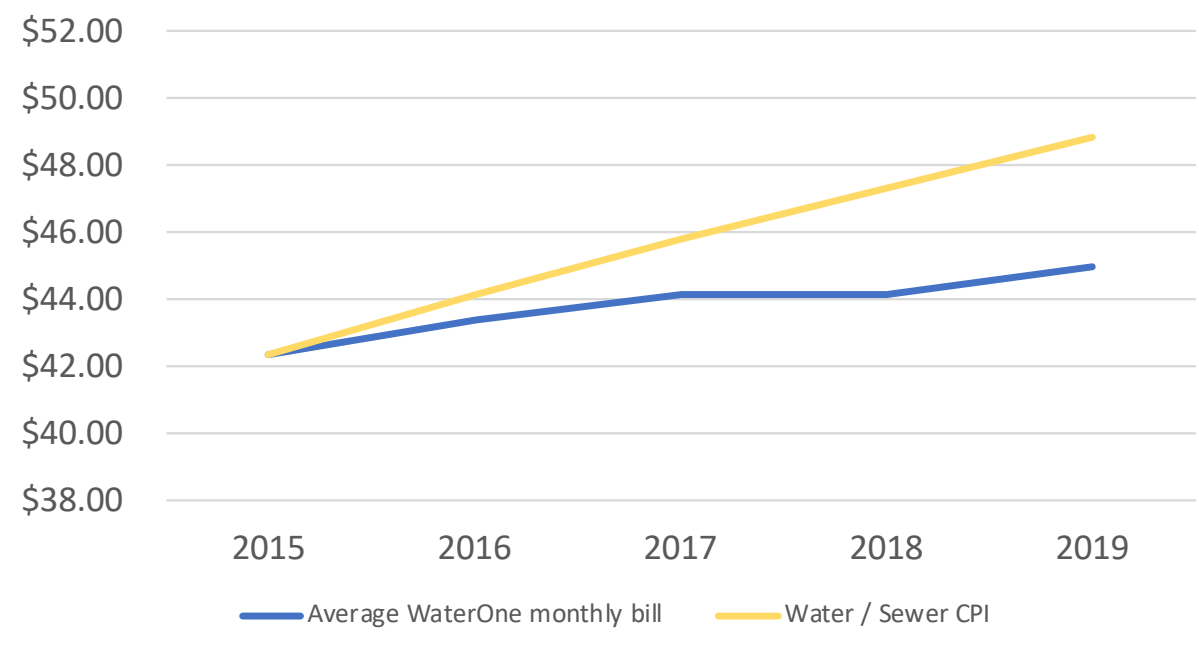
The table below shows a calculation for a customer with a 5/8" meter using 7,500 gallons per month with 79% of their usage at the Block 1 rate.

*rates shown are per 1,000 gallons

Block	Gallons	2019 Rates	Total
1	5,930	\$4.24	\$25.14
2	1,570	\$5.64	\$8.85
Service Charge	NA	\$11.60	\$11.60
	7,500		\$45.59



Water Rates have been rising slower than the comparable Water / Sewer Index.

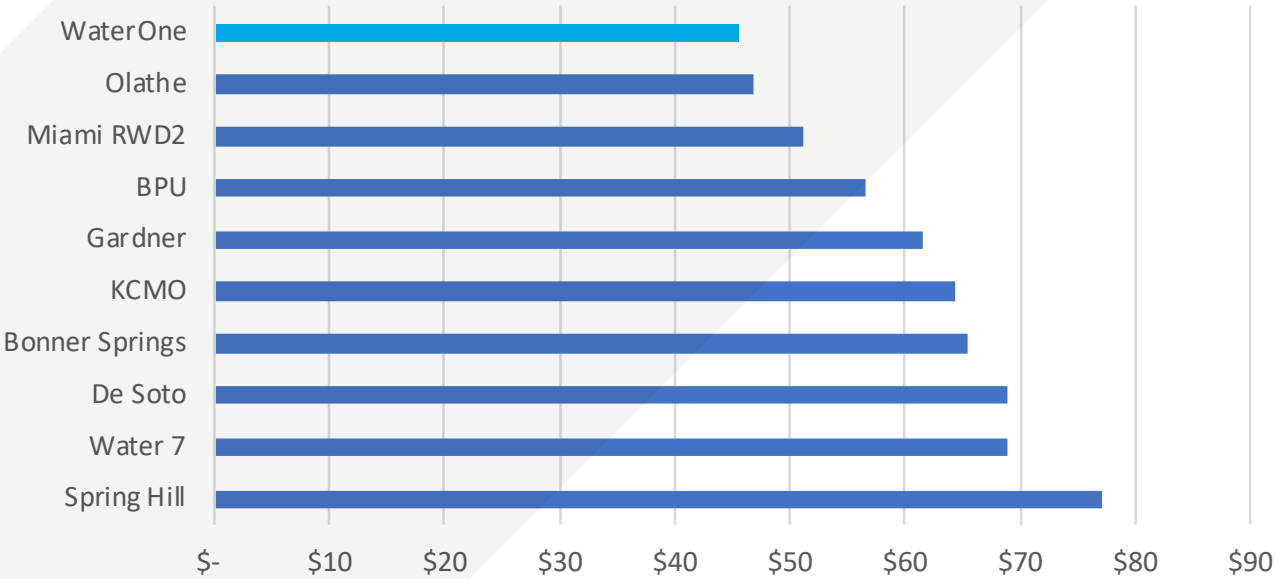


Even with the rising cost of health insurance, water treatment commodities, energy, and infrastructure maintenance, the monthly bill for a typical WaterOne customer has risen at a rate significantly lower than the comparable water/ sewer consumer price Index. This has been true even as consumption per customer has decreased.



WaterOne had the lowest water rates compared to its neighboring utilities in 2019.

Average monthly bill for typical customer in 2019



Where does the money go?

Breakdown of Expenditures

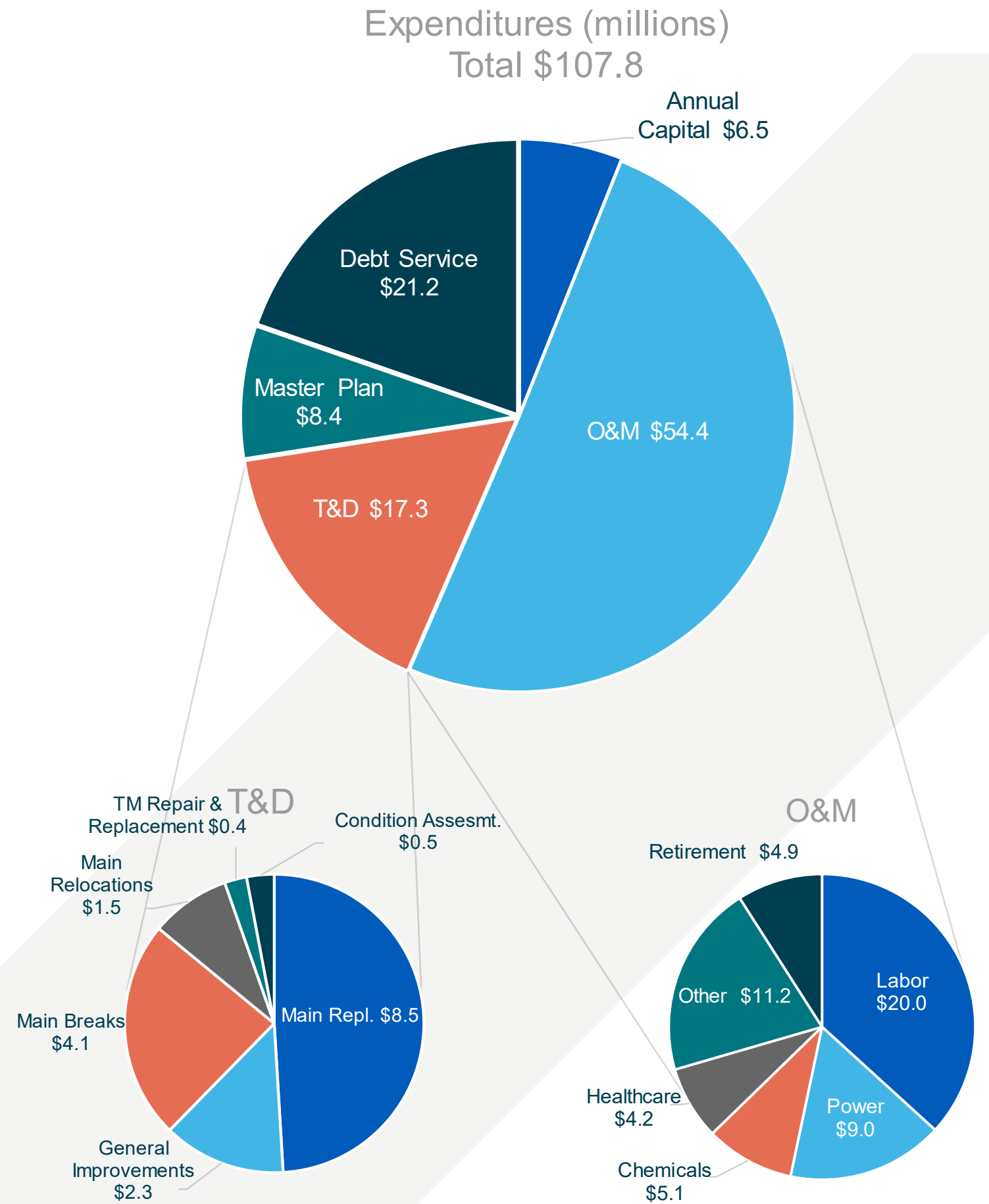
The largest portion of WaterOne's annual expenditures come from Operations & Maintenance (O&M). This includes costs like payroll, healthcare insurance, retirement benefits, and water treatment needs like power and water treatment commodities.

Debt service is for the repayment of long-term debt. WaterOne incurs long-term debt by issuing tax-exempt bonds.

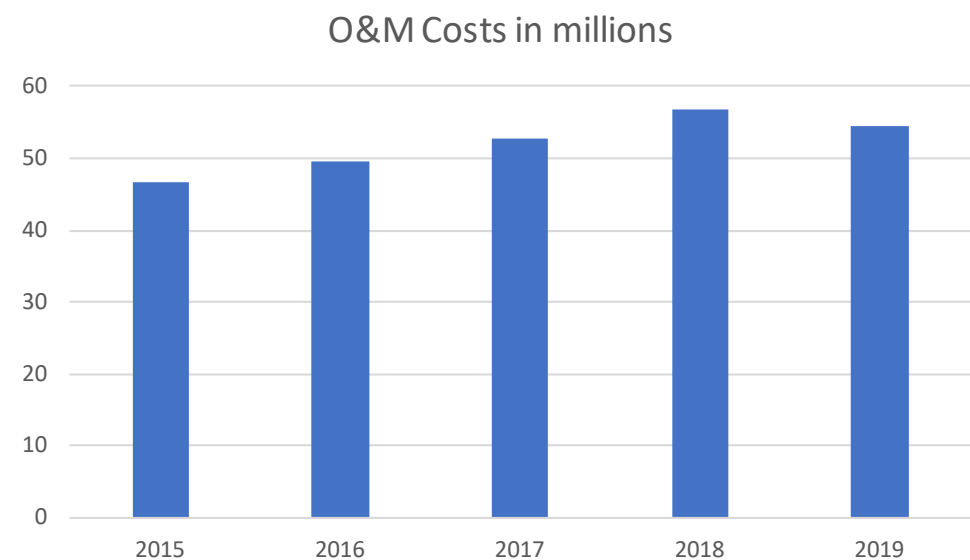
Transmission & Distribution (T&D) refers to the costs associated with replacing water mains, fixing main breaks, relocating mains, and assessing the condition of transmission mains.

Master Plan projects are major infrastructure enhancements that are planned over a time frame that is typically around 40 years and involves projects with useful lives of at least 20 years. These are typically larger projects that have been identified through infrastructure modeling as necessary to meet future system demands.

Annual Capital refers to projects that are typically smaller than Master Plan projects with a shorter useful life. They are often for the replacement of existing capital that has reached the end of its useful life.

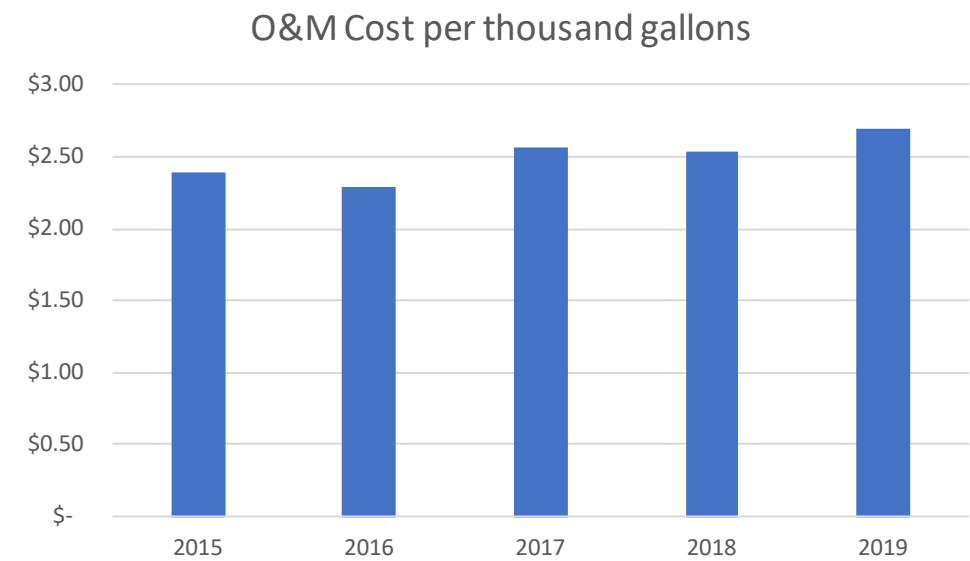


Operations & Maintenance Expenses



One of the ways that WaterOne can keep its rates affordable is to closely monitor its Operations and Maintenance expenses, and make sure that the money it spends is used as efficiently and effectively as possible.

There are many challenges to overcome in keeping O&M expenses down, from rising healthcare costs, to increases in the cost of power and water treatment commodities. WaterOne is continuously looking for ways to provide the level of service that our customers expect, while keeping costs down.



Long Term Debt

At times WaterOne will finance large projects by issuing bonds. WaterOne has the highest bond ratings possible with a AAA rating from Standard & Poors and a Aaa rating from Moodys. Better ratings mean WaterOne pays less in interest, and the savings can be passed on to the ratepayers. This is also a great indicator of WaterOne's strong financial position and stability.

Why should WaterOne use debt at all?

Let's assume the useful life of an asset, such as an ozone treatment facility, is 50 years. Why should today's residents pay 100% of the cost for 1/50th of its use. By using debt and spreading out the payments, the cost is distributed more fairly across time and more equally shared by the residents who benefit from the asset. The standard term for WaterOne's debt is twenty to twenty-five years.



Statement of Changes In Net Position

Net Position (Dollars in Thousands)								
Balance Sheet (in thousands)	December 31,		Variance		December 31,		Variance	
	2019	2018	Dollars Increase	Percentage (Decrease)	2017	2016	Dollars Increase	Percentage (Decrease)
Capital Assets	1,105,519	1,059,422	46,097	4.35%	1,019,953	39,469	3.87%	
Total special funds	33,645	38,012	(4,367)	-11.49%	62,148	(24,136)	-38.84%	
Total current assets	135,550	163,450	(27,900)	-17.07%	145,304	18,146	12.49%	
Deferred outflows of resources	18,943	8,054	10,889	135.20%	7,703	351	4.56%	
Total Assets And Deferred Outflows	1,293,657	1,268,938	24,719	1.95%	1,235,108	33,830	2.74%	
Long-term liabilities and other liabilities	274,142	284,157	(10,015)	-3.52%	295,858	(11,701)	-3.95%	
Current liabilities	31,166	32,633	(1,467)	-4.50%	28,528	4,105	14.39%	
Deferred inflows of resources	6,531	3,988	2,543	63.77%	1,897	2,091	110.23%	
Total Liabilities And Deferred Inflow Of Resources	311,839	320,778	(8,939)	-2.79%	326,283	(5,505)	-1.69%	
Net investment in capital assets	860,928	807,594	53,334	6.60%	774,551	33,043	4.27%	
Restricted	27,083	25,706	1,377	5.36%	27,050	(1,344)	-4.97%	
Unrestricted	93,807	114,860	(21,053)	-18.33%	107,224	7,636	7.12%	
Total Net Position	981,818	948,160	33,658	3.55%	908,825	39,335	4.33%	
Total Liabilities, Deferred Inflows Of Resources, And Net Position	1,293,657	1,268,938	24,719	1.95%	1,235,108	33,830	2.74%	

Assets and Deferred Amounts

Capital Assets: The current value of long-term investments in land, buildings, equipment and infrastructure under construction.

Special Funds: Cash and investments that have been pledged for a legal reason such as bond reserves, principal or interest payments on bonds, or bond proceeds held for future construction.

Current Assets: The value of cash and investments, accounts receivable, inventory and prepaid items.

Deferred Outflow of Resources: The consumption of resources that will be recognized in a future period.

Liabilities and Deferred Amounts

Long term Liabilities: Amounts owed on outstanding bond issues and as well as the value of future retirement benefits owed to employees and retirees.

Current Liabilities: Amounts owed to vendors, contractors, and employees.

Deferred Inflow of Resources: The acquisition of resources that will be recognized in a future period.

Total Net Position

Net Position: What you would have left if you used your assets to pay off your liabilities. The increase in net position is a useful indicator of WaterOne's positive financial position.

Major Projects of 2019

After nearly a year of construction, contractors from Caldwell Tanks raised the bowl of WaterOne's Johnson Drive water tower in Shawnee on Wednesday, August 7th. The tower will serve a growing population in the northwestern Johnson County area and will help regulate water pressure and improve distribution efficiency. The new tank is 116 feet in diameter and will hold 3 million gallons of water. Over 600 tons of steel and 101 truckloads of concrete were used in the construction process. The project is expected to be completed in May 2020.

Several new structures were built to house WaterOne analyzers at Hansen Treatment Plant's Facility 2. The upgrade made using and maintaining the analyzer equipment more efficient, and offered a better environment for these precision instruments.

Hansen Treatment Plant was also upgraded with new filter controls. The original controls dated back to the construction of the plant, and featured large stand-up control panels with lots of buttons, levers, dials, and status lights. The old control panels were removed and replaced with modern LED touchscreen interfaces for controlling filter operations.

WaterOne's Lamar Pump Station at 91st and Lamar also received extensive wiring and HVAC updates. The facility was built in 1969 and is an important part of WaterOne's distribution system.



Major Projects, continued

AMI

WaterOne's multi-year Advanced Metering Infrastructure (AMI) project is on track with the completion of SmartPoint installations for commercial customers and the beginning of a 12-18 month installation process for all residential customers. By the fall of 2020, we plan to begin welcoming customers onto the new online portal where they can access their consumption details and tools such as leak alerts. Customer Service and Meter Services staff are training and preparing for this customer "go-live." This includes practicing customer conversations with WaterOne employee/customer volunteers, calibrating internal alert thresholds, validating data, and much more. We are entering an exciting final leg of our AMI implementation journey!

SCADA

WaterOne's Supervisory Control & Data Acquisition is the automation system used to control treatment plants, distribution storage, and pumping operations. SCADA is like the nervous system of WaterOne's treatment operations and is the only way to operate many of the district's complex automated systems.

Throughout 2019 and continuing through 2020, WaterOne has been making progress on a \$30 million, 10-year upgrade of SCADA. The program includes switching to a new software platform, updating asset management and cyber security policies, and establishing a 10-year SCADA budget and master plan for maintenance and upgrades. This program represents the biggest update to SCADA since it was first implemented.



SPACE UTILIZATION

As our customer base expands, WaterOne has also been growing in order to keep up. Looking to the future, we've recognized the need to begin planning for how to best locate our people, equipment, and materials.

In 2019 staff feedback was used to create an updated plan and budget, which is being reviewed now. A timeline of work and budget approval will be the next step for this project.

KRONOS

In Human Resources quest to continually improve compliance, efficiency, offer self-service, and provide mobile options, the search took them to one of SAP's business partners. Enter KRONOS – our new Human Resources Information System!

While much of the research and planning occurred in 2019, employees can expect to see enhancements implemented in 2020!

RIMI

Nearly every employee generates records that must be retained and managed, whether for internal reference or to meet legal requirements. The Records and Information Management Initiative was commissioned to modernize WaterOne's entire records lifecycle process. RIMI will manage both paper and digital records and provide greater capability to find, manage, and dispose of those records at the appropriate time according to the records retention schedule.

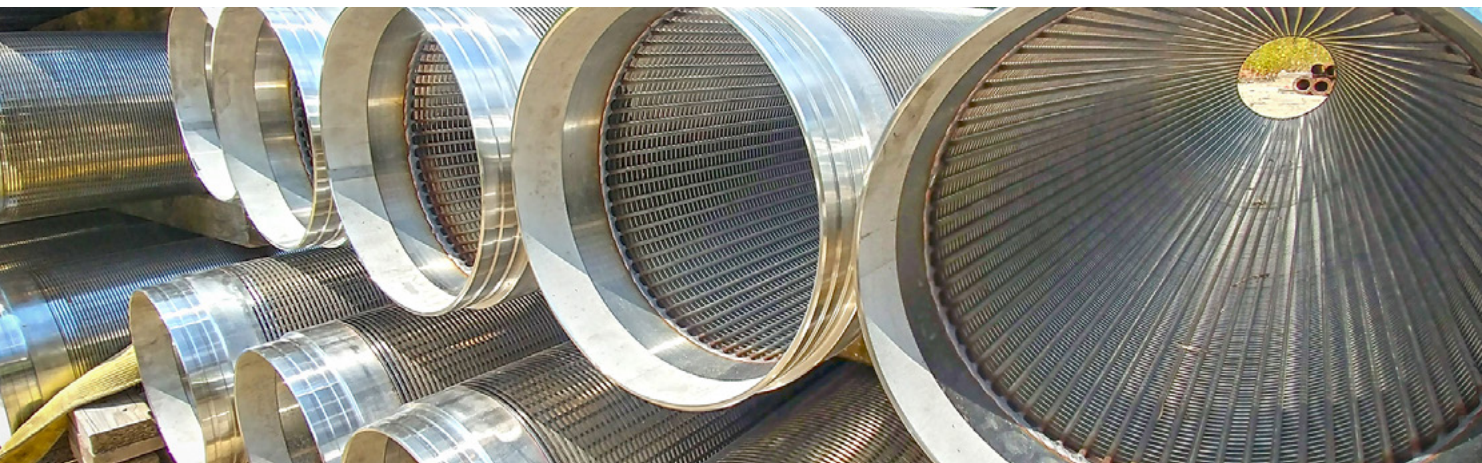
In 2019 Distribution Engineering was identified as the Pilot Group to assist in moving their files to SharePoint Online to allow the new records system to manage their records. Thanks to this group, lessons learned from the process have been identified and the RIMI team is moving forward with implementation in the Finance Division.

A company-wide rollout is on target for 2021.

OZONE

As part of a forward-looking approach to the future of water treatment, WaterOne has constructed ozone water treatment facilities at Hansen Treatment Plant, which will become the primary means of disinfection at the plant. Ozone is a powerful natural disinfectant and will offer more effective treatment for bacteria, viruses, pharmaceuticals, and taste and odor compounds in the source water. Integrating ozone into the water treatment process will make WaterOne's operations more efficient by eliminating, reducing, or simplifying water treatment chemicals and processes.

The Ozone Facilities project was first planned in 2013. Ground was broken in December 2017 and construction proceeded throughout 2019. Construction is nearly complete and the project is expected to be completed by summer 2020.





Awards & Recognition



WaterOne was proud to be honored with the **Sustainable Water Utility Management Award** by the Association of Metropolitan Water Agencies

(AMWA). This award recognizes utilities that have made a commitment to sustainable management that reflects a triple bottom line approach. The award signifies that WaterOne has achieved a balance of innovative and successful efforts in areas of economic, social, and environmental endeavors, such as responsible management of resources, protection of public health, meeting responsibilities to the community, and providing cost effective services to ratepayers.

The Finance Division has been recognized with the Government Finance Officers Association's **Distinguished Budget Presentation Award** for WaterOne's 2019 Budget. This achievement is the highest form of recognition in governmental budgeting and reflects the commitment from WaterOne's Board and staff to meeting the highest principles of governmental budgeting. The award acknowledges how well the budget serves as a policy document, financial plan, operations guide, and communications device.

"This award reflects the hard work and effort of our Financial Analysts and the many people across the organization who help us compile the information required to produce the highest quality Budget Book," said Manager of Financial Planning & Analysis Natalie Morrison.

WaterOne's Procurement Department recently earned the **2019 Achievement of Excellence in Procurement Award**. The Achievement of Excellence in Procurement is an award established by the National Procurement Institute (NPI) to recognize success in public procurement. The accolade is awarded annually to organizations who meet specific criteria. This year, only 202 organizations earned the honor in the US and Canada. WaterOne joined Wichita and Johnson County as the only organizations in the state to receive this recognition.

2019 By The Numbers





WaterOne
Water District No. 1 of Johnson County