



Water District No. 1 of Johnson County



POPULAR ANNUAL FINANCIAL REPORT 2018

For the Year Ended
December 31st, 2018



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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, 2018.

The PAFR is based on the 2018 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 another strong financial year which included customer growth of 1%, early repayment of outstanding bonds, construction of several new facilities to improve and simplify the delivery and treatment of water, and significant investment in the replacement of existing infrastructure based on our proactive asset management plan. All of this was achieved without a water rate increase in 2018 while maintaining a AAA bond rating and winning two different awards for the best tasting water in Kansas.

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 is the WaterOne Board. They 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, 2018 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

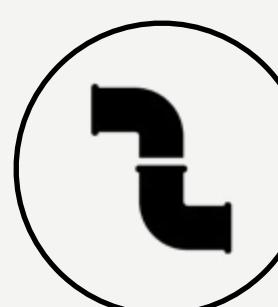


AREA SERVED

272
SQUARE
MILES



POPULATION SERVED
440,000
RESIDENTS



SERVICE CONNECTIONS
148,000+

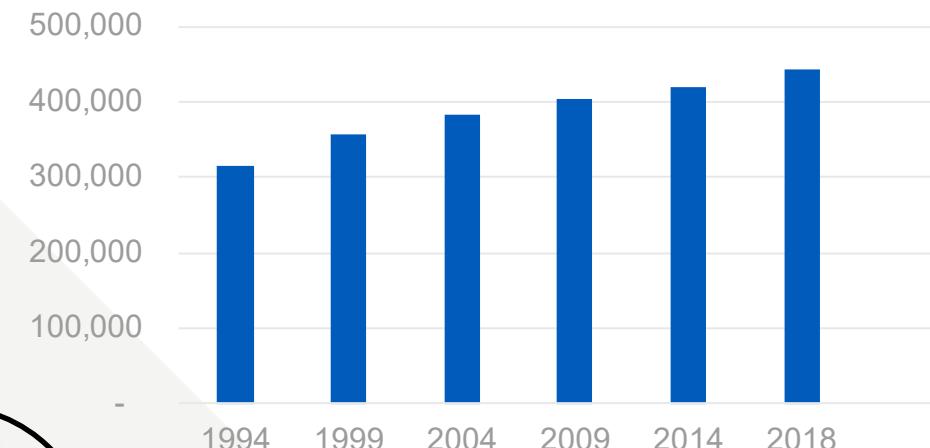


RESIDENTIAL CONNECTIONS
91%



COMMERCIAL CONNECTIONS
9%

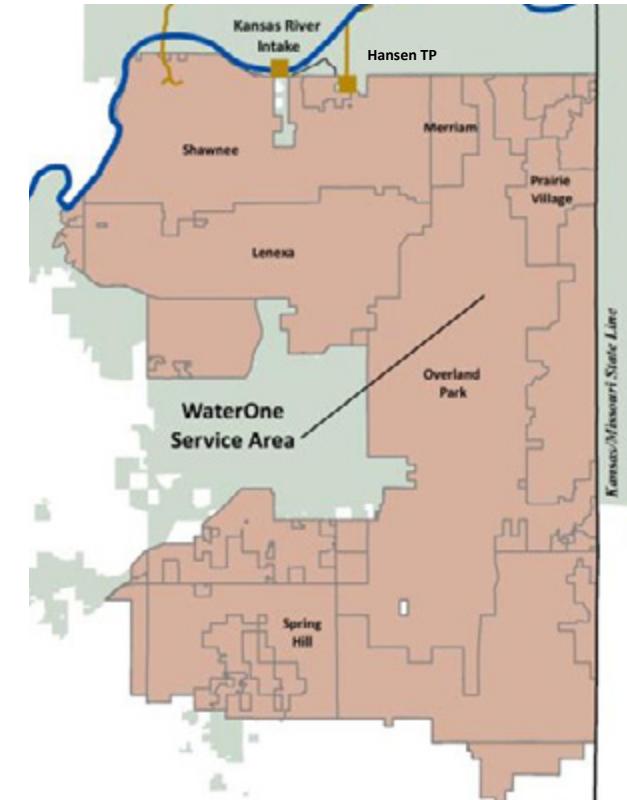
WaterOne Population Served



TOP COMMERCIAL ACCOUNTS*

1. Coca Cola Bottling
2. Shawnee Mission Medical Center
3. Blue Valley School District
4. City of Overland Park
5. Shawnee Mission School District
6. Shasta Beverages
7. Sprint World Headquarters
8. Ceva Biomune
9. Meadowlark Hills Apt
10. Bayer Corp.

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

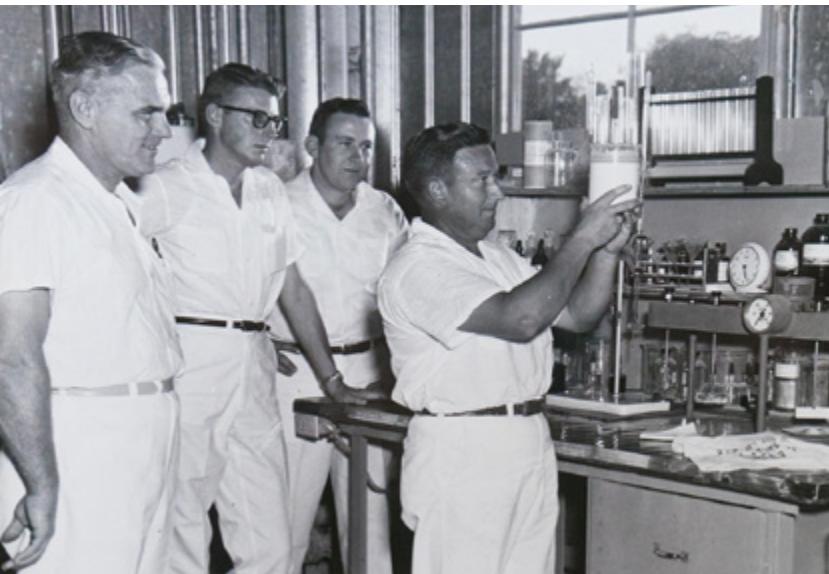


History

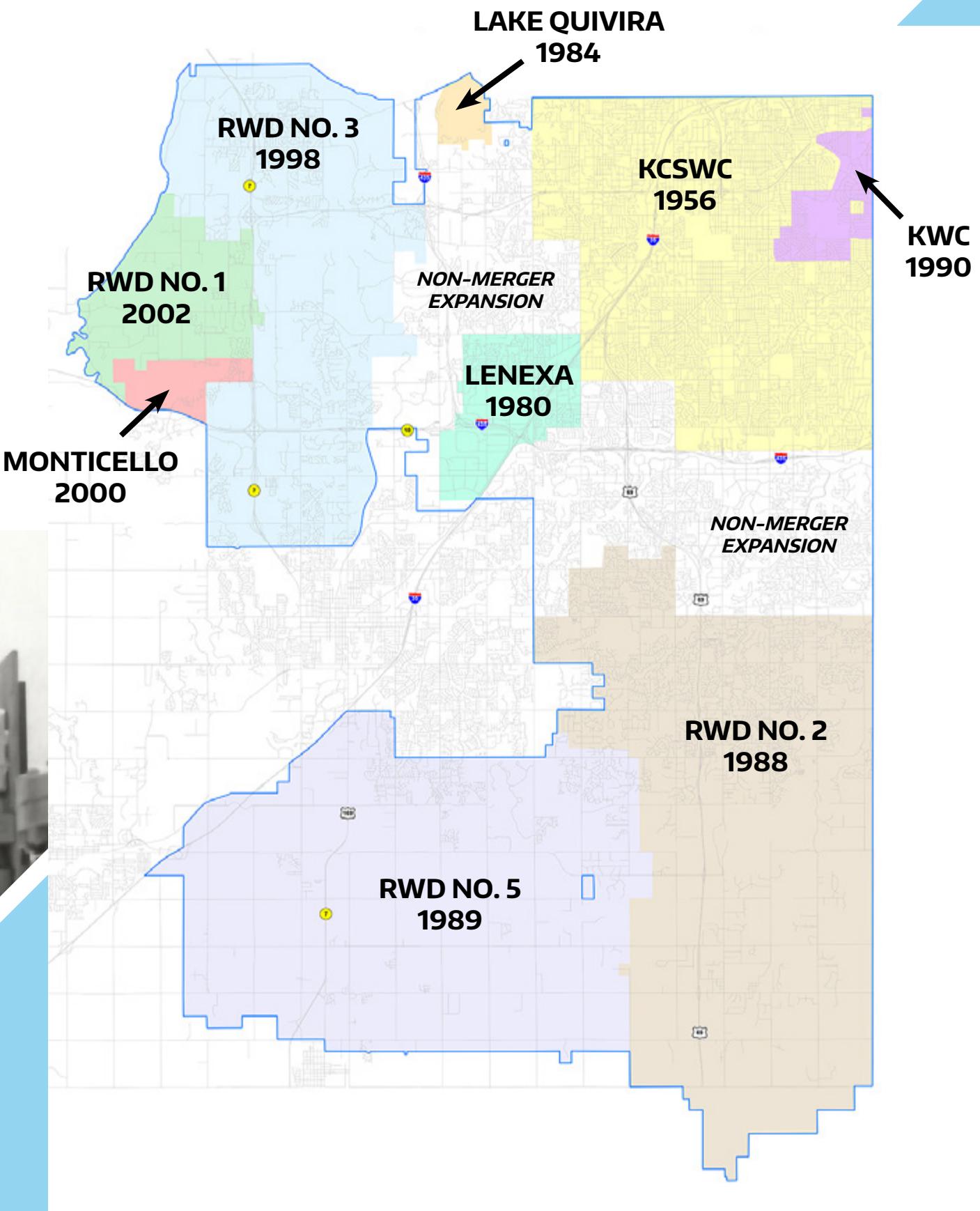
In 1957, northeastern Johnson County was served by a privately-owned water company, the Kansas City Suburban Water Company, which couldn't keep up with demand during the hot, dry summers. Frustrated residents took the matter into their own hands and overwhelmingly voted to buy them out and re-establish 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 440,000 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

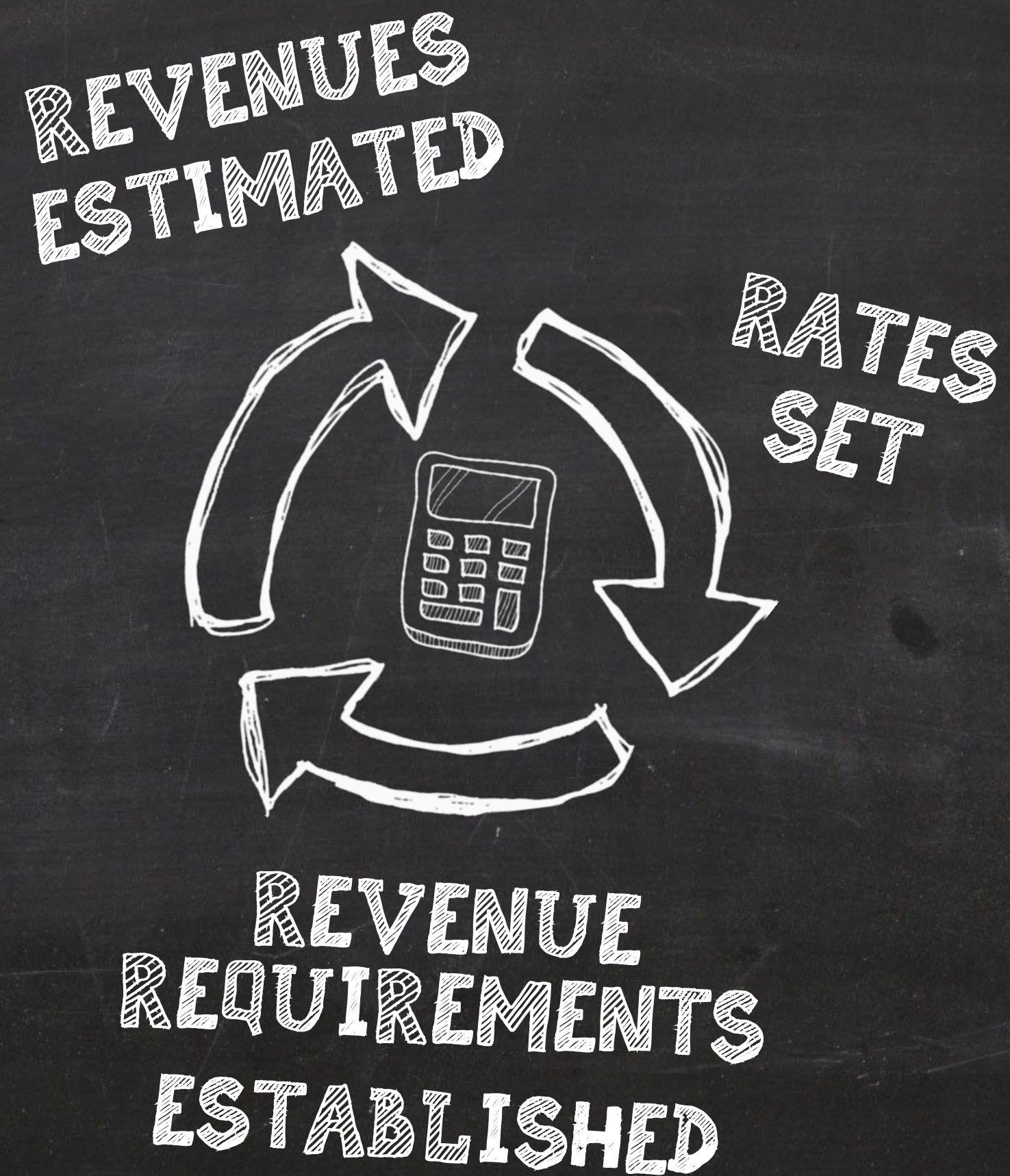
Setting the standard for utility excellence.

Values

Quality | Integrity | Safety
Accountability | Respect

2018 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.



Where does the money come from?

Rates & Revenues for 2018

There was a 0% rate increase from 2017 to 2018. This was primarily due to refunding some outstanding bonds that allowed us to reduce our overall debt service obligation and pass those savings on to the customer.

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.

The year 2018 began with a very dry start, with very little precipitation in the months of May, June, and July. Water sales looked like they would exceed the budgeted amount by a significant margin. However, towards the end of summer and into the fall, rainfall exceeded projections.

This reduced irrigation and brought the actual sales of water back very close to what was budgeted.

Revenues (millions)

Total \$119.9



Other Revenues
Investment Income
Service Charge

Block 2 Volume Rates

\$51.2

Block 1 Volume Rates

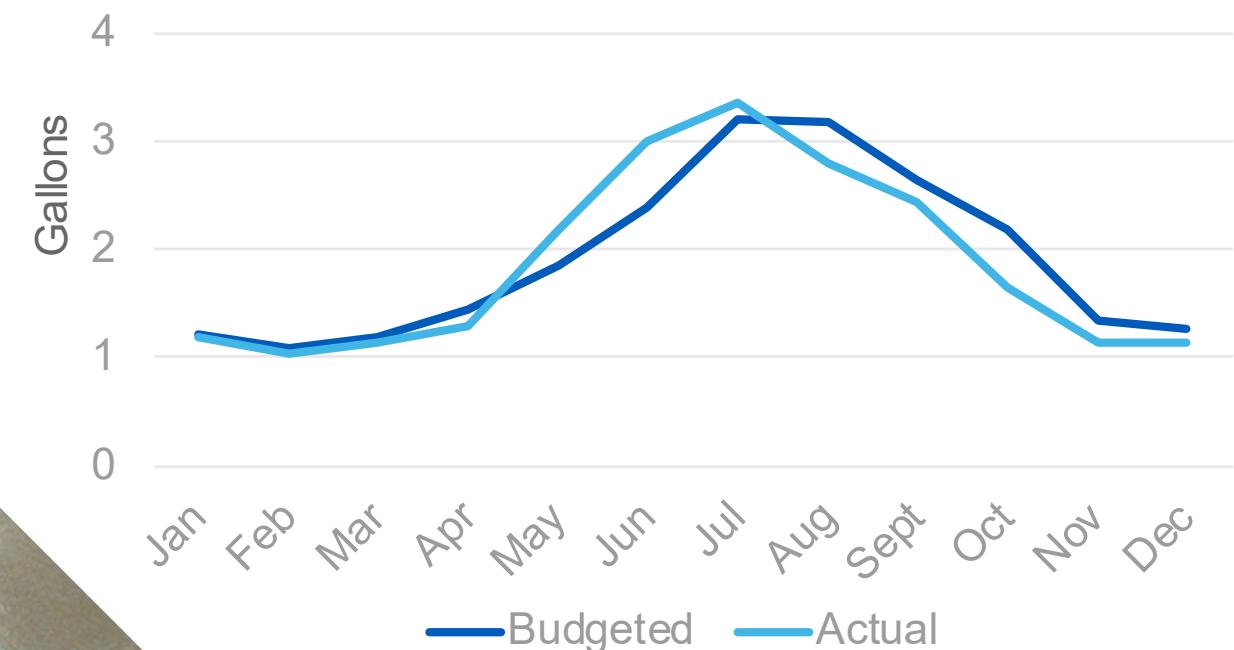
\$1.5

\$2.7

\$25.1

\$39.4

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.

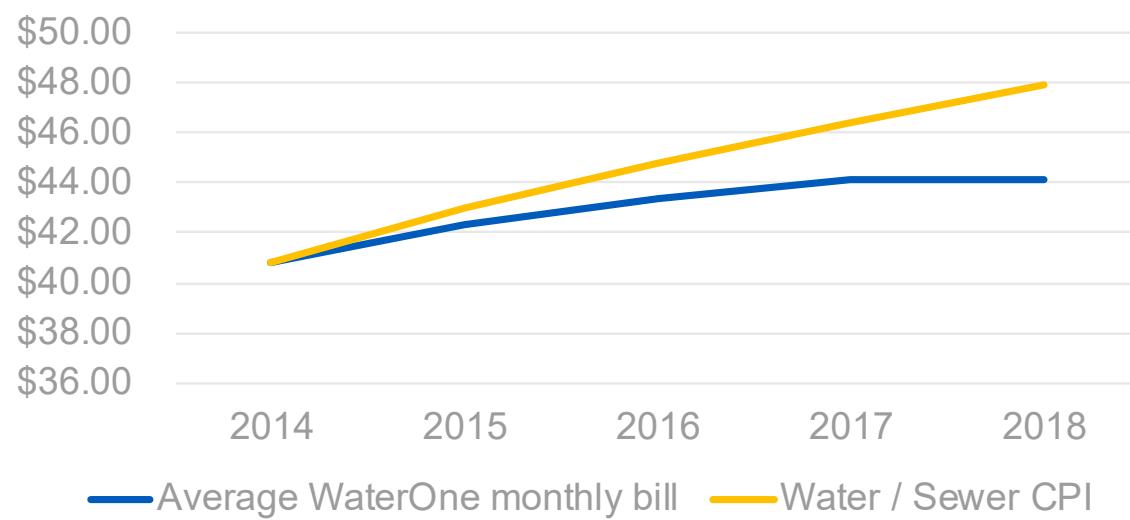
The table below shows a calculation for a customer with a 5/8" meter using 7,500 gallons per month with 79% of their usage at the Block 1 rate.

*rates shown are per 1,000 gallons

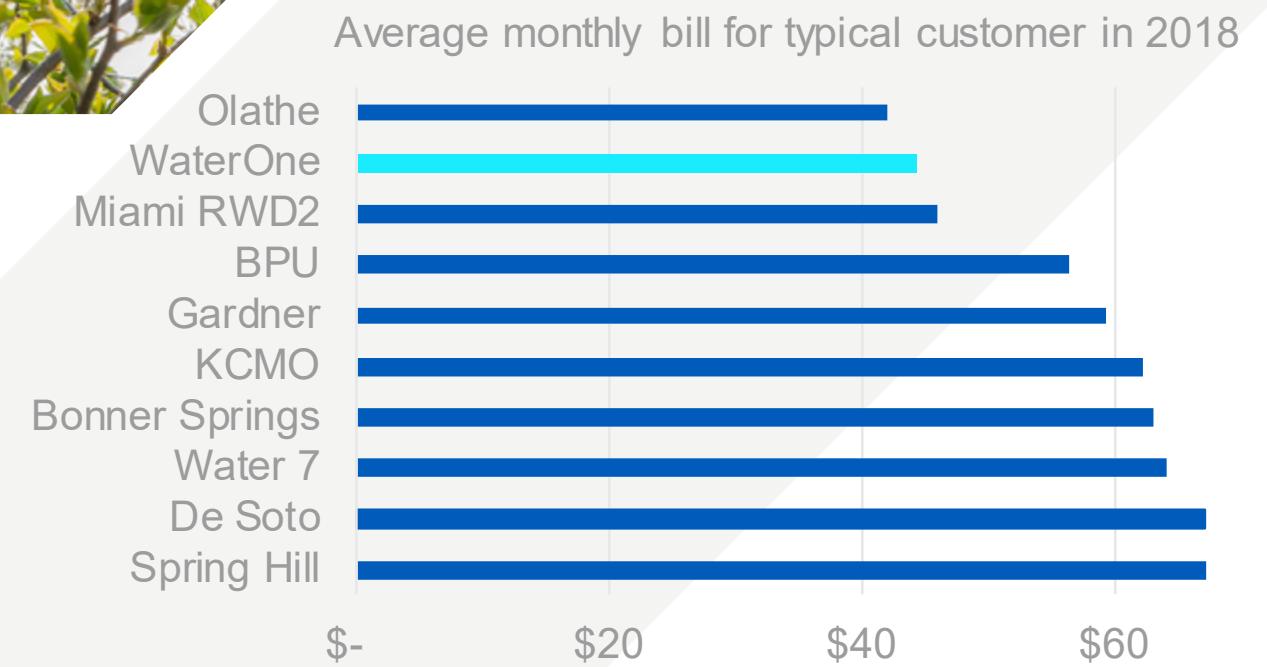
Block	Gallons	2018 Rates*	Total
1	5,930	\$4.08	\$24.19
2	1,570	\$5.43	\$8.53
Service Charge	NA	\$11.45	\$11.45
	7,500		\$44.17



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.



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.

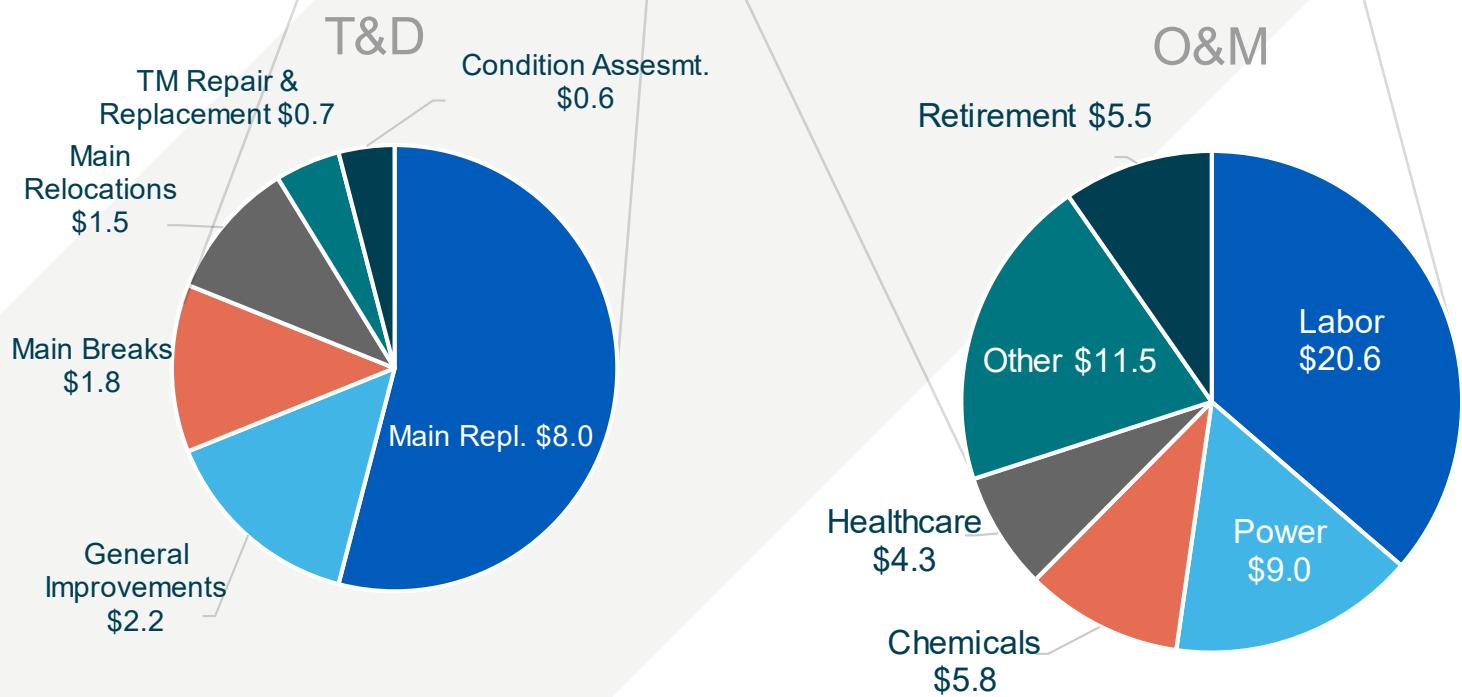
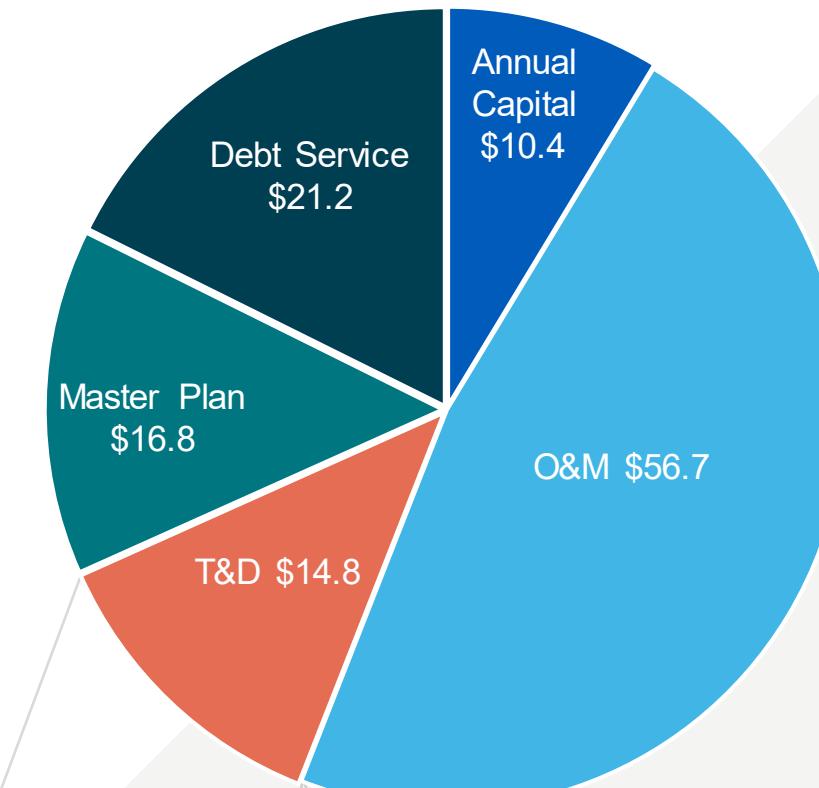
Debt service is for the repayment of long-term debt. WaterOne incurs long-term debt by issuing tax-exempt bonds.

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.

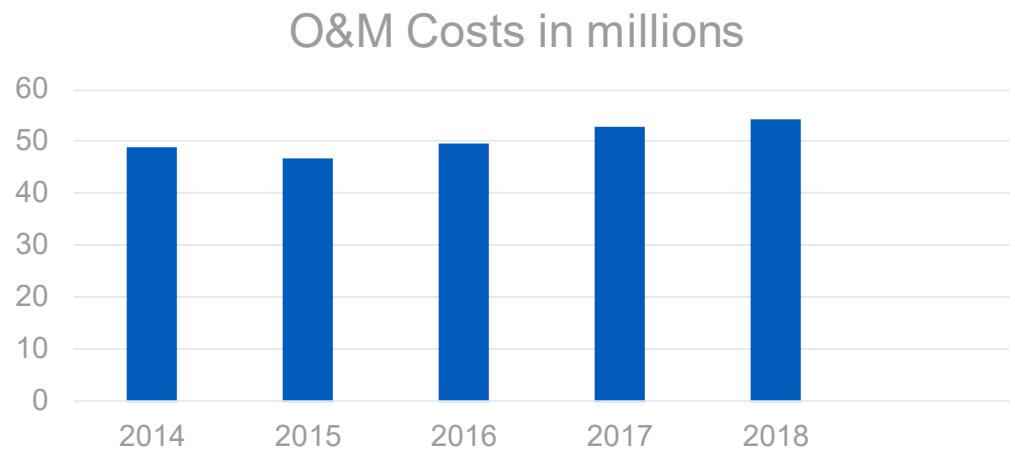
Master Plan projects are major infrastructure enhancements that are planned over a time frame that is typically around 40 years and involves projects with useful lives of at least 20 years. These are typically larger projects that have been identified through infrastructure modeling as necessary to meet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

Expenditures (millions)
Total \$119.9

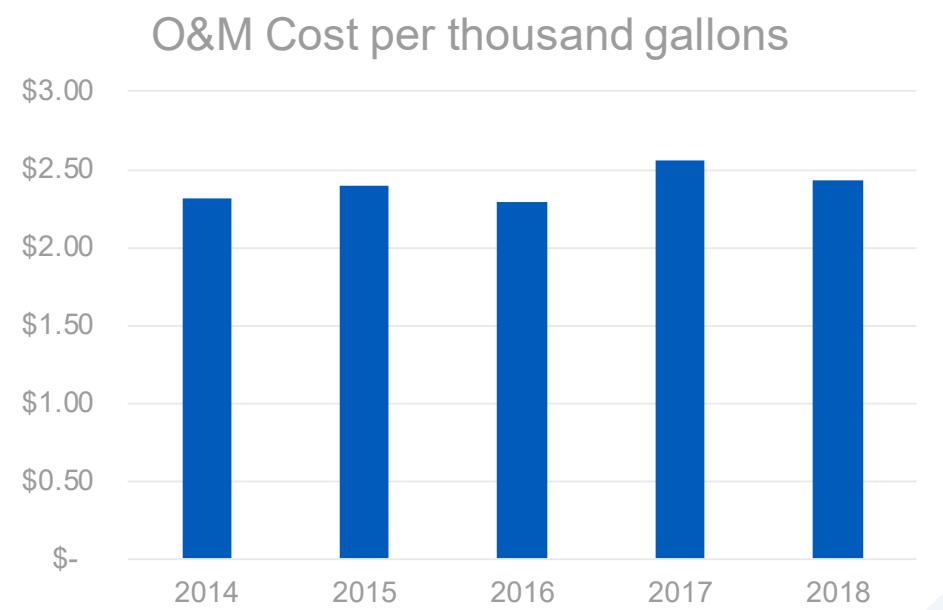


Operations & Maintenance Expenses



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.

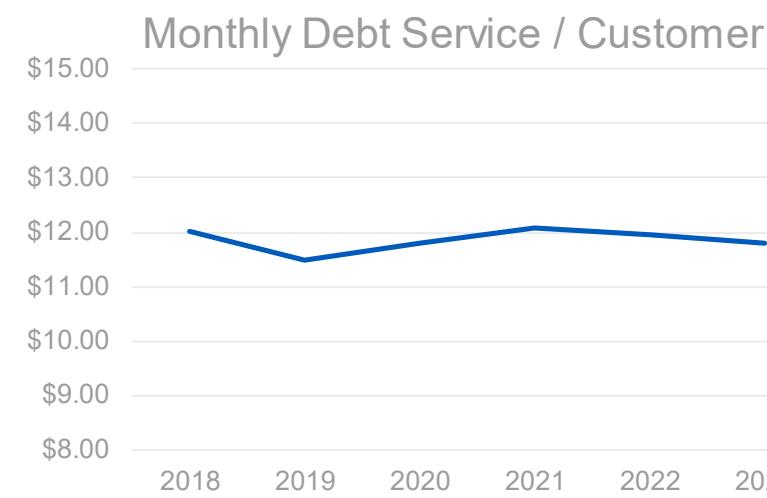


Long Term Debt

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 a water main, is 80 years. Why should today's residents pay 100% of the cost for 1/80th of its use? By using debt and spreading out the payments, the cost is distributed more fairly across time, and shared equally by the residents who benefit from the asset.



Statement of Changes In Net Position

Balance Sheet

(in thousands)

	December 31,		Variance	
	2018	2017	Dollars	Percentage
Capital Assets	1,059,422	1,019,953	39,469	3.87%
Total special funds	38,012	62,148	(24,136)	-38.84%
Total current assets	163,450	145,304	18,146	12.49%
Deferred outflows of resources	8,054	7,703	351	4.56%
Total Assets And Deferred Outflows	1,268,938	1,235,108	33,830	2.74%
Long-term liabilities and other liabilities	284,157	295,858	(11,701)	-3.95%
Current liabilities	32,633	28,528	4,105	14.39%
Deferred inflows of resources	3,988	1,897	2,091	110.23%
Total Liabilities And Deferred Inflow Of Resources	320,778	326,283	(5,505)	-1.69%
Net investment in capital assets	807,594	774,551	33,043	4.27%
Restricted	25,706	27,050	(1,344)	-4.97%
Unrestricted	114,860	107,224	7,636	7.12%
Total Net Position	948,160	908,825	39,335	4.33%
Total Liabilities, Deferred Inflows Of Resources, And Net Position	1,268,938	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 2018

WaterOne's newest **horizontal collector well** was built on the banks of the Kansas River, located near WaterOne's existing vertical well field. Many of the wells date back to the early days of WaterOne, and are reaching the end of their useful life. The new horizontal collector well will offer replacement capacity, allowing some of the old wells to be decommissioned.

Work is now underway on a **3 million gallon elevated tank** in Shawnee, KS. The elevated tank will help meet future service needs due to robust population growth in the area that includes the city of Shawnee and northwestern Johnson County. Construction of this tank will ensure consistent water pressure, improve distribution system efficiency during peak demand periods, and continue to guarantee the highest level of fire protection for WaterOne customers.

Work was also finalized on an **erosion mitigation project** on the Kansas River channel near WaterOne's intake and weir. Over time, the natural center channel of the river was deviating and causing erosion on the north bank of the river. As part of WaterOne's priority to invest in our infrastructure and natural resources, the District began an erosion mitigation project. The project included excavating the center channel in front of its weir, reinforcing the north bank of the river, and constructing a second "bendway weir" downstream from the intake to encourage the river to flow towards the center.



Major Projects, continued

AMI

WHAT IT IS: Advanced Metering Infrastructure is a complete upgrade of WaterOne's meter technology and data assets. A new "Smart Meter" network installed across our service area will facilitate automated remote reading and offer near real-time usage data for enhanced troubleshooting and customer service.

WHY IT MATTERS: Our meters are WaterOne's cash registers, and the ability of collect usage data efficiently and accurately is vital to our revenue and meeting customer expectations. AMI brings WaterOne's meter operations into the Information Age, and will be one of the highest-impact projects the Customer Relations Division has undertaken in a generation. To learn more, visit waterone.org/AMI.

SCADA

WHAT IT IS: WaterOne's Supervisory Control & Data Acquisition is the automation system that we use to control our treatment plants, distribution storage, and pumping operations. We just started a \$30 million overhaul of SCADA, including switching to a new software platform, developing asset management and cyber security policies, and establishing a 10 year SCADA budget & master plan for maintenance and upgrades.

WHY IT MATTERS: SCADA operates many of WaterOne's complex automated systems. This is the biggest update to SCADA since it was first introduced.



SPACE UTILIZATION

WHAT IT IS: The Space Utilization Study will determine a long-term plan for redeveloping work spaces at the Administrative, Treatment Plant, and newly purchased warehouse property. The study was awarded to Burns & McDonnell, an engineering firm with extensive experience developing multi-disciplinary corporate campuses.

WHY IT MATTERS: As the size of our organization increases, it becomes a challenge to figure out where to put all our people, equipment, and materials. This study will shape the layout of our shared working spaces well into the future.

RIMI

WHAT IT IS: The Records Information Management Initiative will modernize WaterOne's entire records lifecycle and archiving process. RIMI was commissioned to establish a digital filing system and workflow in order to manage all of WaterOne's past, current, and future recorded information.

WHY IT MATTERS: Nearly every employee generates some type of data which must be retained and archived, whether for internal reference or to meet legal requirements. RIMI represents a comprehensive institutional change to how we approach record-keeping.



OZONE

WHAT IT IS: WaterOne is upgrading the Hansen Treatment Plant to adopt ozone water treatment methods into its operations. Ozone is a powerful, naturally occurring disinfectant which is highly effective at destroying bacteria, viruses, and taste and odor compounds. Ozone water treatment will also simplify our operations by eliminating certain additives in the treatment process, which will save ratepayers money.

WHY IT MATTERS: The \$35.8 million ozone facilities project is a major upgrade in our water treatment technology. WaterOne is investing in our infrastructure now in order to proactively meet or exceed future drinking water regulations.



Awards & Recognition

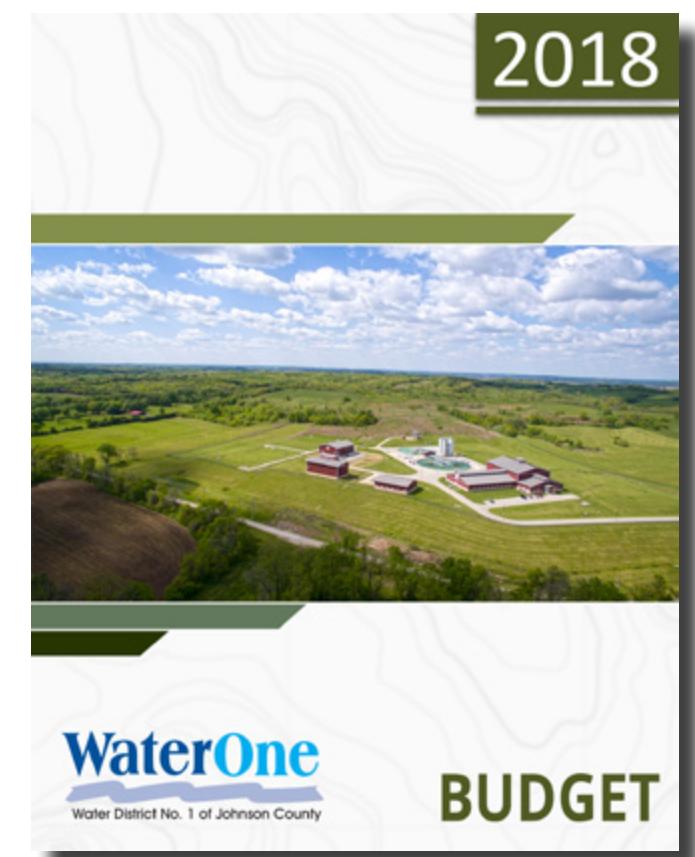


The Kansas Section of the American Water Works Association (KsAWWA) recently named WaterOne "Best Tasting Water in Kansas" at its 10th annual conference in Topeka, KS. This marks the fourth time WaterOne has been recognized with this award since 2006, making it the winningest water utility in the state of Kansas. After taking top honors in this year's regional contest, WaterOne is now eligible to compete in the national taste competition at the AWWA conference in 2019.

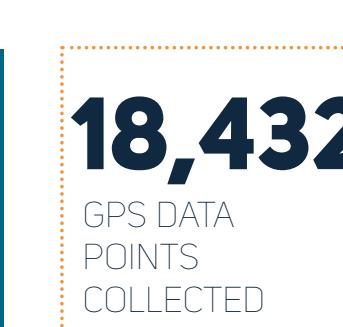
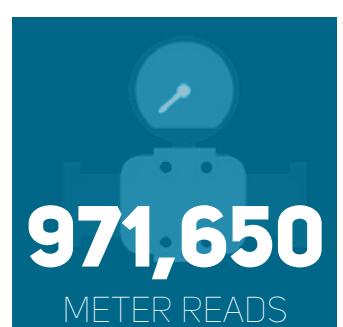
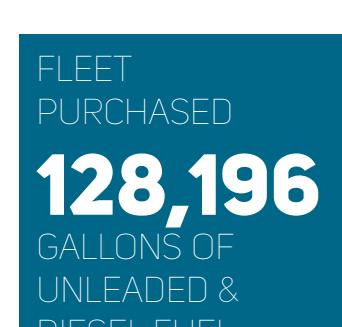
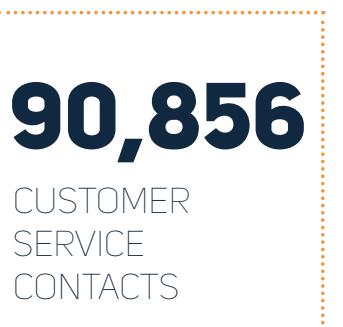
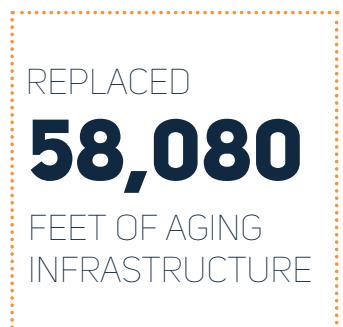
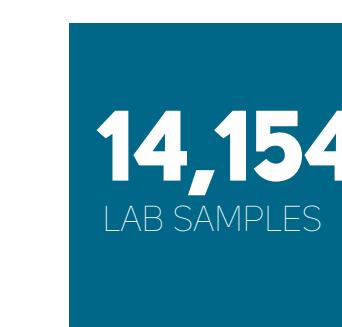
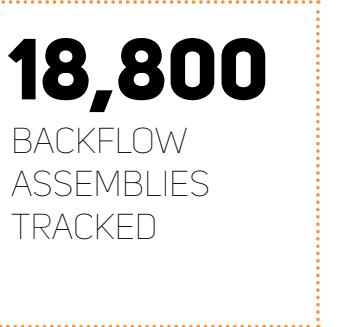
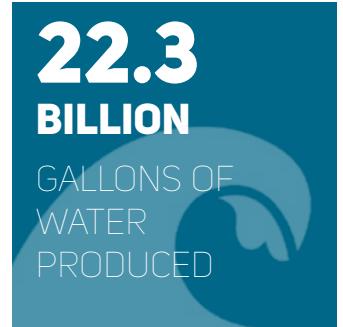
This award was a nice follow-up to another recent honor - the Kansas Rural Water Association also presented WaterOne with a "Best Tasting Water in Kansas" award earlier this year. For WaterOne, the awards and recognition are an acknowledgement that its treatment methods produce clean, delicious, and – above all – safe tap water.

Every quarter WaterOne surveys its customers to get their feedback on how satisfied they are with our service. In 2018, WaterOne reached an all-time high customer satisfaction score of 95%. The CEO of ETC, who administers the survey, said that he believes that WaterOne has the best satisfaction scores in the country. The scores highlight one of the core goals of WaterOne, to Provide Excellent Customer Service.

The Finance Division was recognized with the Government Finance Officers Association's Distinguished Budget Presentation Award for WaterOne's 2018 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.



2018 By The Numbers





WaterOne
Water District No. 1 of Johnson County