

**BOARD OF PUBLIC UTILITIES  
CITY OF McPHERSON**

***FINANCIAL REPORT***

**FOR THE YEARS ENDED  
DECEMBER 31, 2011 AND 2010**

# Board of Public Utilities - McPherson, Kansas

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## INDEPENDENT AUDITOR'S REPORT

Board of Public Utilities  
of McPherson, Kansas

We have audited accompanying financial statements of the Board of Public Utilities of McPherson, Kansas (BPU) a part of the primary government of the City of McPherson, Kansas as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the BPU's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the operations of the electric and water funds and do not purport to, and do not, present fairly the financial position of the City of McPherson, Kansas as of December 31, 2011 and 2010 and the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board of Public Utilities of McPherson, Kansas as of December 31, 2011 and 2010, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis be presented to supplement the 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.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress – Postemployment 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because of underlying actuarial calculations performed by a third party. We do not express an opinion or provide any assurance on the information.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information (unaudited) in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Board of Public Utilities of McPherson, Kansas. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The additional information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The comments and operating statistics have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no assurance on them.

*Swindoll, Jansen, Hawk & Loyd, LLC*

Certified Public Accountants

June 21, 2012

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The McPherson Board of Public Utilities (the BPU) is a quasi-municipality of the City of McPherson, Kansas. The electric and water funds are reflected as enterprise funds on the City of McPherson, Kansas' financial statements consisting of the Summary of Cash Receipts, Expenditures and Unencumbered Cash, Summary of Expenditures – Actual and Budget, and Summary of Cash Receipts and Expenditures. This Management Discussion and Analysis of the BPU's financial report presents our discussion and analysis of the BPU's financial performance for the year that ended December 31, 2011. This analysis should be read in conjunction with the financial statements and notes thereto.

The following table summarizes the financial condition and operations of the BPU as of and for the years ended December 31, 2011, 2010, and 2009.

### **Condensed Balance Sheet**

	2011			2010	2009
	Electric	Water	Totals	Totals	Totals
<b>Assets</b>					
Capital assets	\$ 38,362,972	\$ 20,202,685	\$ 58,565,657	\$ 59,951,069	\$ 57,280,659
Other assets	<u>26,110,658</u>	<u>10,343,080</u>	<u>36,453,738</u>	<u>38,745,664</u>	<u>40,977,773</u>
<b>Total Assets</b>	<b><u>\$ 64,473,630</u></b>	<b><u>\$ 30,545,765</u></b>	<b><u>\$ 95,019,395</u></b>	<b><u>\$ 98,696,733</u></b>	<b><u>\$ 98,258,432</u></b>
<b>Liabilities</b>					
Long-term debt outstanding	\$ 3,736,429	\$ 11,327,713	\$ 15,064,142	\$ 23,803,405	\$ 24,465,612
Other liabilities	<u>4,669,041</u>	<u>1,094,282</u>	<u>5,763,323</u>	<u>4,635,592</u>	<u>5,488,428</u>
<b>Total Liabilities</b>	<b><u>8,405,470</u></b>	<b><u>12,421,995</u></b>	<b><u>20,827,465</u></b>	<b><u>28,438,997</u></b>	<b><u>29,954,040</u></b>
<b>Net Assets</b>					
Net assets invested in capital assets, net of related debt	34,743,583	10,235,126	44,978,709	38,293,189	35,133,251
Restricted	1,671,272	294,157	1,965,429	5,157,282	5,364,984
Unrestricted	<u>19,653,305</u>	<u>7,594,487</u>	<u>27,247,792</u>	<u>26,807,265</u>	<u>27,806,157</u>
<b>Total Net Assets</b>	<b><u>56,068,160</u></b>	<b><u>18,123,770</u></b>	<b><u>74,191,930</u></b>	<b><u>70,257,736</u></b>	<b><u>68,304,392</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 64,473,630</u></b>	<b><u>\$ 30,545,765</u></b>	<b><u>\$ 95,019,395</u></b>	<b><u>\$ 98,696,733</u></b>	<b><u>\$ 98,258,432</u></b>

**Condensed Statement of Revenues, Expenses and Changes in Net Assets**

	2011			2010	2009
	Electric	Water	Totals	Totals	Totals
Operating revenues:					
Residential	\$ 6,218,620	\$ 1,885,550	\$ 8,104,170	\$ 6,582,919	\$ 5,902,500
Commercial and Industrial	35,736,632	1,736,375	37,473,007	30,371,163	28,790,660
Other	5,820,482	122,603	5,943,085	5,555,451	5,796,685
Total operating revenue	<u>47,775,734</u>	<u>3,744,528</u>	<u>51,520,262</u>	<u>42,509,533</u>	<u>40,489,845</u>
Operating expenses:					
Fuel	438,228	-	438,228	447,920	838,736
Purchased power	32,219,448	-	32,219,448	26,459,806	24,740,416
Production	2,294,854	541,454	2,836,308	3,380,599	2,100,432
Distribution and transmission	3,812,590	828,212	4,640,802	4,193,242	4,036,358
Administrative and general	1,906,854	414,784	2,321,638	1,997,611	2,126,283
Payments to City of McPherson	1,522,000	-	1,522,000	1,445,000	1,325,000
Depreciation and amortization	1,987,234	545,237	2,532,471	2,360,688	2,321,804
Total operating expenses	<u>44,181,208</u>	<u>2,329,687</u>	<u>46,510,895</u>	<u>40,284,866</u>	<u>37,489,029</u>
Operating income	3,594,526	1,414,841	5,009,367	2,224,667	3,000,816
Nonoperating income (expenses)	(693,618)	(301,255)	(994,873)	(198,823)	166,982
Transfers in lieu of taxes	-	(80,300)	(80,300)	(72,500)	(46,000)
Increase in net assets	2,900,908	1,033,286	3,934,194	1,953,344	3,121,798
Net assets, beginning	<u>53,167,252</u>	<u>17,090,484</u>	<u>70,257,736</u>	<u>68,304,392</u>	<u>65,182,594</u>
Net assets, ending	<u>\$ 56,068,160</u>	<u>\$ 18,123,770</u>	<u>\$ 74,191,930</u>	<u>\$ 70,257,736</u>	<u>\$ 68,304,392</u>

**Financial Highlights**

**2011 Compared to 2010**

- The electric department implemented an average rate increase of 18.2% effective January 1, 2011 based upon a Cost of Service Study performed by Burns & McDonnell Engineering firm in 2010. As a result of this action the electric revenue increased 22.4% with an energy sales increase of 4.9% for 2011 compared to 2010. In 2010 electric revenue increased 4.2% and energy sales increased 1.2% over the previous year.
- Gross water revenue for 2011 was up 7.8% with quantity sales higher by 12.1% compared to 2010. For 2010, gross water revenues were up 14.25% and gallons sold were up 18.90% compared to 2009.
- On September 1, 2011 the electric department called \$6,185,000 of outstanding revenue bonds at par with cash reserves. This was the first date bonds were available for call for cash refunding.
- The electric department refinanced the remaining outstanding revenue bonds at par on October 15, 2011. Bond proceeds of \$5,445,000 along with \$1,750,000 of bond reserve funds were used to redeem \$7,326,927 of the remaining outstanding Series 2004 Electric Revenue Bonds. The new Series 2011 Electric Revenue Bonds have a "true interest rate" of 2.41% and a final maturity date of September 1, 2020.
- The debt service coverage ratios of both the electric and water departments were 8.45 and 2.02 times for 2011, respectively. The ratios continue to be much higher than the 1.25 times required by the bond covenant agreements. For the year 2010 the ratios for the electric and water departments were 2.78 and 1.71 times, respectively.

- Debt to equity ratio for the water department improved in 2011 to 0.69:1 compared with 0.76:1 for 2010. For the electric department the ratio changed to 0.15: 1 in 2011 from 0.29: 1 in 2010.
- Available cash and investments for 2011 increased by 140% in the electric department and increased by 7% in the water department compared to 2010.
- Interest income decreased by 29% for the electric department and decreased by 2% for the water department in 2011 compared to 2010.

### **2010 Compared to 2009**

- In 2010, the water department continued construction on the new blending plant and completed construction of a new one million gallon water tower for the system. These projects are being financed by the \$12 million 2007 Series water bond issue. By December 31, 2010, the water department had spent \$8,933,241 on the blending plant and \$2,242,202 on the new water tower. The blending plant was completed in February, 2011. Remaining bond proceeds of \$323,250 will be transferred to the water department principal and interest account for future payments.
- Debt to equity ratio for the water department improved in 2010 to 0.76:1 compared with 0.88:1 for 2009. For the electric department, the ratio changed to 0.29:1 in 2010 from 0.31:1 in 2009.
- The debt service coverage ratios for both the electric and water departments were 2.78 and 1.71 times the required amounts respectively. The ratios were much higher than the 1.25 times required by the bond covenant agreements. For 2009, these ratios for the electric and water departments were 2.76 and 2.00 times, respectively.
- Available cash and investments for 2010 decreased by 19% in the electric department and increased by 145% in the water department compared to 2009.
- Interest income decreased by 69.09% for the electric department and decreased by 53.67% for the water department in 2010 compared to 2009.
- Gross water revenue for 2010 was up 14.25% with quantity sales higher by 18.90% compared to 2009. For 2009, gross water revenues were down 4.42% and gallons sold were down 5.85% compared to 2008.
- Electric revenue was up 4.23% with an energy sales increase of 1.2% in 2010. The year 2009, saw an electric revenue decrease of 2.93% and energy sales increase of 0.56%
- The electric department hired a professional engineering firm, Burns and McDonnell, to perform a cost of service study for the utility. The consultants determined that an 18.2% average increase was necessary to provide adequate revenues for the utility over the next five years. The utility board authorized the recommended rate increase December 13, 2010, to be implemented January 1, 2011.
- The BPU board added Addendum #5 to Westar Energy contract extending the purchase power agreement to the year 2039 and agreed to begin paying transmission charges based on a Federal Energy Regulatory Commission approved formula tariff. Also included in the Addendum was a provision that Westar Energy will vary the capacity charge based on cost of the generating units included in the base capacity charge, allowing recovery of expenditures for new emissions equipment.
- In 2006, the BPU authorized the remodeling of a former power plant building for use as administrative offices for the utilities. Utility employees have been working over several years to remove old steam turbines and clear the building for renovation. A contract was signed with a local construction company in January, 2010 for \$1,717,372 to complete the project. The utility moved to the new location on March 21, 2011.

## **2009 Compared to 2008**

- The water department continued construction on the new blending plant and on a 1,000,000 gallon water tower for the system. These projects are being financed by the 2007 Series water bond issue. By December 31, 2009, the water department had spent \$10,077,781 of the \$12,000,000 borrowed for the project. These projects are expected to be completed during 2010.
- Debt to equity ratio for the water department improved in 2009 to 0.88:1 compared with 1.03:1 for 2008. For the electric department, the ratio changed to 0.31:1 in 2009 from 0.33:1 in 2008.
- The debt service coverage ratios for both the electric and water departments were 2.76 and 2.00 times the amounts required, respectively. The ratios were much higher than the 1.25 times required by the bond covenant agreements. For 2008 these ratios for the electric and water departments were 4.15 and 2.53 times respectively.
- Available cash and investments for 2009 increased by 130% in the electric department and by 213% in the water department compared to 2008.
- Interest income decreased by 50.04% for the electric department and by 69.52% for the water department in 2009 compared to 2008. The water department issued bonds of \$12,000,000 in 2007 and invested the unspent proceeds during the year. It is anticipated that the bond proceeds will be spent by the end of 2010.
- Electric revenue was down 2.93% with an energy sales increase of 0.56% in 2009. For 2008, the electric revenue was up 6.05% and energy sales were down by 0.13%.
- Gross water revenue for 2009 was down by 4.42% with quantity sales lower by 5.85% compared to 2008. For 2008, gross water revenues were up 4.5% and gallons sold were down 9.63% compared to 2007.

## **Contacting McPherson BPU Management**

This financial report is designed to provide our citizens, customers, taxpayers, bondholders, and creditors with a general overview of the BPU's finances and to show accountability for the money it receives. Financial information for the BPU is also presented in the financial statements of the primary government, the City of McPherson, Kansas. If you have questions about this report or need additional financial information, contact the City of McPherson, 401 West Kansas, McPherson, Kansas 67460.

## **FINANCIAL STATEMENTS**

## Board of Public Utilities - McPherson, Kansas

**BALANCE SHEETS**

December 31, 2011

(With comparative totals for December 31, 2010)

**ASSETS**

	<u>Electric</u>	<u>Water</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 4,771,406	\$ 3,088,993	\$ 7,860,399	\$ 7,537,728
U.S. treasury securities	3,095,445	-	3,095,445	-
Kansas Municipal Investment Pool- certificates of deposit	2,200,000	-	2,200,000	1,700,000
Certificates of deposit	7,170,000	4,675,000	11,845,000	14,865,000
Accounts receivable, customer and other	4,146,545	468,758	4,615,303	3,829,345
Inventories	1,705,047	325,322	2,030,369	1,948,734
Accrued interest on investments	5,777	4,777	10,554	33,691
Postemployment benefit asset	51,943	5,771	57,714	81,708
<b>Total current assets</b>	<b>23,146,163</b>	<b>8,568,621</b>	<b>31,714,784</b>	<b>29,996,206</b>
<b>Noncurrent assets</b>				
Restricted cash and cash equivalents	443,215	49,670	492,885	506,442
Kansas Municipal Investment Pool- cash and cash equivalents	-	-	-	343,071
Kansas Municipal Investment Pool- certificates of deposit	-	-	-	1,750,000
Restricted certificates of deposit	1,680,000	1,408,136	3,088,136	4,666,750
<b>Capital Assets</b>				
Land	488,728	1,339,147	1,827,875	1,827,875
Buildings and equipment	91,872,670	24,645,036	116,517,706	100,539,979
Construction in process	467,034	35,639	502,673	15,635,394
Less accumulated depreciation	(54,465,460)	(5,817,137)	(60,282,597)	(58,052,179)
Industrial development property, at cost	711,740	-	711,740	711,740
Bond issue costs, net	117,040	316,653	433,693	758,955
Other Assets	12,500	-	12,500	12,500
<b>Total noncurrent assets</b>	<b>41,327,467</b>	<b>21,977,144</b>	<b>63,304,611</b>	<b>68,700,527</b>
<b>TOTAL ASSETS</b>	<b>\$ 64,473,630</b>	<b>\$ 30,545,765</b>	<b>\$ 95,019,395</b>	<b>\$ 98,696,733</b>

**Board of Public Utilities - McPherson, Kansas**

**BALANCE SHEETS**

**December 31, 2011**

**(With comparative totals for December 31, 2010)**

**LIABILITIES AND NET ASSETS**

	<u>Electric</u>	<u>Water</u>	<u>Totals</u>	
			<u>2011</u>	<u>2010</u>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	\$ 3,098,143	\$ 33,966	\$ 3,132,109	\$ 2,238,451
Current maturities of revenue bonds	555,000	550,000	1,105,000	780,000
Accrued interest on revenue bonds	45,572	120,148	165,720	320,732
Customer meter and other deposits	402,489	-	402,489	399,296
Self-insurance claims payable	45,281	6,469	51,750	51,750
Accrued payroll	518,674	63,631	582,305	542,793
Accrued interest on customer meter deposits	3,882	-	3,882	2,383
Due to City of McPherson	-	230,089	230,089	225,621
<b>Total current liabilities</b>	<u>4,669,041</u>	<u>1,004,303</u>	<u>5,673,344</u>	<u>4,561,026</u>
Long-term debt - revenue bonds				
Principal	<u>3,736,429</u>	<u>11,327,713</u>	<u>15,064,142</u>	<u>23,803,405</u>
<b>Total long-term debt</b>	<u>3,736,429</u>	<u>11,327,713</u>	<u>15,064,142</u>	<u>23,803,405</u>
Other liabilities				
Water meter advances	<u>-</u>	<u>89,979</u>	<u>89,979</u>	<u>74,566</u>
<b>TOTAL LIABILITIES</b>	<u>8,405,470</u>	<u>12,421,995</u>	<u>20,827,465</u>	<u>28,438,997</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	34,743,583	10,235,126	44,978,709	38,293,189
Restricted for debt service	1,671,272	294,157	1,965,429	5,157,282
Unrestricted	<u>19,653,305</u>	<u>7,594,487</u>	<u>27,247,792</u>	<u>26,807,265</u>
<b>TOTAL NET ASSETS</b>	<u>56,068,160</u>	<u>18,123,770</u>	<u>74,191,930</u>	<u>70,257,736</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 64,473,630</u>	<u>\$ 30,545,765</u>	<u>\$ 95,019,395</u>	<u>\$ 98,696,733</u>

## Board of Public Utilities - McPherson, Kansas

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	Electric	Water	Totals	
			2011	2010
<b>OPERATING REVENUE</b>				
Electric				
Metered sales	\$ 44,123,486	\$ -	\$ 44,123,486	\$ 35,376,672
Street lighting	195,163	-	195,163	176,808
Sales to interconnection	3,457,085	-	3,457,085	3,483,701
Water				
Sale of water	-	3,744,528	3,744,528	3,472,352
Total operating revenue	<u>47,775,734</u>	<u>3,744,528</u>	<u>51,520,262</u>	<u>42,509,533</u>
<b>OPERATING EXPENSE</b>				
Fuel	438,228	-	438,228	447,920
Purchased power	32,219,448	-	32,219,448	26,459,806
Production	2,294,854	541,454	2,836,308	3,380,599
Distribution and transmission	3,812,590	828,212	4,640,802	4,193,242
Administrative and general	1,906,854	414,784	2,321,638	1,997,611
Payment to City of McPherson	1,522,000	-	1,522,000	1,445,000
Depreciation and amortization	1,987,234	545,237	2,532,471	2,360,688
Total operating expense	<u>44,181,208</u>	<u>2,329,687</u>	<u>46,510,895</u>	<u>40,284,866</u>
<b>OPERATING INCOME</b>	<u>3,594,526</u>	<u>1,414,841</u>	<u>5,009,367</u>	<u>2,224,667</u>
<b>NONOPERATING INCOME (EXPENSE)</b>				
Interest income	90,930	64,116	155,046	199,443
Revenues from merchandising, jobbing and contract work and miscellaneous income	113,669	69,109	182,778	319,632
Less cost of merchandising	(37,430)	(9,638)	(47,068)	(102,589)
Refuse collection and sewer service fees	65,141	14,752	79,893	73,526
Penalties, earned discounts and other	54,604	-	54,604	49,886
Farm rents, net of expense	(2,815)	59,274	56,459	50,588
Net increase (decrease) in fair value of investments	4,508	-	4,508	-
Gain (loss) on disposal of assets	22,372	-	22,372	4,800
Gain (loss) on extinguishment of debt	(452,130)	-	(452,130)	-
Interest on debt	(552,467)	(498,868)	(1,051,335)	(794,109)
Total nonoperating income (expense)	<u>(693,618)</u>	<u>(301,255)</u>	<u>(994,873)</u>	<u>(198,823)</u>
<b>INCOME BEFORE OPERATING TRANSFERS</b>	<u>2,900,908</u>	<u>1,113,586</u>	<u>4,014,494</u>	<u>2,025,844</u>
<b>TRANSFER: PAYMENTS IN LIEU OF TAXES</b>	<u>-</u>	<u>(80,300)</u>	<u>(80,300)</u>	<u>(72,500)</u>
<b>CHANGES IN NET ASSETS</b>	<u>2,900,908</u>	<u>1,033,286</u>	<u>3,934,194</u>	<u>1,953,344</u>
<b>TOTAL NET ASSETS, BEGINNING OF YEAR</b>	<u>53,167,252</u>	<u>17,090,484</u>	<u>70,257,736</u>	<u>68,304,392</u>
<b>TOTAL NET ASSETS, END OF YEAR</b>	<u>\$ 56,068,160</u>	<u>\$ 18,123,770</u>	<u>\$ 74,191,930</u>	<u>\$ 70,257,736</u>

## Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	Electric	Water	Totals	
			2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 47,231,818	\$ 3,875,942	\$ 51,107,760	\$ 42,949,136
Payments to suppliers	(35,105,962)	(703,665)	(35,809,627)	(30,511,631)
Payments to employees	(5,140,794)	(1,105,118)	(6,245,912)	(6,134,727)
Other receipts (payments)	(1,522,000)	(80,300)	(1,602,300)	(1,517,500)
Net cash provided from (used in) operating activities	<u>5,463,062</u>	<u>1,986,859</u>	<u>7,449,921</u>	<u>4,785,278</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchase of property, plant and equipment	(55,622)	(1,046,646)	(1,102,268)	(4,538,041)
Proceeds from sale of equipment	23,095	-	23,095	4,800
Proceeds from issuance of bonds	5,445,000	-	5,445,000	-
Principal payments on bonds	(13,725,000)	(530,000)	(14,255,000)	(1,435,000)
Payment of bond issue costs	(119,291)	-	(119,291)	-
Loss on refunding issue	675,278	-	675,278	-
Interest paid on debt	(588,237)	(498,612)	(1,086,849)	(1,131,830)
Net cash provided from (used in) capital and related financing activities	<u>(8,344,777)</u>	<u>(2,075,258)</u>	<u>(10,420,035)</u>	<u>(7,100,071)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of investments	(19,592,253)	(5,907,844)	(25,500,097)	(28,732,176)
Proceeds from sale or maturity of investments	22,351,613	5,906,458	28,258,071	27,730,804
Interest received	111,029	67,154	178,183	238,597
Net cash provided from (used in) investing activities	<u>2,870,389</u>	<u>65,768</u>	<u>2,936,157</u>	<u>(762,775)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
	(11,326)	(22,631)	(33,957)	(3,077,568)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>				
	<u>5,225,947</u>	<u>3,161,294</u>	<u>8,387,241</u>	<u>11,464,809</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>				
	<u>\$ 5,214,621</u>	<u>\$ 3,138,663</u>	<u>\$ 8,353,284</u>	<u>\$ 8,387,241</u>

## Board of Public Utilities - McPherson, Kansas

**STATEMENTS OF CASH FLOWS**

December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	Electric	Water	Totals	
			2011	2010
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income	\$ 3,594,526	\$ 1,334,541	\$ 4,929,067	\$ 2,152,167
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	1,987,235	545,237	2,532,472	2,360,686
Other nonoperating income	(232,081)	133,496	(98,585)	395,843
(Gain) loss on disposal of fixed assets	(22,372)	-	(22,372)	(4,800)
Realized/unrealized (gain) loss on investments	(4,805)	-	(4,805)	-
Changes in:				
Accounts and notes receivable	(774,238)	(11,720)	(785,958)	(54,029)
Inventories	(28,703)	(52,932)	(81,635)	137,728
Accounts payable	900,276	(6,618)	893,658	(231,692)
Accrued expenses	18,437	27,042	45,479	40,117
Postemployment benefit asset	21,594	2,400	23,994	(18,026)
Water meter advances	-	15,413	15,413	(10,126)
Customer meter deposits	3,193	-	3,193	17,410
Net cash provided from operating activities	<u>\$ 5,463,062</u>	<u>\$ 1,986,859</u>	<u>\$ 7,449,921</u>	<u>\$ 4,785,278</u>
<b>NONCASH FINANCING ACTIVITIES</b>				
Bond cost write-off on defeased debt	\$ 399,038	\$ -	\$ 399,038	\$ -
Amortization of defeased bond costs	114,737	4,760	119,497	117,793
Loss on extinguishment of debt	452,130	-	452,130	117,794
Loss on advance refunding of debt	675,278	-	675,278	-
Total noncash financing activities	<u>\$ 1,641,183</u>	<u>\$ 4,760</u>	<u>\$ 1,645,943</u>	<u>\$ 235,587</u>

# BOARD OF PUBLIC UTILITIES - McPHERSON, KANSAS

## NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Board of Public Utilities of McPherson, Kansas (the BPU) consists of the municipal electric and water funds that provide services to approximately 8,500 electric and 5,700 water customers. The BPU's operational control and administration is under a three member appointed Board of Directors (the Board). However, the BPU is owned by and is a part of the primary government of the City of McPherson, Kansas (the City) because the City holds the corporate powers of the BPU. The accompanying financial statements include only those operations related to the electric and water utilities.

The following is a summary of the more significant accounting policies applicable to the BPU.

#### **(a) Basis of Accounting and Budgeting**

The Board of Public Utilities maintains its accounts in accordance with accounting principles generally accepted in the United States of America for utility accounting and follows the uniform system of accounts as prescribed by the Federal Energy Regulatory Commission. The Board operates separate electric and water utility funds. General management, administrative offices and personnel are common to both the electric and water funds. Administrative overhead expenses are allocated between the two funds on a percentage approximating their respective gross receipts. Interfund transactions which are material have been eliminated. The BPU accounts for its transactions on the flow of economic resources measurement focus and uses the accrual basis of accounting under which revenues are recognized when earned and expenses are recorded when liabilities are incurred. In reporting its financial activity, the BPU applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations; Accounting Principles Board Opinions; and Accounting Research Bulletins of the Committee on Accounting Procedure. In accordance with accounting principles generally accepted in the United States of America for rate regulated enterprises, certain costs or credits may be recorded as deferred charges or credits when it is probable, based on historical precedents and Board resolutions, that future rates established by the Board will recover or return such costs or credits. The BPU follows the uniform system of accounts as prescribed by the Federal Energy Regulatory Commission and FASB Codification, Section 980 *Regulated Operations*.

Although the BPU is required to adopt an annual budget, there is no reporting requirement. Therefore, budgetary information has not been included in this report.

#### **(b) Cash and Cash Equivalents**

Cash and cash equivalents in the accompanying statement of cash flows include all highly liquid investments (including restricted assets) with an original maturity of three months or less.

#### **(c) Revenue Recognition**

Operating revenues include revenues from the provision and delivery of electricity and water to customers. Operating expenses consist of costs incurred through the provision and delivery of electricity and water to customers. Meters are read and bills rendered on a cycle basis. Nonoperating revenues are those related to capital and related financing, noncapital financing and investing activities, as well as those that do not meet the definition of operating revenues. Revenues earned after meters are read are estimated and accrued as unbilled revenues at the end of each accounting period.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### **(d) Accounts Receivable and Revenue**

Accounts receivable include open trade receivables representing claims for utility services sold or other special services sold in the ordinary course of business. Utility accounts receivable are considered delinquent after 28 days and a 2% late fee on the current month's charges is added for each month the account is delinquent. Other accounts receivable become delinquent after 30 days and interest accrues at an annual rate of 18% until payment is received in full. After one year, interest ceases to accrue on other receivables and the account is turned over for collection.

The BPU utilizes cycle billing and accrues the amount of revenues for sales unbilled at the end of each reporting period. Fuel and purchased power costs in excess of or less than those reflected in base rates are adjusted subsequent to the period in which such excess costs were incurred through production cost adjustment clauses.

### **(e) Allowance for Doubtful Accounts**

The BPU considers accounts receivable to be fully collectible. Accordingly, no provision has been established for doubtful accounts. If amounts become uncollectible they will be charged to operations when that determination is made.

### **(f) Inventories**

Inventories are carried at cost substantially valued on an average cost method. Materials and supplies are essentially repair and replacement items for the maintenance of the two systems. Inventories at December 31<sup>st</sup> consist of the following:

	Water	Electric	Totals	
			2011	2010
Fuel	\$ -	\$ 429,165	\$ 429,165	\$ 455,509
Materials and supplies	<u>325,322</u>	<u>1,275,882</u>	<u>1,601,204</u>	<u>1,493,225</u>
Total	<u>\$ 325,322</u>	<u>\$ 1,705,047</u>	<u>\$ 2,030,369</u>	<u>\$ 1,948,734</u>

### **(g) Capital Assets and Depreciation**

Capital assets are stated at actual purchased cost or cost of construction, including payroll-related costs. All completed and purchased utility property is depreciated on the straight-line method over lives recommended for the different classes of assets by the Federal Energy Regulatory Commission and independent engineers. The BPU has a policy to capitalize all purchases over \$5,000. The average annual composite depreciation rates are 1.5% to 15%. Repairs and maintenance are expensed as incurred.

### **(h) Estimates and Assumptions**

The preparation of 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 disclosures 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. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; allowances for doubtful accounts, fixed assets, inventory, investments, notes receivable; and reserves for employee benefit obligations, environmental liabilities, and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

### **(i) Deferred Charges**

Bond issuance costs are amortized over the life of the bonds using the straight-line method.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### **(j) Vacation and Sick Leave**

Vacation - Vacation leave shall be accrued from the employee's date of employment as stipulated hereinafter. Vacation leave, if not taken, shall accrue from year to year up to maximum provided depending upon the employee's years of service. No vacation leave shall be taken until a new employee has completed the probationary period.

Each permanent full-time employee will accrue vacation leave as follows:

<u>Maximum Years of Service</u>	<u>Hours Accrued Per Year</u>	<u>Maximum Accumulation</u>
0 to 5 years	80 working hours	120 working hours
5 to 15 years	120 working hours	180 working hours
15 to 25 years	160 working hours	240 working hours
After 25 years	200 working hours	300 working hours

An employee shall be paid for all accumulated unused vacation leave upon termination. The liability for accumulated vacation at December 31, 2011 for the electric fund and the water fund of \$357,891 and \$50,740, respectively, and at December 31, 2010 for the electric fund and the water fund of \$339,362 and \$36,344, respectively, has been accrued in the accompanying financial statements.

Sick leave - All employees who work not less than one-half time shall be entitled to sick leave with pay for absences resulting from personal illness, injuries, accidents or other physical incapacities, occurring either on or off the job. Full-time employees shall earn one working day of sick leave for each full month of service. Part-time employees shall receive the equivalent of a regularly scheduled day for each full month of service. Other employees shall not have paid sick leave. An employee beginning work on or before the 15<sup>th</sup> of the month shall get credit for a full month. On termination of employment an employee shall not be paid for accumulative sick leave. Accordingly, no provision for accumulated sick leave has been made in the accompanying financial statements.

### **(k) Interest Capitalization**

It is BPU's policy to capitalize net interest costs on funds borrowed to finance construction of major capital additions. For the year ended December 31, 2011, the BPU's total interest expense was \$1,051,335. Net interest cost of \$0 was capitalized in connection with construction in progress during 2011. For the year ended December 31, 2010, interest cost of \$441,969 (interest cost of \$442,562 reduced by interest income of \$593) was capitalized. The BPU's policy is in accordance with the FASB Codification, Section 835 *Interest* which requires capitalization of interest cost of the restricted tax exempt borrowings less any interest earned on investment of the proceeds during the construction period.

### **(l) Net Assets**

In the financial statements, equity is displayed in three components as follows:

- Invested in Capital Assets, Net of Related Debt—This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted—This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is generally the BPU's policy to use restricted resources first, then unrestricted resources as they are needed.
- Unrestricted—This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### ***(m) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of***

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets* establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service to the utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This Statement requires governments to report the effects of capital asset impairments in their financial statements when they occur rather than as a part of the ongoing depreciation expense for the capital asset or upon disposal of the capital asset. The BPU has not recorded any impairment of long-lived assets in 2011 or 2010.

### ***(n) New Accounting Pronouncements***

BPU has adopted GASB No. 51 (GASB 51) *Accounting & Financial Reporting for Intangible Assets*. GASB 51 establishes standards for reporting intangible assets. For the years ended December 31, 2011 and 2010, this statement does not have any effect on the financial statements of BPU.

## 2. RISK MANAGEMENT

The BPU is exposed to various risks of loss related to tort claims; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The BPU self-insures for health care claims. Under the self-insured plan, the BPU, along with the City of McPherson, is responsible for a potential liability up to \$50,000 per individual per year for health care claims. At December 31, 2011, the BPU has established a liability of \$51,750 that is recorded on the balance sheet for claims arising out of the self-insurance program. At December 31, 2010, this liability was \$51,750. Management believes claims incurred, but not reported, are insignificant at December 31, 2011.

## 3. COMMITMENTS

The BPU has contract commitments for the purchase of land and water rights and electric breakers and for financial software replacement, for a total amount of \$1,042,021. As of December 31, 2011, payments of \$208,640 had been made toward these commitments, with a remaining balance due of \$833,381. At December 31, 2010, the BPU had outstanding commitments in the amount of \$610,625.

## 4. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the BPU. The statute requires banks eligible to hold the BPU's funds have a main or branch bank in the county in which the BPU is located, or in an adjoining county if such institution has been designated an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The BPU has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the BPU's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The BPU has no investment policy that would further limit investment choices. The rating of the BPU's investments is noted below

*Concentration of Credit Risk.* State statutes place no limit on the amount the BPU may invest in any one issue as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405. At December 31, 2011 and 2010, the BPU held 100% of their investments in the Kansas Municipal Investment Pool.

*Custodial Risk – deposits.* Custodial credit risk is the risk that in the event of bank failure, the BPU's deposits may not be returned to it. State statutes require the BPU's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank with the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka. All deposits were legally secured at December 31, 2011.

*Custodial Credit Risk – investments.* For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the BPU will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

#### 4. DEPOSITS AND INVESTMENTS (cont.)

##### (a) Deposits

At December 31, 2011 and 2010, the carrying amount of the BPU's deposits, including certificates of deposit, was \$23,285,819 and \$29,575,321, respectively, and the bank balance was \$23,455,328 and \$30,609,635, respectively. The bank balance was held by four banks resulting in a concentration of credit risk. Of the bank balance, \$1,000,000 was secured by federal depository insurance and \$22,285,819 was collateralized with securities held by the pledging financial institutions agents in the BPU's name and deposit surety bonds. The third-party bank holding the pledged securities is independent of the pledging bank. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the BPU, the pledging bank, and the independent third-party bank holding the pledged securities.

##### (b) Investments

At December 31, 2011 and 2010, the BPU had invested in funds in the State's Municipal Investment Pool. The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations that are insured as to principal and interest, by the U.S. government or any agency thereof, with maturities up to four years. No more than ten percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers.

As of December 31, 2011 and 2010, the BPU had the following investments.

Investment Type	Fair Value 2011	Investment Maturities (In Years)	2010	Rating
		Less than 1 year		
Kansas Municipal Investment Pool	\$ 2,200,000	\$ 2,200,000	\$ 3,793,071	S&P AAAF/SLT
U.S. Treasury Securities	3,095,445	3,095,445	-	Not Required
Total	<u>\$ 5,295,445</u>	<u>\$ 5,295,445</u>	<u>\$ 3,793,071</u>	

Deposits and investments are shown on the combined balance sheets at December 31, 2011 and 2010, as follows:

	2011	2010
Current assets		
Cash and cash equivalents	\$ 7,860,399	\$ 7,537,728
Investments	17,140,445	16,565,000
Noncurrent assets		
Cash and cash equivalents	492,885	849,513
Investments	<u>3,088,136</u>	<u>6,416,750</u>
Total	<u>\$ 28,581,865</u>	<u>\$ 31,368,991</u>

A summary of investments, deposits and cash at December 31, 2011 and 2010, is as follows:

	2011	2010
Total investments	\$ 5,295,445	\$ 3,793,071
Total deposits	23,285,820	27,575,320
Cash on hand	<u>600</u>	<u>600</u>
Total	<u>\$ 28,581,865</u>	<u>\$ 31,368,991</u>

#### 4. DEPOSITS AND INVESTMENTS (cont.)

##### (c) Designated Assets

Certain unrestricted cash and investment amounts that have been designated by Board policy for specific purposes are as follows at December 31:

	Electric	Water	Totals	
			2011	2010
Long Range Electric Supply	\$ 10,025,177	\$ -	\$ 10,025,177	\$ 12,684,041
Long Range Water Supply	-	4,367,703	4,367,703	4,242,703
Workers Comp Insurance Fund	403,962	21,261	425,223	408,241
Insurance Reserves	-	-	-	725,000
<b>Total</b>	<b>\$ 10,429,139</b>	<b>\$ 4,388,964</b>	<b>\$ 14,818,103</b>	<b>\$ 18,059,985</b>

##### (d) Restricted Assets

Restricted assets were held in the following funds at December 31:

	Electric	Water	Totals	
			2011	2010
Bond Reserve Fund	\$ -	\$ 1,043,500	\$ 1,043,500	\$ 2,793,500
Bond Emergency Fund	1,000,000	100,000	1,100,000	2,680,000
Bond and Interest Fund	300,000	264,636	564,636	563,250
Bond Construction Fund	-	-	-	343,071
Health Insurance Fund	421,726	60,247	481,973	491,041
Customer Deposit Fund	401,489	-	401,489	398,296
Refuse Fund	-	(9,444)	(9,444)	(4,890)
Sewer Fund	-	(1,337)	(1,337)	1,996
<b>Total</b>	<b>\$ 2,123,215</b>	<b>\$ 1,457,602</b>	<b>\$ 3,580,817</b>	<b>\$ 7,266,264</b>

The BPU is permitted to invest restricted funds in specified types of investments in accordance with their investment policy until the time such funds are required to be disbursed for their designated purposes.

#### 5. RESERVE FUNDS

In September 1983, the Board established a reserve fund in the water department for long-range water supplies. During 2011 and 2010, \$125,000 and \$250,000, respectively, were transferred into this Board-designated fund. The \$4,367,703 and \$4,242,703 fund balances at December 31, 2011 and 2010, respectively, may be increased or decreased as the Board desires.

In February 1989, the Board established a reserve fund in the electric department for long-range electric requirements. An initial reserve of \$1,500,000 was established with an additional \$1,500,000 to be added annually for ten years. This reserve will also be increased by the income earned on the respective investments. The \$10,025,177 and \$12,684,041 fund balances at December 31, 2011 and 2010, respectively, may be increased or decreased as the Board desires.

In December 2003, the Board established a reserve fund in the electric department for property and casualty insurance. This reserve was funded from earned surplus. The fund balances at December 31, 2011 and 2010 were \$0 and \$725,000 respectively. This designated fund may be increased or decreased as the Board desires.

## 6. CAPITAL ASSETS

The following is a summary of capital assets at December 31, 2011:

	Electric Department				Balance December 31, 2011
	Balance December 31, 2010	Additions	Deletions	Transfers	
Land and improvements	\$ 488,728	\$ -	\$ -	\$ -	\$ 488,728
Production plants	48,163,949	-	-	-	48,163,949
Transmission and distribution	37,559,773	14,269	(259,992)	235,128	37,549,178
General plant	815,090	-	-	5,344,453	6,159,543
Construction in progress	5,991,663	54,952	-	(5,579,581)	467,034
	93,019,203	69,221	(259,992)	-	92,828,432
Less accumulated depreciation	(52,749,619)	(1,961,511)	245,670	-	(54,465,460)
<b>Total</b>	<b>\$ 40,269,584</b>	<b>\$ (1,892,290)</b>	<b>\$ (14,322)</b>	<b>\$ -</b>	<b>\$ 38,362,972</b>

	Water Department				Balance December 31, 2011
	Balance December 31, 2010	Additions	Deletions	Transfers	
Land and improvements	\$ 1,339,147	\$ -	\$ -	\$ -	\$ 1,339,147
Production plants	1,281,318	-	-	88,688	1,370,006
Transmission and distribution	12,680,697	-	-	9,203,232	21,883,929
General plant	39,152	1,040,552	(10,869)	322,266	1,391,101
Construction in progress	9,643,731	6,094	-	(9,614,186)	35,639
	24,984,045	1,046,646	(10,869)	-	26,019,822
Less accumulated depreciation	(5,302,560)	(525,446)	10,869	-	(5,817,137)
<b>Total</b>	<b>\$ 19,681,485</b>	<b>\$ 521,200</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,202,685</b>

The following is a summary of capital assets at December 31, 2010:

	Electric Department				Balance December 31, 2010
	Balance December 31, 2009	Additions	Deletions	Transfers	
Land and improvements	\$ 488,728	\$ -	\$ -	\$ -	\$ 488,728
Production plants	48,163,949	-	-	-	48,163,949
Transmission and distribution	36,918,192	662,454	(20,873)	-	37,559,773
General plant	807,030	8,060	-	-	815,090
Construction in progress	3,602,690	3,105,229	(88,310)	(627,946)	5,991,663
	89,980,589	3,775,743	(109,183)	(627,946)	93,019,203
Less accumulated depreciation	(50,764,168)	(2,006,324)	20,873	-	(52,749,619)
<b>Total</b>	<b>\$ 39,216,421</b>	<b>\$ 1,769,419</b>	<b>\$ (88,310)</b>	<b>\$ (627,946)</b>	<b>\$ 40,269,584</b>

## 6. CAPITAL ASSETS (cont.)

	Water Department				Balance December 31, 2010
	Balance December 31, 2009	Additions	Deletions	Transfers	
Land and improvements	\$ 1,309,253	\$ 29,894	\$ -	\$ -	\$ 1,339,147
Production plants	1,281,318	-	-	-	1,281,318
Transmission and distribution	10,346,162	-	-	2,334,535	12,680,697
General plant	38,256	896	-	-	39,152
Construction in progress	10,088,533	1,261,787	-	(1,706,589)	9,643,731
	23,063,522	1,292,577	-	627,946	24,984,045
Less accumulated depreciation	(4,999,284)	(303,276)	-	-	(5,302,560)
<b>Total</b>	<b>\$ 18,064,238</b>	<b>\$ 989,301</b>	<b>\$ -</b>	<b>\$ 627,946</b>	<b>\$ 19,681,485</b>

Depreciation expense for the year ended December 31, 2011 for the electric and water departments is \$1,961,511 and \$525,446, respectively, as illustrated in the following table:

	Electric Department			Accumulated Depreciation December 31, 2011
	Accumulated Depreciation December 31, 2010	Additions	Transfers/ Deletions	
Production plants	\$ 28,866,402	\$ 881,821	\$ -	\$ 29,748,223
Transmission and distribution	23,190,612	977,062	(139,572)	24,028,102
General plant	692,605	102,628	(106,098)	689,135
	<u>\$ 52,749,619</u>	<u>\$ 1,961,511</u>	<u>\$ (245,670)</u>	<u>\$ 54,465,460</u>

  

	Water Department			Accumulated Depreciation December 31, 2011
	Accumulated Depreciation December 31, 2010	Additions	Deletions	
Production plants	\$ 1,157,077	\$ 26,726	\$ -	\$ 1,183,803
Transmission and distribution	4,110,266	480,168	-	4,590,434
General plant	35,217	18,552	(10,869)	42,900
	<u>\$ 5,302,560</u>	<u>\$ 525,446</u>	<u>\$ (10,869)</u>	<u>\$ 5,817,137</u>

## 6. CAPITAL ASSETS (cont.)

Depreciation expense for the year ended December 31, 2010 for the electric and water departments is \$2,006,324 and \$303,276, respectively, as illustrated in the following table:

	Electric Department			Accumulated Depreciation December 31, 2010
	Accumulated Depreciation December 31, 2009	Additions	Deletions	
Production plants	\$ 27,983,653	\$ 882,749	\$ -	\$ 28,866,402
Transmission and distribution	22,141,348	1,070,137	(20,873)	23,190,612
General plant	639,167	53,438	-	692,605
	<u>\$ 50,764,168</u>	<u>\$ 2,006,324</u>	<u>\$ (20,873)</u>	<u>\$ 52,749,619</u>

  

	Water Department			Accumulated Depreciation December 31, 2010
	Accumulated Depreciation December 31, 2009	Additions	Deletions	
Production plants	\$ 1,122,233	\$ 34,844	\$ -	\$ 1,157,077
Transmission and distribution	3,843,965	266,301	-	4,110,266
General plant	33,086	2,131	-	35,217
	<u>\$ 4,999,284</u>	<u>\$ 303,276</u>	<u>\$ -</u>	<u>\$ 5,302,560</u>

## 7. INDUSTRIAL DEVELOPMENT PROPERTY

Industrial development property consists of the accumulated costs in various tracts of land held for system expansion or industrial use.

## 8. CLAIMS AND JUDGMENTS

The BPU is subject to various laws and regulations with respect to environmental matters such as air and water quality. The effect of any future changes in environmental laws and/or regulations cannot be estimated. However, compliance with such changes may necessitate substantial expenditures.

During the ordinary course of its operations, the BPU is a party to various claims, legal actions and complaints. It is the opinion of the BPU's management and legal counsel that these matters are not anticipated to have a material impact on the Utility.

The BPU is exposed to various risks of loss related to property loss, torts, errors and omissions. The BPU has purchased commercial insurance for these potential risks. There have been no significant reductions in insurance coverage from 2010 to 2011 and there were no settlements that exceeded insurance coverage in the past three years.

## 9. POWER SALES AGREEMENTS

In 1972, the BPU entered into a power sales agreement with Westar Energy, formally Kansas Power and Light Company. The agreement, as amended in October 1977 and September 1978, provides that the BPU purchase all of its energy requirements from Westar Energy for resale to its retail and wholesale customers. In return, the BPU is obligated to sell all of its energy production to Westar Energy. The contract specifies that all sales between the entities be sold at fuel cost plus twelve percent. In addition, Westar Energy has agreed to pay the BPU an annual capacity charge that obligates the BPU to have its system available to Westar Energy at all times. In April, 2010 the contract was amended to extend the contract 12 years to 2039 and also agreed to begin paying transmission charges based on a Federal Energy Regulatory Commission approved formula tariff.

## 10. REVENUE BONDS

The various bond ordinances require that certain restricted funds be established to ensure the payment of bonds and interest and to enable the BPU to meet future needs arising from unusual maintenance requirements or income shortfalls. The ordinances also require the BPU, among other things, to establish rates and collect charges sufficient to pay the operating maintenance and debt service costs of the utilities and to provide net operating income before depreciation and payment in lieu of taxes, of at least 125% for the electric department and 125% for the water department of the maximum annual debt service due on the outstanding bonds. As of December 31, 2011, the BPU exceed this coverage requirement by \$4,600,000 and \$789,000 for electric and water debt, respectively. As of December 31, 2010, the BPU exceeded this coverage requirement by \$1,800,000 and \$900,000, for electric and water debt, respectively. All of the BPU's utility plant facilities are pledged under the terms of the ordinances. The BPU was in compliance with all other requirements of the revenue bond ordinances at December 31, 2011 and 2010.

On September 1, 2011, the BPU called Series 2004 City of McPherson, Kansas, Electric Utility System Refunding Revenue Bonds year 2021 to 2024 maturities totaling \$6,185,000. The bonds were called with current funds, saving approximately \$3,208,925 in future interest payments. Electric fund debt was reduced by \$6,185,000 by this transaction. This transaction resulted in a bond call loss of \$452,130.

In October, 2011, the BPU issued \$5,445,000 of Electric Utility System Refunding Revenue Bonds, Series 2011 and contributed \$1,750,000, to current refund the remaining Series 2004 Electric Revenue Bonds. Per Board approval, the cash contributed was taken from the Reserved Retained Earnings of Long Range Electric Supplies. The proceeds were also used to pay the costs of issuance and any required additional deposit to the Bond Reserve Account. The BPU has followed the provisions of Governmental Accounting Standards Board (GASB) Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$1,183,534. This difference, reported in the accompanying combined financial statements as a deduction from long-term debt is being charged to interest expense over the remaining life of the refunded debt using the straight-line method in accordance with the requirements of GASB No. 23. The refunding decreased the BPU's aggregate debt service payments by approximately \$937,708 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$566,281. The refunding lowered the annual debt service requirements and thereby reduced the need for a possible rate increase in the near future.

## 10. REVENUE BONDS (cont.)

A schedule of the bonded indebtedness of the BPU and a maturity schedule of retirements is as follows:

### SCHEDULE OF INDEBTEDNESS

	<u>Original Amount Issued</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Water 12-31-11</u>	<u>Electric 12-31-11</u>	<u>Total Outstanding 12-31-11</u>
<b>Water Utility System</b>						
Refunding and Improvement Revenue Bonds, Series 2007	\$ 14,000,000	3.35 to 4.35%	10-01-2027	\$ 11,915,000	\$ -	\$ 11,915,000
<b>Electric Utility System</b>						
Refunding and Improvement Revenue Bonds, Series 2011	\$ 5,445,000	3.00 to 4.00%	09-20-2020	-	5,445,000	5,445,000
				11,915,000	5,445,000	17,360,000
Less unamortized loss on advance refunding				(37,287)	(1,153,571)	(1,190,858)
				11,877,713	4,291,429	16,169,142
Less current maturities				(550,000)	(555,000)	(1,105,000)
Long-term portion of bonds payable				<u>\$ 11,327,713</u>	<u>\$ 3,736,429</u>	<u>\$ 15,064,142</u>

### SUMMARY OF CHANGES IN LONG-TERM DEBT

	<u>Outstanding 12-31-10</u>	<u>Issued</u>	<u>Retired</u>	<u>Refunding</u>	<u>Outstanding 12-31-11</u>
<b>Water Utility System</b>					
Series 2007	\$ 12,445,000	\$ -	\$ 530,000	\$ -	\$ 11,915,000
<b>Electric Utility System</b>					
Series 2004	13,725,000	-	6,435,000	7,290,000	-
Series 2011	-	5,445,000	-	-	5,445,000
	26,170,000	5,445,000	6,965,000	7,290,000	17,360,000
Less unamortized loss on refundings	(1,586,595)	-	(395,737)	-	(1,190,858)
	<u>\$ 24,583,405</u>	<u>\$ 5,445,000</u>	<u>\$ 6,569,263</u>	<u>\$ 7,290,000</u>	<u>\$ 16,169,142</u>
	<u>Outstanding 12-31-09</u>	<u>Issued</u>	<u>Retired</u>	<u>Refunding</u>	<u>Outstanding 12-31-10</u>
<b>Water Utility System</b>					
Series 2007	\$ 12,960,000	\$ -	\$ 515,000	\$ -	\$ 12,445,000
<b>Electric Utility System</b>					
Series 2004	14,645,000	-	920,000	-	13,725,000
	27,605,000	-	1,435,000	-	26,170,000
Less unamortized loss on refundings	(1,704,388)	-	(117,793)	-	(1,586,595)
	<u>\$ 25,900,612</u>	<u>\$ -</u>	<u>\$ 1,317,207</u>	<u>\$ -</u>	<u>\$ 24,583,405</u>

## 10. REVENUE BONDS (cont.)

Years Ending December 31,	2007 WATER ISSUE			2011 ELECTRIC ISSUE		
	Bonds	Interest	Total	Bonds	Interest	Total
2012	\$ 550,000	\$ 480,592	\$ 1,030,592	\$ 555,000	\$ 157,520	\$ 712,520
2013	570,000	461,618	1,031,618	550,000	161,675	711,675
2014	590,000	441,668	1,031,668	565,000	145,175	710,175
2015	610,000	420,722	1,030,722	580,000	128,225	708,225
2016	635,000	398,610	1,033,610	600,000	110,825	710,825
2017 - 2021	3,570,000	1,607,970	5,177,970	2,595,000	246,750	2,841,750
2022 - 2026	4,390,000	803,820	5,193,820	-	-	-
2027 - 2030	1,000,000	43,500	1,043,500	-	-	-
Total	<u>\$11,915,000</u>	<u>\$ 4,658,500</u>	<u>\$16,573,500</u>	<u>\$ 5,445,000</u>	<u>\$ 950,170</u>	<u>\$ 6,395,170</u>

## 11. PAYMENT IN LIEU OF TAXES

The payment of funds to the City of McPherson from the electric department is calculated at the rate of 1.75 and 1.60 mills per kilowatt hours sold for the years ended December 31, 2011 and 2010, respectively. This rate increased to 1.75 mills in April 2010. Payments to the City from the water department are calculated at \$.06 per thousand gallons of water sold for the year ended December 31, 2011 and 2010, respectively. The BPU was required to remit \$1,522,000 and \$1,445,000 in 2011 and 2010 from the electric department. The BPU was required to remit \$80,300 and \$72,500 in 2011 and 2010 from the water department. Payments are made quarterly and are deemed to be payments in lieu of taxes.

As a municipal utility, The Board of Public Utilities is exempt from federal and state income taxes.

## 12. DEFERRED COMPENSATION PLAN

The BPU offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees who qualify under the plan terms, and permits employees 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.

## 13. EMPLOYEES' RETIREMENT PENSION PLAN

The BPU participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERs member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The employer rate established by statute for calendar year 2011 is 7.74% for the period from January 1, 2011 to December 31, 2011. Included in these rates is the contribution for Group Death and Disability Insurance of 1.0% for the period of January 1, 2011 to December 31, 2011. The BPU employer contributions to KPERs for the years ending December 31, 2011, 2010, and 2009 were \$354,265, \$324,757 and \$273,499, respectively, equal to the required contributions for each year.

## 14. PRINCIPAL CUSTOMERS

Electric sales to the BPU's five largest customers for the years ended December 31 were as follows:

	2011			
	<u>Sales</u>	<u>Percent of Total Sales</u>	<u>KWH (000)</u>	<u>Percent of Total KWH</u>
National Cooperative Refinery Assoc.	\$ 14,436,379	32.5%	333,060	37.9%
Johns Manville Corp.	6,147,038	13.9%	136,419	15.5%
Hospira	2,125,733	4.8%	47,435	5.4%
Certainteed Corp.	1,639,676	3.7%	34,560	3.9%
Moundridge City	<u>1,583,585</u>	<u>3.6%</u>	<u>30,605</u>	<u>3.5%</u>
Total	<u>\$ 25,932,411</u>	<u>58.5%</u>	<u>582,079</u>	<u>66.3%</u>

  

	2010			
	<u>Sales</u>	<u>Percent of Total Sales</u>	<u>KWH (000)</u>	<u>Percent of Total KWH</u>
National Cooperative Refinery Assoc.	\$ 11,054,068	31.1%	292,775	35.0%
Johns Manville Corp.	5,342,881	15.0%	141,516	16.9%
Hospira	1,725,864	4.9%	45,920	5.5%
Certainteed Corp.	1,372,821	3.9%	35,543	4.2%
Moundridge City	<u>1,332,051</u>	<u>3.8%</u>	<u>29,808</u>	<u>3.6%</u>
Total	<u>\$ 20,827,685</u>	<u>58.7%</u>	<u>545,562</u>	<u>65.1%</u>

## 15. POSTEMPLOYMENT HEALTHCARE BENEFITS

### (a) Plan Description

The BPU provides certain postemployment healthcare benefits to eligible retirees and their spouses in accordance with the provisions established by the BPU's Board of Directors. The plan is a single-employer defined benefit healthcare plan self-insured by the City and BPU and administrated by Blue Cross and Blue Shield of Kansas. The plan does not issue separate financial statements. Employees may elect to continue coverage paying 100% of the premium cost the day they retire. To qualify for retirement an employee must be either age 65 with one year of service credit, be age 62 with 10 years of service credit, or at any age when age and years of service equal 85 points. The retiree plan is a comprehensive major medical with a \$200 deductible per person or \$400 per family. The plan pays 80% of the next \$2,500 allowed charges per person or \$5,000 per family with 100% thereafter. The plan has an unlimited lifetime maximum. Benefits cease at the earlier date the retired employee attains age 65 or death. Retirees become ineligible for health insurance coverage when they qualify for coverage under another health insurance group. Spouse benefits end at the earlier of the date the spouse attains age 65, the date the employee attains age 65, or the spouse's death. There were 72 participants eligible to receive benefits under this plan as of the last valuation date, (December 31, 2011).

### (b) Funding Policy

The contribution requirements of plan members and the BPU are established and can be amended by the BPU's board of directors. Contributions are made to the plan on a pay-as-you-go basis. For the years ended December 31, 2011 and 2010, the BPU paid \$12,111 and \$64,817, respectively, for retirees.

## 15. POSTEMPLOYMENT HEALTHCARE BENEFITS (cont.)

### (b) Funding Policy (cont.)

The BPU annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), and amount actuarially determined in accordance with 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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The BPU's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation (asset) for 2011 and 2010 are as follows:

	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
Year Ended:			
December 31, 2010	\$ 46,791	139%	\$ (81,708)
December 31, 2011	\$ 36,105	34%	\$ (57,114)

The following table shows the components of BPU's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the BPU's net OPEB obligation:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 36,105	\$ 46,791
Contributions made	<u>(12,111)</u>	<u>(64,817)</u>
Increase (decrease) in OPEB obligation	23,994	(18,026)
Net OPEB obligation (asset) - beginning of year	<u>(81,708)</u>	<u>(63,682)</u>
Net OPEB obligation (asset) - end of year	<u>\$ (57,714)</u>	<u>\$ (81,708)</u>

### (c) Funding Status and Funding Progress

The funded status of the plan as of the most recent valuation date (January 1, 2011) is as follows:

Actuarial accrued liability (AAL)	\$ 327,118
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 327,118
Funded ratio	0%
Covered payroll	\$ 4,692,680
UAAL as a percentage of covered payroll	7.0%

### (d) Actuarial Methods and Assumptions

Actuarial valuations on an ongoing plan involve estimates of the value reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare 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 about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## **15. POSTEMPLOYMENT HEALTHCARE BENEFITS (cont.)**

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 include benefits provided at the time of each valuation and the historical pattern of sharing benefits costs between the employer and plan member to that point. The actuarial methods used include techniques that are designed to reduce the effects of 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, 2011, actuarial valuation, the Projected Unit Credit Actuarial Cost Method was used. The actuarial assumptions included a 4.5% projected investment rate of return and an annual healthcare cost trend of 6.5% initially, reduced by decrements to an ultimate rate of 5.0% after four years. The projected salary increase is 3.0%. The unfunded actuarial accrued liability is being amortized over 30 years as a level percent of payroll.

## **16. RECLASSIFICATION**

For the year ended December 31, 2010, \$1,445,000 of payment in lieu of taxes in the electric fund was classified from an operating transfer to an operating expense noted as payments to the City of McPherson. This reclassification was done to better match expenses with offsetting revenue sources in the electric fund.

## **17. SUBSEQUENT EVENT**

Management has evaluated the effects on the financial statements of subsequent events occurring through June 21, 2012 which is the date at which the financial statements were available to be issued.

On May 7, 2012, the Board approved the refunding of the remaining 2007 Series Water Revenue Bonds in amount not to exceed \$13,000,000 and a present value savings of not less than \$600,000.

**REQUIRED SUPPLEMENTARY INFORMATION**

Board of Public Utilities - McPherson, Kansas

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress - Postemployment**

As of the Latest Valuation Date  
 December 31, 2011  
 (Unaudited)

<u>Actuarial Valuation Date, January 1</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded (Overfunded) AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAI as a Percentage of Covered Payroll</u>
2011	\$ -	\$ 327,118	0%	\$ 327,118	\$ 4,692,680	7.0%

## **ADDITIONAL INFORMATION**

## Board of Public Utilities - McPherson, Kansas

BALANCE SHEETS

December 31, 2011

(With comparative totals for December 31, 2010)

ASSETS

	<u>Electric</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,771,406	\$ 4,777,990
U.S. treasury securities	3,095,445	-
Kansas Municipal Investment Pool- certificates of deposit	2,200,000	1,700,000
Certificates of deposit	7,170,000	10,190,000
Accounts receivable, customer and other	4,146,545	3,372,307
Inventories	1,705,047	1,676,344
Accrued interest on investments	5,777	25,876
Postemployment benefit asset	51,943	73,537
Total current assets	<u>23,146,163</u>	<u>21,816,054</u>
Noncurrent assets		
Restricted cash and cash equivalents	443,215	447,957
Kansas Municipal Investment Pool- certificates of deposit	-	1,750,000
Restricted certificates of deposit	1,680,000	3,260,000
Capital Assets		
Land	488,728	488,728
Buildings and equipment	91,872,670	86,538,812
Construction in process	467,034	5,991,663
Less accumulated depreciation	(54,465,460)	(52,749,619)
Industrial development property, at cost	711,740	711,740
Bond issue costs, net	117,040	422,511
Other Assets	12,500	12,500
Total noncurrent assets	<u>41,327,467</u>	<u>46,874,292</u>
TOTAL ASSETS	<u>\$ 64,473,630</u>	<u>\$ 68,690,346</u>

Board of Public Utilities - McPherson, Kansas

**BALANCE SHEETS**  
**December 31, 2011**  
**(With comparative totals for December 31, 2010)**

**LIABILITIES AND NET ASSETS**

	<u>Electric</u>	
	<u>2011</u>	<u>2010</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 3,098,143	\$ 2,197,867
Current maturities of revenue bonds	555,000	250,000
Accrued interest on revenue bonds	45,572	196,079
Customer meter and other deposits	402,489	399,296
Self-insurance claims payable	45,281	45,281
Accrued payroll	518,674	501,736
Accrued interest on customer meter deposits	<u>3,882</u>	<u>2,383</u>
Total current liabilities	<u>4,669,041</u>	<u>3,592,642</u>
Long-term debt - revenue bonds		
Principal	<u>3,736,429</u>	<u>11,930,452</u>
TOTAL LIABILITIES	<u>8,405,470</u>	<u>15,523,094</u>
NET ASSETS		
Invested in capital assets, net of related debt	34,743,583	28,761,643
Restricted for debt service	1,671,272	4,860,199
Unrestricted	<u>19,653,305</u>	<u>19,545,410</u>
TOTAL NET ASSETS	<u>56,068,160</u>	<u>53,167,252</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 64,473,630</u>	<u>\$ 68,690,346</u>

## Board of Public Utilities - McPherson, Kansas

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	<u>Electric</u>	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Electric		
Metered sales	\$ 44,123,486	\$ 35,376,672
Street lighting	195,163	176,808
Sales to interconnection	3,457,085	3,483,701
Total operating revenue	<u>47,775,734</u>	<u>39,037,181</u>
OPERATING EXPENSE		
Fuel	438,228	447,920
Purchased power	32,219,448	26,459,806
Production	2,294,854	2,981,164
Distribution and transmission	3,812,590	3,431,329
Administrative and general	1,906,854	1,789,860
Payments to City of McPherson	1,522,000	1,445,000
Depreciation and amortization	1,987,234	2,037,621
Total operating expense	<u>44,181,208</u>	<u>38,592,700</u>
OPERATING INCOME	<u>3,594,526</u>	<u>444,481</u>
NONOPERATING INCOME (EXPENSE)		
Interest income	90,930	133,736
Revenues from merchandising, jobbing and contract work and miscellaneous income	113,669	274,052
Less cost of merchandising	(37,430)	(93,559)
Refuse collection and sewer service fees	65,141	66,169
Penalties, earned discounts and other	54,604	49,886
Farm rents, net of expense	(2,815)	(1,979)
Net increase (decrease) in fair value of investments	4,508	-
Gain (loss) on disposal of assets	22,372	4,800
Gain (loss) on extinguishment of debt	(452,130)	-
Interest on debt	(552,467)	(719,669)
Total nonoperating income (expense)	<u>(693,618)</u>	<u>(286,564)</u>
CHANGES IN NET ASSETS	2,900,908	157,917
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>53,167,252</u>	<u>53,009,335</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 56,068,160</u>	<u>\$ 53,167,252</u>

## Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	<u>Electric</u>	
	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	\$ 47,231,818	\$ 39,403,913
Payments to suppliers	(35,105,962)	(30,084,332)
Payments to employees	(5,140,794)	(5,140,794)
Other receipts (payments)	<u>(1,522,000)</u>	<u>(1,445,000)</u>
Net cash provided from (used in) operating activities	<u>5,463,062</u>	<u>2,733,787</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of property, plant and equipment	(55,622)	(3,059,487)
Proceeds from sale of equipment	23,095	4,800
Proceeds from issuance of bonds	5,445,000	-
Principal payments on bonds	(13,725,000)	(920,000)
Payment of bond issue costs	(119,291)	-
Loss on refunding issue	675,278	-
Interest paid on debt	<u>(588,237)</u>	<u>(615,836)</u>
Net cash provided from (used in) capital and related financing activities	<u>(8,344,777)</u>	<u>(4,590,523)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(19,592,253)	(23,149,150)
Proceeds from sale or maturity of investments	22,351,613	22,649,150
Interest received	<u>111,029</u>	<u>162,009</u>
Net cash provided from (used in) investing activities	<u>2,870,389</u>	<u>(337,991)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(11,326)	(2,194,727)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>5,225,947</u>	<u>7,420,674</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 5,214,621</u>	<u>\$ 5,225,947</u>

## Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	<u>Electric</u>	
	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 3,594,526	\$ 444,481
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,987,235	2,037,620
Other nonoperating income	(232,081)	299,369
(Gain) loss on disposal of fixed assets	(22,372)	(4,800)
Realized/unrealized (gain) loss on investments	(4,805)	-
Changes in:		
Accounts and notes receivable	(774,238)	(21,396)
Inventories	(28,703)	137,935
Accounts payable	900,276	(207,186)
Accrued expenses	18,437	46,577
Postemployment benefit asset	21,594	(16,223)
Customer meter deposits	3,193	17,410
Net cash provided from operating activities	<u>\$ 5,463,062</u>	<u>\$ 2,733,787</u>
NONCASH FINANCING ACTIVITIES		
Bond cost write-off on defeased debt	\$ 399,038	\$ -
Amortization of defeased bond costs	114,737	113,033
Loss on extinguishment of debt	452,130	-
Loss on advance refunding of debt	675,278	-
Total noncash financing activities	<u>\$ 1,641,183</u>	<u>\$ 113,033</u>

## Board of Public Utilities - McPherson, Kansas

**BALANCE SHEETS**

December 31, 2011

(With comparative totals for December 31, 2010)

**ASSETS**

	<u>Water</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,088,993	\$ 2,759,738
Certificates of deposit	4,675,000	4,675,000
Accounts receivable, customer and other	468,758	457,038
Inventories	325,322	272,390
Accrued interest on investments	4,777	7,815
Postemployment benefit asset	<u>5,771</u>	<u>8,171</u>
Total current assets	<u>8,568,621</u>	<u>8,180,152</u>
Noncurrent assets		
Restricted cash and cash equivalents	49,670	58,485
Kansas Municipal Investment Pool-		
cash and cash equivalents	-	343,071
Restricted certificates of deposit	1,408,136	1,406,750
Capital Assets		
Land	1,339,147	1,339,147
Buildings and equipment	24,645,036	14,001,167
Construction in process	35,639	9,643,731
Less accumulated depreciation	(5,817,137)	(5,302,560)
Bond issue costs, net	<u>316,653</u>	<u>336,444</u>
Total noncurrent assets	<u>21,977,144</u>	<u>21,826,235</u>
TOTAL ASSETS	<u>\$ 30,545,765</u>	<u>\$ 30,006,387</u>

## Board of Public Utilities - McPherson, Kansas

**BALANCE SHEETS**

December 31, 2011

(With comparative totals for December 31, 2010)

**LIABILITIES AND NET ASSETS**

	<b>Water</b>	
	<b>2011</b>	<b>2010</b>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	\$ 33,966	\$ 40,584
Current maturities of revenue bonds	550,000	530,000
Accrued interest on revenue bonds	120,148	124,653
Self-insurance claims payable	6,469	6,469
Accrued payroll	63,631	41,057
Due to City of McPherson	230,089	225,621
Total current liabilities	<u>1,004,303</u>	<u>968,384</u>
Long-term debt - revenue bonds		
Principal	<u>11,327,713</u>	<u>11,872,953</u>
Total long-term debt	<u>11,327,713</u>	<u>11,872,953</u>
Other liabilities		
Water meter advances	<u>89,979</u>	<u>74,566</u>
<b>TOTAL LIABILITIES</b>	<u>12,421,995</u>	<u>12,915,903</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	10,235,126	9,531,546
Restricted for debt service	294,157	297,083
Unrestricted	<u>7,594,487</u>	<u>7,261,855</u>
<b>TOTAL NET ASSETS</b>	<u>18,123,770</u>	<u>17,090,484</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 30,545,765</u>	<u>\$ 30,006,387</u>

## Board of Public Utilities - McPherson, Kansas

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	<u>Water</u>	
	<u>2011</u>	<u>2010</u>
OPERATING REVENUE		
Water		
Sale of water	\$ 3,744,528	\$ 3,472,352
Total operating revenue	<u>3,744,528</u>	<u>3,472,352</u>
OPERATING EXPENSE		
Production	541,454	399,435
Distribution and transmission	828,212	761,913
Administrative and general	414,784	207,751
Depreciation and amortization	<u>545,237</u>	<u>323,067</u>
Total operating expense	<u>2,329,687</u>	<u>1,692,166</u>
OPERATING INCOME	<u>1,414,841</u>	<u>1,780,186</u>
NONOPERATING INCOME (EXPENSE)		
Interest income	64,116	65,707
Revenues from merchandising, jobbing and contract work and miscellaneous income	69,109	45,580
Less cost of merchandising	(9,638)	(9,030)
Refuse collection and sewer service fees	14,752	7,357
Farm rents, net of expense	59,274	52,567
Interest on debt	<u>(498,868)</u>	<u>(74,440)</u>
Total nonoperating income (expense)	<u>(301,255)</u>	<u>87,741</u>
INCOME BEFORE OPERATING TRANSFER	1,113,586	1,867,927
TRANSFER: PAYMENTS IN LIEU OF TAXES	<u>(80,300)</u>	<u>(72,500)</u>
CHANGES IN NET ASSETS	1,033,286	1,795,427
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>17,090,484</u>	<u>15,295,057</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 18,123,770</u>	<u>\$ 17,090,484</u>

Board of Public Utilities - McPherson, Kansas

**STATEMENTS OF CASH FLOWS**

December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	<u>Water</u>	
	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 3,875,942	\$ 3,545,223
Payments to suppliers	(703,665)	(427,299)
Payments to employees	(1,105,118)	(993,933)
Other receipts (payments)	(80,300)	(72,500)
	<u>1,986,859</u>	<u>2,051,491</u>
Net cash provided from (used in) operating activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property, plant and equipment	(1,046,646)	(1,478,554)
Principal payments on bonds	(530,000)	(515,000)
Interest paid on debt	(498,612)	(515,994)
	<u>(2,075,258)</u>	<u>(2,509,548)</u>
Net cash provided from (used in) capital and related financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(5,907,844)	(5,583,026)
Proceeds from sale or maturity of investments	5,906,458	5,081,654
Interest received	67,154	76,588
	<u>65,768</u>	<u>(424,784)</u>
Net cash provided from (used in) investing activities		
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(22,631)	(882,841)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,161,294</u>	<u>4,044,135</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,138,663</u>	<u>\$ 3,161,294</u>

Board of Public Utilities - McPherson, Kansas

STATEMENTS OF CASH FLOWS

December 31, 2011

(With comparative totals for the year ended December 31, 2010)

	<u>Water</u>	
	<u>2011</u>	<u>2010</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income less payments in lieu of taxes	\$ 1,334,541	\$ 1,707,686
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	545,237	323,066
Other nonoperating income	133,496	96,474
Changes in:		
Accounts and notes receivable	(11,720)	(32,633)
Inventories	(52,932)	(207)
Accounts payable	(6,618)	(24,506)
Accrued expenses	27,042	(6,460)
Postemployment benefit asset	2,400	(1,803)
Water meter advances	<u>15,413</u>	<u>(10,126)</u>
Net cash provided from operating activities	<u>\$ 1,986,859</u>	<u>\$ 2,051,491</u>
NONCASH FINANCING ACTIVITIES		
Amortization of defeased bond costs	<u>\$ 4,760</u>	<u>\$ 4,760</u>

**ADDITIONAL INFORMATION  
(UNAUDITED)**

**Board of Public Utilities - McPherson, Kansas**  
**Summary Statement of Revenues and Expenses - Electric**  
**Last Five Fiscal Years**

<b>Fiscal Year</b>	<b>Operating Revenues</b>	<b>Operating Expenses</b>	<b>Operating Income</b>	<b>Nonoperating Income (Expense)</b>	<b>Change in Net Assets</b>
2007	\$ 38,859,515	\$ 37,118,282	\$ 1,741,233	\$ 568,286	\$ 2,309,519
2008	38,582,080	37,042,465	1,539,615	577,281	2,116,896
2009	37,450,488	36,009,938	1,440,550	31,711	1,472,261
2010	39,037,181	38,592,700	444,481	(286,564)	157,917
2011	47,775,734	44,181,208	3,594,526	(693,618)	2,900,908

**Board of Public Utilities - McPherson, Kansas**  
**Operating Expenses - Electric**  
**Last Five Fiscal Years**

<u>Fiscal Year</u>	<u>Fuel</u>	<u>Purchased Power</u>	<u>Production</u>	<u>Distribution and Transmission</u>	<u>Administrative and General</u>	<u>Payment to City of McPherson</u>	<u>Depreciation and Amortization</u>	<u>Total Operating Expense</u>
2007	\$ 3,474,640	\$ 23,012,482	\$ 2,190,034	\$ 3,558,371	\$ 1,482,129	\$ 1,334,000	\$ 2,066,626	\$ 37,118,282
2008	1,660,246	25,323,931	1,860,585	3,120,392	1,771,489	1,325,000	1,980,822	37,042,465
2009	838,736	24,740,416	1,838,668	3,358,130	1,898,398	1,325,000	2,010,590	36,009,938
2010	447,920	26,459,806	2,981,164	3,431,329	1,789,860	1,445,000	2,037,621	38,592,700
2011	438,228	32,219,448	2,294,854	3,812,590	1,906,854	1,522,000	1,987,234	44,181,208

**Board of Public Utilities - McPherson, Kansas**  
**Summary Statement of Revenues and Expenses - Water**  
**Last Five Fiscal Years**

<u>Fiscal Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Operating Income</u>	<u>Nonoperating Income (Expense)</u>	<u>Income Before Operating transfers</u>	<u>Transfers</u>	<u>Change in Net Assets</u>
2007	\$ 2,998,257	\$ 1,426,939	\$ 1,571,318	\$ 171,386	\$ 1,742,704	\$ (37,000)	\$ 1,705,704
2008	3,179,923	1,458,203	1,721,720	353,816	2,075,536	(32,000)	2,043,536
2009	3,039,357	1,479,091	1,560,266	135,271	1,695,537	(46,000)	1,649,537
2010	3,472,352	1,692,166	1,780,186	87,741	1,867,927	(72,500)	1,795,427
2011	3,744,528	2,329,687	1,414,841	(301,255)	1,113,586	(80,300)	1,033,286

**Board of Public Utilities - McPherson, Kansas**  
**Operating Expenses - Water**  
**Last Five Fiscal Years**

<u>Fiscal Year</u>	<u>Production</u>	<u>Distribution and Transmission</u>	<u>Administrative and General</u>	<u>Depreciation and Amortization</u>	<u>Total Operating Expense</u>
2007	\$ 262,281	\$ 643,368	\$ 255,958	\$ 265,332	\$ 1,426,939
2008	274,545	635,649	250,471	297,538	1,458,203
2009	261,764	678,228	227,885	311,214	1,479,091
2010	399,435	761,913	207,751	323,067	1,692,166
2011	541,454	828,212	414,784	545,237	2,329,687

## INFORMATION CONCERNING THE ELECTRIC UTILITY SYSTEM

### THE SYSTEM

#### Description of the Existing Facilities of the System

The System presently owns and operates two generating plants. Power Plant No. 2 consists of three General Electric combustion turbines with a combined aggregate rating of approximately 155 MW. Power Plant No. 3 was brought on line in October 1998, with a nominally rated 80 MW General Electric combustion turbine. This level of generating capability should support the Westar Agreement and the System customers well into the future.

The System's total generating capacity is 235.4 MW, and its firm generating capability is 207.2 MW, allowing for reserves to match the current requirements by the Southwest Power Pool.

#### Distribution System

All rural and most urban customers of the System which have been added in recent years are served by 7.2/12.5 kV distribution facilities. One small section of the City is still served at 4,160 volts from two 2,500 kVA substations. Several of the principal feeders have been rebuilt in recent years using T-2 ACSR conductor with increased capacity. Underground distribution is used in new subdivisions.

The System presently owns and operates 20 miles of 115 kV transmission line which interconnects with Westar at two locations, such locations being Westar's 115 kV West McPherson Substation at the west side of the City and Westar's 230 kV high voltage transmission line between Salina and Hutchinson at the System's East Substation located southeast of the City. Construction was completed in 1992 on a 115 kV ring bus at the Manville 115 kV substation on the east side of the City. A 115 kV transmission line was constructed tying this substation to the Westar West McPherson Substation. Currently the entire City is surrounded by a 115 kV transmission loop. Westar recently rebuilt its transmission line feeding the West McPherson Substation, substantially improving the power quality for System customers.

#### Customers, Sales and Revenues

The following tables set forth certain statistical data for the System on customers, sales and revenues for the years listed below for major customer classifications and list the total System energy sales and revenues, excluding pool interchange.

Year	Residential			Commercial		
	Customers Served	Sales (kWh)	Revenue	Customers Served	Sales (kWh)	Revenue
2006	7,122	88,578,254	\$ 4,287,743	1,306	94,849,560	\$ 4,729,543
2007	7,137	89,865,477	4,337,665	1,314	94,713,221	4,739,268
2008	7,132	87,565,241	4,431,673	1,321	94,011,067	4,934,507
2009	7,135	87,391,341	4,414,856	1,326	91,776,704	4,862,605
2010	7,162	95,391,812	4,948,541	1,324	97,067,152	5,255,302
2011	7,115	96,757,647	6,216,564	1,391	95,665,783	6,460,137
Year	Industrial			Wholesale		
	Customers Served	Sales (kWh)	Revenue	Customers Served	Sales (kWh)	Revenue
2006	16	581,522,360	\$ 19,837,809	2	34,162,200	\$ 1,434,073
2007	17	610,988,240	20,963,464	2	35,078,100	1,489,429
2008	18	613,102,200	22,503,243	2	35,250,900	1,587,640
2009	17	610,536,708	22,384,586	2	32,986,800	1,486,380
2010	17	603,196,240	23,316,311	2	36,261,000	1,641,590
2011	18	642,553,360	29,242,291	2	37,147,200	1,978,014

## Customers, Sales and Revenues (Cont.)

Total (Residential, Commercial, Industrial & Wholesale)				
Customers				
Year	Served	Sales (kWh)	Revenue	
2006	8,446	799,112,374	\$ 30,289,168	
2007	8,470	803,645,038	31,529,826	
2008	8,473	829,929,408	33,457,063	
2009	8,480	822,688,553	33,148,427	
2010	8,505	831,916,204	35,161,744	
2011	8,526	872,123,990	43,897,006	

Ten Largest Electric Utility Customers in Recent Years				
Customer	kWh	2011	kWh	2010
NCRA	333,060,000	\$ 14,436,379	292,775,000	\$ 11,746,851
Johns Mansville	136,419,500	6,147,038	141,515,500	5,342,881
Hospira	47,435,500	2,125,732	45,920,000	1,725,864
CertainTeed	34,560,000	1,639,541	35,542,880	1,372,821
City of Moundridge	30,604,800	1,583,585	29,808,000	1,332,052
Kaneb Pipeline	17,695,200	954,950	19,977,600	840,400
Viega	9,835,000	538,186	10,027,500	439,540
Nation Pizza	8,821,200	487,862	8,416,800	383,081
Ferguson Production	8,160,000	427,392	8,540,400	363,182
Cereal Food Processors	7,606,560	376,477	7,164,960	292,196
Total	<u>634,197,760</u>	<u>\$ 28,717,142</u>	<u>599,688,640</u>	<u>\$ 23,838,868</u>

## System Growth

The growth of the System's customers, electric sales and revenues from sales is shown in the following table:

Year	Customers Served	Peak Demand (MW) <sup>1</sup>	Sales (MWh)	Annual Revenue from Energy Sales
2006	8,446	128	799,112	\$ 30,289,168
2007	8,470	137	830,645	31,529,826
2008	8,473	130	829,929	33,457,063
2009	8,480	133	822,689	33,148,427
2010	8,505	141	831,916	35,161,744
2011	8,526	142	872,124	43,897,006

<sup>1</sup> Includes two small municipal systems (Galva and Moundridge) served as wholesale customers and sales for light rental, street lighting and power for water pumping.

**Rates**

The rates charged by the Board to customers of the System were modified, effective January 1, 2011, as an adjustment due to the increased transmission charges from Westar. Current electric rates as of May 1, 2012, for the System are as follows:

	<i>Residential Electric Service</i>	<i>Residential All Electric</i>	<i>General Service Small</i>	<i>General Service Medium</i>	<i>General Service Large</i>
Service Charge	\$10.00/month	\$10.00/month	\$15.00/month	\$15.00/month	N/A
Energy Rate	\$0.0310/kWh	May-Oct: \$0.310/kWh, Nov-Apr; \$0.0310/kWh for first 400 kWh, \$0.0260/kWh for over 400 kWh	\$0.0415/kWh for first 1,500 kWh, \$0.0375/kWh for over 1,500 kWh	\$0.0265/kWh for first 10,000 kWh, \$0.0235/kWh for over 10,000 kWh.	\$0.0265/kWh for first 240 kWh/kVA of billing capacity, \$0.0235/kWh for over 240 kWh/kVA of billing capacity
Capacity Charge	\$0.01039/kWh	\$0.01039/kWh	\$0.01039/kWh	\$2.98/kWh	\$2.83/kVA for all kVA of billing capacity
Transmission Charge	\$0.01044/kWh	\$0.01044/kWh	\$0.01044/kWh	\$3.00/kWh	\$2.85/kVA for all kVA of billing capacity
City Transfer Charge	\$0.00175/kWh	\$0.00175/kWh	\$0.00175/kWh	\$0.00175/kWh	\$0.00175/kWh
Demand Rate	N/A	N/A	N/A	\$4.00/kWh	\$2.75/kVA for all kVA of billing capacity
Interruptible Rate Demand Multiplier	N/A	N/A	N/A	\$0.80	N/A

**Financial Reporting**

The financial records of the Board are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. In recent years, the Board's annual audit has been performed by Swindoll, Janzen, Hawk & Loyd, LLC, Certified Public Accountants, McPherson, Kansas. Copies of the audit reports for the past five years are on file in the Secretary – Comptroller's office and are available for review and shall be considered as a part of the annual report.

**System Indebtedness**

The following is a table of outstanding indebtedness of the Electric Utility System:

Description of Indebtedness	Date of Indebtedness	Final Maturity	Original Principal Amount	Amount Outstanding
Electric Utility System Refund Bonds, Series 2004 <sup>1</sup>	4/15/2004	9/1/2020	\$16,705,000	\$0
Electric Utility System Refunding Bonds Series 2011	10/13/2011	9/1/2020	\$5,445,000	\$5,445,000

<sup>1</sup> Bonds called 10/15/11

## Statement of Revenues and Expenses; Historical Debt Service Coverage Ratio

The operating results of the System presented in the following table are derived from the annual financial statements of the City. No assurance can be given that operating results for future years will be comparable to operating results for the prior years listed below:

	2008	2009	2010	2011
Operating Revenue				
Electric				
Metered Sales	\$ 33,646,339	\$ 33,296,546	\$ 35,376,672	\$ 44,123,486
Street Lighting	179,547	215,311	176,808	195,163
Sales to Interconnection	4,756,194	3,938,631	3,483,701	3,457,085
Total Operating Revenues	<u>38,582,080</u>	<u>37,450,488</u>	<u>39,037,181</u>	<u>47,775,734</u>
Operating Expenses				
Fuel	1,660,246	838,736	447,920	438,228
Purchased Power	25,323,931	24,740,416	26,459,806	32,219,448
Production	1,860,585	1,838,668	2,981,164	2,294,854
Distribution and Transmission	3,120,392	3,358,130	3,431,329	3,812,590
Administrative and General	1,771,489	1,898,398	1,789,860	1,906,854
Depreciation and amortization	1,980,822	2,010,590	2,037,621	1,987,234
Transfer In Lieu of Taxes	-	-	-	1,522,000
Total Operating Expense	<u>35,717,465</u>	<u>34,684,938</u>	<u>37,147,700</u>	<u>44,181,208</u>
Operating Income	<u>2,864,615</u>	<u>2,765,550</u>	<u>1,889,481</u>	<u>3,594,526</u>
Nonoperating Income (Expense)				
Interest Income	866,018	432,646	133,736	90,930
Revenues from Merchandising	663,711	451,056	274,052	113,669
Less Cost from Merchandising	(131,996)	(212,171)	(93,559)	(37,430)
Refuse Collection	65,103	65,768	66,169	65,141
Penalties	38,462	49,633	49,886	54,604
Farm Rents	(1,455)	(6,954)	(1,979)	(2,815)
Net Increase (Decrease) in Fair Value	-	-	-	4,508
Gain (Loss) on Disposal of Assets	(13,440)	(11,961)	4,800	22,372
Gain (Loss) on Bonds Called	(125,262)	-	-	(452,130)
Interest on Debt	(783,860)	(736,306)	(719,669)	(552,467)
Total Nonoperating Income (Expense)	<u>577,281</u>	<u>31,711</u>	<u>(286,564)</u>	<u>(693,618)</u>
Net Income Prior to Transfers <sup>1</sup>	3,441,896	2,797,261	1,602,917	2,900,908
Transfer: Payments in Lieu of Taxes <sup>1</sup>	<u>(1,325,000)</u>	<u>(1,325,000)</u>	<u>(1,445,000)</u>	<u>-</u>
Net Income	<u>\$ 2,116,896</u>	<u>\$ 1,472,261</u>	<u>\$ 157,917</u>	<u>\$ 2,900,908</u>
Income Available for Debt Service	6,206,578	5,544,157	4,360,208	5,440,609
Debt Service Requirements	1,698,860	1,161,306	1,639,669	644,163
Debt Service Coverage Ratio	365.34%	477.41%	265.92%	844.60%

<sup>1</sup> Pursuant to Addendum No. 5 to the Westar Agreement, effective January 1, 2011, transfers from the Board to the Issuer for Payments in Lieu of Taxes will be treated as an Expense of the System and will no longer be available to pay debt service requirements on Bonds.

## Projected Debt Service Coverage

The following table contains a projection of the debt service required for all System Indebtedness, including the Series 2011 Bonds, the Net Revenues available for debt service and the Debt Service Coverage Ratio for the years listed. The Gross Revenues, Operating & Maintenance Expenses, and Net Revenues Available for Debt Service used for the projection are based on the Cost of Service Study performed by Burns & McDonnell, which projected such amounts for the years listed and which were used to determine the rate adjustment implemented on January 1, 2011. The Series 2011 Bonds Debt Service is the annual debt service due on the Series 2011 Bonds for the years listed. The projections contained in the table are based on estimates that the Issuer believes to be reasonable; however, there are no assurances that such estimates will be accurate in future years.

Year	Gross Revenues	Operating & Maintenance Expenses <sup>1</sup>	Net Revenues Available for Debt Service	Existing System Indebtedness Debt Service	Series 2011 Bonds Debt Service	Projected Deb Service Coverage Ratio
2012	\$ 48,551,700	\$ 43,827,900	\$ 4,723,800	\$ -	\$ 712,520	662.97%
2013	51,295,100	45,901,400	5,393,700	-	711,675	757.89%
2014	53,303,000	47,819,400	5,483,600	-	710,175	772.15%
2015	59,422,800	53,838,200	5,584,600	-	708,225	788.53%

<sup>1</sup>Pursuant to addendum No. 5 to the Westar Agreement, effective January 1, 2011, transfers from the Board to the Issuer for Payments in Lieu of Taxes will be treated as an Expense of the System and (as reflected) will not be available to pay debt service requirements on Bonds.

## Previous Defaults

There have been no defaults by the Issuer on any System indebtedness.

## Management's Discussion on Financial Operations

On April 19, 2010, the Board signed Addendum No. 5 to the Westar Agreement, which extended the current power supply until 2039. This action should continue to provide the City with attractive electric rates for several years.

As a result of Addendum No. 5, the Board implemented a rate adjustment, designed by Burns & McDonnell, effective January 1, 2011. These rates are projected to generate revenues to fully fund the bond reserve, emergency accounts, meet all debt service requirements, fund normal annual capital expenditures, and depreciation accounts through 2015. Even with this average increase of approximately 18%, the rates are among the lowest in the state and should allow the System to continue to attract and retain all types of customers.

The present Westar power plants that are stipulated in the Westar Agreement to provide the base load energy requirements for the System consist of four coal fired units. Three of these units are at the Jeffrey Energy Center where the first of these entered commercial service in the spring of 1978. In 1983 the newest unit, number three, began commercial operation. The fourth unit is located at Lawrence, Kansas. Westar has installed significant equipment to reduce emissions at Jeffrey Energy Center which will reduce the rate impact of new regulations being imposed by the EPA and ensure the plants are kept up to date.

The deregulation of the electric industry, retail wheeling, and environmental compliance bring uncertainty to the entire industry. The City has taken a pro-active approach doing all it can to enhance customer relations, assure high reliability factors, and maintain competitive rates. Management has worked diligently to prepare for these issues and feels confident that the System will continue to prosper.

## Report On Electric System Conditions For The Year 2011

The Board of Public Utilities (BPU) operates a vertically integrated electric utility consisting of generation, transmission, and distribution. The utility serves approximately 8500 retail customers and two wholesale customers, the Cities of Moundridge and Galva. Sales in 2011 were 878,260,371 kWh which was up 4.86% over the previous year.

BPU's generation resources consist of four General Electric gas turbines with a total summer capacity of approximately 235 MW. The three units located at Power Plant 2 were installed from 1973 to 1979 and operate as peaking units typically running less than 200 hours per year. The newest turbine went commercial in 1998 and is located at Power Plant 3. This turbine also operates as a peaking unit with limited hours of operation, but typically operates more than the others due to its larger size and ability to be load controlled by Westar. All have received scheduled maintenance, such as periodic borescope, in an effort to ensure reliable operation. In an attempt to improve system operation, in 2011 Gas Turbine 1 at Plant 2 was retrofitted with new exciter controls and consideration is being given to upgrading the other two units at Plant 2. The new controls allow the unit to respond quicker to system disturbances, which will aid in maintaining a reliable electric grid.

Looking forward, staff will continue to perform the typical maintenance activities and begin considering a few significant system upgrades. All turbines have General Electric (GE), Mark V turbine controls. GE ceased production of the Mark V in 2004 and is scheduled to discontinue parts support and technical support in 2014, which will necessitate replacement of the controls with an estimated cost of \$400,000 per machine. GE has also ceased production of the EX2000 Excitation Controls effective March, 2004, with a planned end of renewal parts and technical support in 2014. The generator at Plant 3 has an EX2000 excitation control and plans are to replace it around the 2014 time frame. One other item being considered is replacement of the exhaust stack on Gas Turbine #3 at Plant 2. The stack is original and is reaching the end of its useful life. Spot repairs will continue to be made as long as this approach makes sense, but at some point within the next 10 years, a new stack will likely be necessary. One other material item being considered is repair of the generator rotor on Gas Turbine #2 at Plant 2. The vibration level of the rotor is higher than ideal, but given the units limited hours of operation, repair of the rotor is not warranted. If the hours of operation or vibration level increase, an evaluation will be made to determine if rotor repair is warranted.

The utility owns roughly 20 miles of 115 kV transmission and four 115 kV ring bus style substations. The transmission poles are inspected by Osrose on a regular schedule and poles found to be structurally deficient are replaced. The utility performs substation equipment and relay testing as stipulated in the utilities' operating procedures and tests transformer oil annually. All equipment appears to be in good working order with no planned replacements other than replacement of two 115 kV breakers at Plant 2. These breakers have been purchased and plans are to install them in the near future.

BPU's distribution system consists of approximately 30 miles of 35 kV overhead line, 520 miles of 12.5 kV overhead line, and 30 miles of 12.5 kV underground line. Poles located on main feeder lines are inspected by Osrose for structural integrity on a set schedule. In recent years, several of the arterial lines located in the rural area have been rebuilt using ACSR T-2 conductor and stronger poles. Both of these steps are intended to make the lines less vulnerable to ice and wind loading, with the ultimate goal being increased reliability. In general, most rural 12.5 kV lines are in good condition with no significant planned replacements being considered in the near future. For several years utility crews have been replacing poles on the 35 kV line serving Moundridge. This work has been a secondary focus in the past, but given the frequency of outages, the focus has changed and plans are to have all older poles replaced by the end of 2013. Again, as with other replacements, the new poles are stronger, which should result in improved reliability.

By the end of 2012 the line crews should have completed replacement of a significant portion of the 35 kV JMP line located along Northview. The circuit was installed in the 1970's and is one of the utilities main 35 kV circuits, feeding both industrial and residential load. Line construction will include stronger poles and ACSR T-2 conductor and the new line will be located further from the road which should allow for the road width to increase without interference. In the last few years the underground crew has been focusing efforts on replacement of single phase underground primary that was installed over 40 years ago. This work not only replaced the cable, but provided an opportunity to catch potential outages before they occurred. Moving forward, consideration is being given to converting sections of primary overhead to underground. Prime spots for this effort will be locations with limited access and significant tree population. The conversion should reduce long-term maintenance cost and improve system reliability.

Overall, BPU has a reliable well maintained electric system with plans to continue to make the improvements necessary to continue a high level of service.

INFORMATION CONCERNING THE WATER UTILITY SYSTEM  
THE SYSTEM

**Description of the Existing Facilities of the System**

The System is maintained and operated by the Water Department, which is managed under the direction of the Board acting through the General Manager. The billings, collections and data processing are accomplished in conjunction with other City operations. Appropriate allocation of costs for these services are made to the Water Department.

At the present time, the Water Department and the water production operations employ the following number of people:

Production	2
Transmission & Distribution	5
Administration & Office	17*

\*This number includes individuals whose duties are also related to the Electric Operations Department.

**History of the Area Served**

The water department was the first of the City's utilities to be developed. A notation was found under the date (line) of May 30, 1872, stating that water can be found at the new town of McPherson at a depth of 25 feet.

The Board also provides water to four rural districts, which includes the community of Windom, or a total estimated population of 680 persons. It is projected that the Board will continue to provide water for 700 persons in the rural water districts.

It is projected that the Board will provide water to a design population of 17,000 people in 2035.

**Number of Customers**

<u>Year</u>	<u>Number of Customers</u>
2011	5,756
2010	5,741
2009	5,710
2008	5,706
2007	5,710

**History of Water Usage**

<u>Year</u>	<u>Gallons Pumped Purchased</u>	<u>Gallons Sold</u>	<u>Bearing Water</u>	<u>Gallons Unaccounted</u>	<u>Percentage Water Loss</u>
2011	1,430,230,000	1,343,820,000	10,657,300	75,752,700	5.30%
2010	1,287,120,000	1,198,527,000	9,946,550	78,646,450	6.11%
2009	1,097,089,000	1,008,018,000	11,906,630	77,164,370	7.03%
2008	1,150,518,000	1,070,682,000	12,163,530	67,672,470	5.88%
2007	1,279,680,000	1,184,738,000	12,356,220	82,585,780	6.45%

**Wholesale Water Sales**

<u>Year</u>	<u>Gallons</u>	<u>Revenue</u>
2011	52,351,000	\$ 154,830
2010	41,615,000	124,554
2009	38,560,000	115,939
2008	40,162,000	120,457
2007	44,614,000	117,557

**Ten Largest Customers**

Customer	Gallons	Total Revenue
NCRA	196,977,000	\$ 572,899
Hospira Inc	85,800,000	270,948
Johns-Manville	48,911,000	142,393
Viega	23,196,000	69,876
Certain Teed	21,675,000	43,221
Nation Pizza	14,429,000	30,102
Chemstar	9,596,000	19,720
Holiday Manor Hotel	4,707,000	10,528
Ferguson Production	3,065,000	9,723
Wal Mart	3,050,000	6,454

**Rates**

Current water rates for the System are listed below:

**Base Charge:** Based on size of meter.

Meter Size	Inside City Limits	Outside City Limits
3/4"	\$ 8.00	\$ 12.00
1"	16.00	24.00
1 1/2"	34.00	51.00
2"	60.00	90.00
3"	140.00	210.00
4"	248.00	372.00
6"	500.00	750.00
8"	720.00	1,080.00

**Unit Charge:** (Meters with gallon readings)

	Inside City Limits	Outside City Limits
0-20 units	\$ 1.60/unit	\$ 2.40/unit
21-40 units	1.88/unit	2.82/unit
41-60 units	2.14/unit	3.22/unit
Over 60 units	2.60/unit	3.90/unit

**Connection Charge:** Effective September 1, 2000

	Inside City Limits	Outside City Limits
3/4"	\$ 400.00	\$ 600.00
1"	450.00	675.00
1 1/2"	700.00 plus drill cost	1,050.00 plus drill cost
2"	800.00 plus drill cost	1,200.00 plus drill cost
Larger than 2"	Actual Cost	Costs x 1 1/2

Connection charges must be paid in full before service is turned on.

**Commercial Customers**

	Inside City Limits	Outside City Limits
Base Rate	\$ 1.88/unit	\$ 2.82/unit

**1 unit – 1,000 gallons**

**General Note:**

In the event the customer orders a disconnection and reconnection of water at the same premise within a period of twelve (12) months, the Board may collect as a reconnection charge, the sum of such minimum bills as would have accrued during the period of disconnection.

Wherever water service is required outside the city limits, the customer shall construct his water line to the nearest water main. The rate schedule for this service shall be one and one half (1 ½) times the published rate.

In the interest of water conservation, indiscriminate waste of water by the customer will be grounds for temporary disconnection of water service by the utility. It will be the customers' responsibility to demonstrate corrective measures that will stop excessive waste of the water resource.

**Financial Reporting**

The financial records of the Board are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. In recent years, the Board's annual audit has been performed by Swindoll, Janzen, Hawk & Loyd, LLC, Certified Public Accountants, McPherson, Kansas. Copies of the audit reports for the past five years are on file in the Secretary – Comptroller's office and are available for review and shall be considered as a part of the annual report.

## Statement of Revenues and Expenses; Historical Debt Service Coverage Ratio

The operating results of the System presented in the following table are derived from the annual financial statements of the Utility. No assurance can be given that operating results for future years will be comparable to operating results of the prior years listed below:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenue				
Sale of Water	\$ 3,179,923	\$ 3,039,357	\$ 3,472,352	\$ 3,744,528
Total Operating Revenue	<u>3,179,923</u>	<u>3,039,357</u>	<u>3,472,352</u>	<u>3,744,528</u>
Operating Expense				
Production	274,545	261,764	399,435	541,454
Distribution & Transmission	635,649	678,228	761,913	828,212
Administrative & General	250,471	227,885	207,751	414,784
Depreciation & Amortization	297,538	311,214	323,067	545,237
Total Operating Expense	<u>1,458,203</u>	<u>1,479,091</u>	<u>1,692,166</u>	<u>2,329,687</u>
Operating Income	<u>1,721,720</u>	<u>1,560,266</u>	<u>1,780,186</u>	<u>1,414,841</u>
Nonoperating Income				
Interest Income	429,201	134,740	65,707	64,116
Revenues from Merchandising, Jobbing & Contract Work & Misc. Income	164,845	46,475	45,580	69,109
Less Cost of Merchandising	(10,651)	(9,301)	(9,030)	(9,638)
Refuse Collection & Sewer Service Fees	7,907	7,312	7,357	14,752
Farm Rents, Net of Expense	52,249	53,020	52,567	59,274
Gain (loss) on Sale of Investments	14,974	-	-	-
Interest on Debt	(304,709)	(96,975)	(74,440)	(498,868)
Total Nonoperating Income	<u>353,816</u>	<u>135,271</u>	<u>87,741</u>	<u>(301,255)</u>
Income Before Operating Transfers	2,075,536	1,695,537	1,867,927	1,103,586
Transfer: Payment in Lieu of Taxes	<u>(32,000)</u>	<u>(46,000)</u>	<u>(72,500)</u>	<u>(80,300)</u>
Change in Net Assets	2,043,536	1,649,537	1,795,427	1,033,286
Total Net Assets, Beginning of Year	<u>11,601,984</u>	<u>13,645,520</u>	<u>15,295,057</u>	<u>17,090,484</u>
Total Net Assets, End of Year	<u>\$ 13,645,520</u>	<u>\$ 15,295,057</u>	<u>\$ 17,090,484</u>	<u>\$ 18,123,770</u>
Income Available for Debt Service				
Change in Net Assets	\$ 2,043,536	\$ 1,649,537	\$ 1,795,427	\$ 1,033,286
Depreciation and Amortization	297,538	311,214	323,067	545,237
Gain (loss) on Sale of Investments	(14,974)	-	-	-
Interest on Debt	<u>304,709</u>	<u>96,975</u>	<u>74,440</u>	<u>498,868</u>
Income Available for Debt Service	<u>\$ 2,630,809</u>	<u>\$ 2,057,726</u>	<u>\$ 2,192,934</u>	<u>\$ 2,077,391</u>
Debt Service	1,028,510	1,027,576	1,030,994	1,028,612
Debt Service Coverage Ratio	255.79%	200.25%	212.70%	201.96%

## **Management's Discussion of Financial Operations**

The Board of Public Utilities (BPU) last rate increase became effective on April 2, 2007, and has provided the department with sufficient revenue to maintain the production and distribution systems.

The main driver for the last rate increase was the installation of the Blending Plant. The facility has worked as intended without placing significant pressure on operations and maintenance costs, but the department has experienced an increase in electric pumping costs. Looking forward, production costs should be stable, with no significant projects being planned at this time.

Due to the declining aquifer in and around McPherson, the staff has been focusing additional time on the development of additional water outside the immediate McPherson area. Two potential sources being considered are Kanopolis Reservoir and the development of a ground water well field several miles south of town. Currently, the utility has signed an agreement granting an option to purchase land if it is determined additional water rights can be developed. A scope of work has been established and Burns & McDonnell is in the early stages of assisting the utility in reaching a determination regarding this property's water supply potential. This site investigation will be a material expense but can be supported by the current rates.

For the past several years the utility has made an effort to replace an older water main that has experienced frequent failures. Plans are to continue this approach in an effort to keep the system from having to perform a mass replacement program in the future. The current budget contains a line item setting aside \$250,000 for this type of replacement.

## **Report on Water System Condition for the Year 2011**

The Board of Public Utilities (BPU) water system consists of 12 ground water wells, two treatment facilities, and a distribution system. The utility sold close to 1.3 billion gallons of water to 5,756 retail and 4 wholesale customers in 2011.

All of the utility's ground water wells are located in and around the McPherson area, which is part of the McPherson Intensive Ground Water Use Control Area (IGUCA). The IGUCA was formed in 1980 due to concern about the long-term sustainability of the region given the appropriated quantity of water. Aquifer levels for each supply well are monitored by staff and heightened concern has developed in recent years due to the continued decline in the water table. Staff has evaluated supply options, both surface and ground water, and current efforts are focused on developing additional ground water supplies in a location outside the IGUCA. Consideration would also be given to the purchase of existing water rights within the IGUCA if the location would be beneficial to the long-term health of existing BPU rights, realizing this action would not be the only step required to improving the longterm supply for the community. If development of sufficient, additional ground water supplies is unattainable, surface water development would be reconsidered.

The BPU operates two treatment facilities, one for removal of volatile organic compounds (VOC) and one for the blending of water sources to reduce nitrate levels. The VOC plant was built in the early 1990's primarily to remove a dry cleaning solvent and has performed well since its construction. The facility is in great shape with no material planned maintenance or capital expenditures. The Blending plant was completed in 2010 lowering the nitrate levels at the point of entry, allowing the utility to return two water wells to production. The facility consists of a 1.5 million gallon ground storage tank with high service pumps, which re-pressure the water so it can be placed back in the distribution system. As with any new facility, minor operational issues have been discovered and are being addressed, when appropriate. Overall the facility has worked well and will be an integral part of a full treatment facility if the utility chooses or is required to install additional treatment in the future.

The water distribution system contains over 100 miles of pipe ranging in size from 2" to 24", and age from new to over 100 years old. The water main material consists of cast iron, ductile iron, asbestos cement, and PVC, with the majority of the line being cast iron and PVC. Cast iron was the material of choice prior to 1960 and is predominant in the older sections of town, while PVC is almost exclusively installed today. When water line breaks occur, they are typically on older cast iron pipes or PVC lines that were installed when PVC was just getting started. The pipe generally used in the infancy of PVC utilized a thin wall which cannot over time handle the stress imposed on the pipe. When repeated breaks have occurred in locations where this pipe was used, a replacement program was initiated utilizing new PVC with substantially thicker wall thickness. There are still locations with the thin walled pipe and, as warranted, plans will be made to replace these sections. The other area of concern is older sections of pipe that experience high failure rates and are located on main arterial streets. Not only does this type of break cause water service interruption, they also cause significant roadway damage and traffic disruption. Over the last few years, effort has been given to replacing sections of older cast iron pipe and looking forward, this effort should continue.

Overall, the BPU's water system is in good condition, but looking ahead, focus should continue on ensuring a long-term supply of water and keeping the distribution system reliable by replacing pipe that has failed frequently.